

**Title: Political Economy of Low Female Labour Force Participation in Central and Eastern Europe**

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**Abstract**

*Despite a large body of literature, explaining cross-national variation in female labour force participation (FLFP) remains a notoriously difficult endeavour. The persistently dropping FLFP in Central and Eastern European countries (CEECs) following the end of transition represents a particularly curious case, especially since the post-socialist Baltics and Slovenia have seen economic re-activation of women at similar levels of economic development. This paper combines comparative political economy research on capitalist diversity with feminist economic research in order to enhance our understanding of the systemic determinants of FLFP in the region. It argues that the systems of production dependent of transnational capital, which have developed in CEECs, have reinforced gender biases in the labour market. In order to provide empirical support for this argument, the paper shows that industrial upgrading in CEECs has led to defeminisation of industrial employment. It also shows that the expanding service economy has not been able to 'rectify' these trends, as it also experienced defeminisation. The paper argues that this was due to the impact of re-industrialisation on these countries' fiscal and political choices and, consequently, occupational labour mobility. By using a gender lens to examine the role of external dependency and global production chains in national systems of economic production and the constraints such models of capitalist development produce, this paper contributes to a greater understanding of institutional origins of gender inequalities in the labour markets of open economies.*

Keywords: female labour force participation, capitalist variety, Central and Eastern Europe, external dependency, gender bias.

**1 Introduction**

Most countries around the world have seen substantial increases in the economic activation of women over the past few decades along with economic development, dropping fertility rates and greater female access to education. Changing gender relations have gone hand in hand with increasing globalisation and socio-economic transformations, which have brought new challenges to national political economies. Women workers have emerged as important actors in these transforming political economies, welfare states and communities (McCall and Orloff 2005, p.159).

Yet, a lot of cross-national variation in the attained levels of female labour force

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participation<sup>1</sup> (FLFP) remains, regardless of the progress women across the world have made in terms of entering into paid employment. Although a large body of literature is devoted to explaining this variation in FLFP rates, accounting for it amid growing socio-economic complexities and global influences remains a notoriously difficult endeavour.

This paper investigates the political economy behind low female labour force participation (FLFP) in the Central and Eastern European EU member states following the region's transition from communism to capitalism.

Investigating determinants of FLFP in Eastern Europe is interesting from a number of perspectives. For one, FLFP was much higher in Eastern Europe during communism than in the rest of the world. However, while FLFP continued to increase in most of the world during the past quarter century, the trend was entirely reversed in Eastern Europe with the collapse of communism (World Bank 2011, p. 59). For some Eastern European countries, this reversal of trend was a temporary phenomenon, which occurred due to the negative shock of transition, while for others, it became a more permanent feature of their economies. Namely, while the post-socialist Baltic countries as well as the former Yugoslav Republic Slovenia have seen economic re-activation of women over the past decade, the Central Eastern European countries (CEECs) – Czech Republic, Slovakia, Hungary and Poland – have been characterised by the persistently low FLFP at similar (and even higher) levels of economic development (see Table A1. in the Appendix).

Various institutionalist perspectives have enhanced our understanding of determinants of FLFP across the world. Earlier feminist and social welfare work has focused on social policy and how it helps women reconcile family and work obligations. However, it has become clear over time that there is no obvious direct link between these policies and female employment (McCall & Orloff 2005, p.159). In recognition that demand and supply side explanations of female labour participation are mutually reinforcing, feminist research has changed focus from social policy to the examination of political economy determinants of female economic outcomes, and more specifically to the interaction between welfare states, educational systems and national production systems, and the gender biases these interactions can produce. In a bold move by Margarita Estévez-Abe, the Varieties of Capitalism (hereinafter VoC) framework was 'engendered' during the 2000s. Her line of argument was that different patterns of economic coordination and the institutional complementarities associated with them affect men and women differently (see section 3.1 for a more detailed presentation of this argument).

On the other side, different streams of literature have attempted to theorise capitalist diversity observed in Eastern Europe. For example, the VoC framework has been expanded to include Eastern European emerging capitalisms (most notably by Feldmann 2006 and

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<sup>1</sup>Labour force, also known as the economically active population, comprises employed and unemployed persons. Based on ILO guidelines, Eurostat definition of employed persons also includes unpaid family members, the self-employed and those employed in the informal sector of the economy. Unemployed persons refer only to those persons actively seeking work. Therefore, they do not comprise those individuals registered for unemployment benefits who may be working informally.

Nolke and Vliegenthart 2009). Bohle and Greskovits (2007, 2012) developed a much more relevant and influential typology of capitalist diversity for post-communist Eastern Europe based on a Polanyian framework. This typology recognises that institutional stability, which is the basic premise of VoC literature, has not been applicable to transitional Eastern Europe, and offers a political economy framework that is able to accommodate institutional change (see section 3.2 for a more detailed presentation of this argument).

Yet, no attempts have been made to examine the impact of these countries' newly emerged political economies along gender lines. Transition, as the 'great economic experiment of the 20<sup>th</sup> century' (Stiglitz 1999, p.3) represents a valuable research opportunity to study the impact of systematic institutional change on female economic activity, insofar as feminist political economy research has predominantly relied on institutional stability as a source of systemic discrimination along gender lines. This research opportunity seems even more valuable when we consider that 'the very term 'transition' is a misnomer in that it suggests that there is a single point on which all countries will converge. Complex systems hardly ever evolve along such pre-determined paths' (Polanyi 1944; Stark 1996 in Pistor 2012, p.2). By analysing how institutional change affects gender regimes in the context of Central and Eastern Europe, we may gain novel insights of relevance for an increasing number of mid-income and developing countries that are experiencing socio-economic transformations in today's world.

In other words, while the engendered VoC framework focuses on institutional stability and how institutional complementarities that maintain such stability create vicious or virtuous circles for women, engendering capitalist diversity literature in Eastern Europe would allow us to examine how institutional change and the political, social and economic forces that underpin it can produce and reproduce such circles.

Therefore, the question that this paper seeks to answer is the following: How has the establishment of new capitalist orders in Central and Eastern Europe during transition reduced female opportunities for employment?

This question is based on the following two empirical observations (that I present in section 4): i) industrial upgrading in CEECs during transition, which has relied on external sources of capital and innovation, has led to defeminisation of industrial labour; and ii) although the service economy, which has been a significant driver of female employment across the world, has expanded substantively in CEECs since the fall of communism, women's share in it has decreased over time.

In this paper, I put forward, within the political economy framework, the following explanation for these two empirical observations:

Industrial policies in CEECs have attracted FDI into specific industries through large subsidies. This process of privatisation, restructuring and industrial upgrading of state owned companies resulted in many people losing their jobs. In order to maintain political stability, which was an important factor to attract inwards investment, CEECs compensated these losers by offering them extensive monetary incentives to leave the labour market.

Vanhuyse (2006) convincingly shows how CEE governments pursued this ‘divide and pacify’ strategy. Furthermore, CEECs were required to be fiscally prudent due to pressures for macroeconomic stability from the EU (as discussed by Bohle and Greskovits 2012). Therefore, in presence of fiscal and absence of political pressures, public sector employment (which favours women, as shown by Anghel et al, 2012) continued to shrink, while educational reform which would have increased occupational mobility of labour towards the private services economy did not materialise (e.g. see Thelen 2012). Therefore, gender-biased structural forces in combination with gender-biased policy led to substantial outflows of women from the labour markets, despite the presence of economic development, tertiarisation and globalisation, all of which are associated with greater female employment. The paper is structured in the following manner. The next section shows historical trends in FLFP observed in Eastern Europe and provides empirical support for the claim that CEECs have done worse than the Baltic states and Slovenia in terms of FLFP outcomes by the end of transition. It also discounts the commonly found explanations for these trends found in the literature. Section 3 surveys the literature on gender and varieties of capitalism in Western market economies, as well as literature on capitalist diversity and educational reform in Eastern Europe. Section 4 offers a detailed presentation of the paper’s argument, and shows how capitalist orders that have been established in CEECs have curbed female opportunities in the labour market. Section 5 offers some concluding remarks.

## 2 Trends and determinants of FLFP in CEECs

### 2.1 Trends in FLFP in Eastern Europe

FLFP was very high and growing in Eastern Europe and Central Asia (EECA) during communism, while it was low, and also growing, in the rest of the world (see Graph 1 below). However, while FLFP continued to increase at an even faster rate in most of the world during the past quarter century, the trend was entirely reversed in EECA since the collapse of communism (World Bank 2011, p. 59). For some countries in EECA, this reversal of trend was only a temporary phenomenon, due to the negative shock of transition, while in others FLFP has continued to drop and/or persist at low levels to this day.

**Graph 1: Average FLFP rate (left panel) and gender gap in LFP (right panel) by decade and world region, after 1990**

Source: Author's own calculations based on data from ILO KILM database.

Notes: 1) Latin American data excludes Caribbean islands.

2) OECD data is without the Eastern European members.

Source: Author's own calculations based on data from ILO Laborsta database.

Notes: 1) Data does not comprise all years and all countries, especially for EECA (it includes some years for the following countries: Belarus, Bulgaria, Czechoslovakia, Estonia, Germany GDR, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, USSR and Yugoslavia).

2) Yugoslavia pulls down the overall average for EECA.

3) Latin American data excludes Caribbean islands.

4) OECD data is without the Eastern European members.

Furthermore, under communism, countries in EECA were characterised by higher levels of FLFP than the capitalist economies that were at the same or higher level of economic development (see Chase 1995; World Bank 2011). This was the case due to the strong insistence of communist regimes on female work and the professed equal treatment of men and women in the labour market (Lobodzinska 1995, p. 23). According to Chase (1995), in 1980 Czechoslovakia, Hungary and Poland had particularly high rates of women's labor force participation with respect to market economies: Czechoslovakia had the highest (60.8 percent) and Poland the second highest (58.7 percent) (Chase, 1995). In Yugoslavia, where the regime was not as insistent on full employment, female economic participation was lower, but still higher than in many capitalist economies.

With the collapse of communism, in many EECA countries women's absolute, and in many cases, their relative (*vis-à-vis* men), position in the labour market worsened. The most puzzling case among these countries represent CEECs, namely Czech Republic, Hungary, Poland and Slovakia, because their FLFP rates have failed to recover amid substantial economic development over the past decade, which would be typically associated with growth in FLFP (see Graph 2 below for FLFP data; Table A1 in Annex 1 for economic development data).

### **Graph 2: FLFP (15+) in CEECs, 1980-2009**

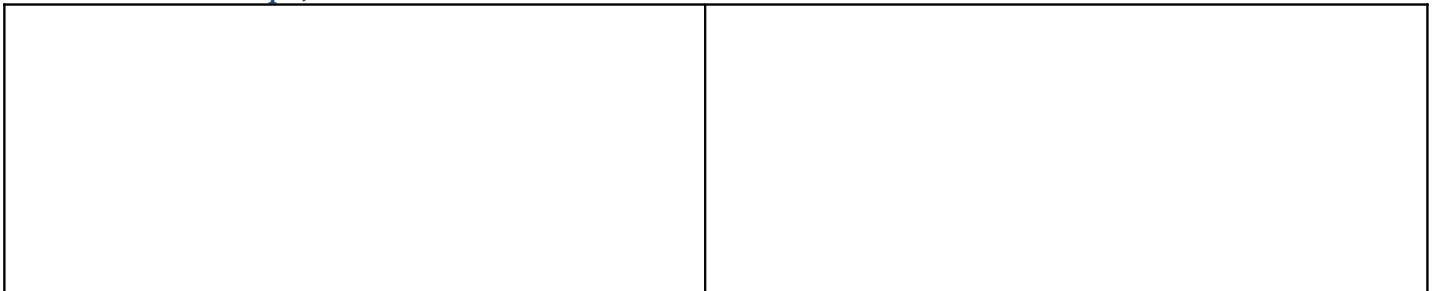
Source: ILO (adapted from Chase, 1995).

Note: Percentage of women over the age of 15 who reported themselves economically active. There are no

comparable data for the entire period for working age women only (15-64).

In contrast, Baltic countries as well as the former Yugoslav Republic Slovenia have seen economic re-activation of women over the past decade at similar levels of economic development (see Graph 3, left panel below). This puzzle of low female economic activation in CEECs following the end of transition stands even when we consider male labour force participation. Gender gaps in labour force participation are substantially higher in CEECs than in Baltic states and Slovenia (see Graph 3, right panel below).

**Graph 3: FLFP (15-64) (left panel) and gender gap in LFP (15-64) (right panel) in Eastern Europe, 2008**



Source: Labour Force Survey data from ILO KILM database.

### *2.2 Discounting global drivers of FLFP in the context of CEECs*

Accounting for diversity in FLFP outcomes in Eastern Europe is particularly interesting because the majority of supply and demand side determinants of FLFP that have been recognised in the literature have moved in the same favourable direction in all Eastern European countries, along with the rest of the world. For example, from the supply side, we have observed a very substantial drop in fertility rates in the whole of Eastern Europe. Furthermore, Pollert and Fodor (2005) emphasise the high and increasing level of educational attainment among women in Central European countries – a legacy that is enduring, despite their labour market disadvantage (Pollert and Fodor 2005, p.67). Finally, data from the European Values Survey 2008 show that cultural factors cannot account for this variety in outcomes. There are no substantial differences across Eastern Europe in answers to questions such as ‘Do you think that a working mother can have a warm relationship with her children?’ or ‘Is being a housewife as fulfilling as having a job?’. If anything, Eastern Europe as a whole scores less traditional than some of the more developed Western economies.

Cross-national variety in the social policies that support women’s employment, such as state provision of child care facilities and paid maternity leaves, has been frequently proposed as

the main driver of trends in FLFP in the region, even though empirical evidence from the Western countries does not provide any support for this argument (McCall and Orloff 2005, p.159). This argument is frequently taken up because Communist regimes promoted long maternity leaves and subsidised childcare, while the post-socialist transitional states have been less inclined to do so. However, the Baltic states are not faring any better than CEECs in terms of maternity leave or childcare provision services so social policy does not appear to be a driver of this variety either.

From the demand side, in all Eastern European countries we have seen high economic growth and moderate economic development during the 2000s, following the initial shock of transition and a fall in national output during the 1990s.

Development of the services sector has been substantial following the collapse of communism, due to the distorted production structure during communism in comparison to market economies. Namely, the sectoral bias towards overdevelopment of heavy industry and underdevelopment of services was present in all eastern economies, independent of their level of economic development, because ‘following Marx, services were viewed as unproductive’ (Roland 2000, p.6). Therefore, following the demise of communism, the services sector expanded drastically in Eastern Europe.

Indeed, most literature on the determinants of female economic activity refers to a number of Eastern European countries as an exception to the general rule. The 2012 World Development Report on Gender and Development makes a vague attempt to posit the mechanisms that have negatively affected FLFP in transition countries: ‘Transitions can, however, risk a reversal. The collapse of the Iron Curtain meant that Eastern European women lost some of the gains in gender equality made under communism... The rise of capitalism and a new political order in Eastern Europe thus set women back on some aspects of endowments, agency, and economic opportunities.’ (World Bank 2011, p.348-9). In my assessment of existing literature, I conclude that research on women’s labour force participation in Eastern Europe (as well as its policy prescriptions) has closely followed in the footsteps of the wider transitional labour market literature. This literature was framed around Say’s law, which states that supply creates its own demand. Once it was clear that a huge amount of people who lost their jobs were not going to create new employment due to a skills mismatch between the old and the new economy, more attention started being paid to the adequacy of labour being supplied as well as labour market frictions. Advantage was given to politically feasible policy recommendations such as activation (e.g. introduction of active labour market policies), rather than educational reform, which was slow to materialise and politically costly. More attention also started being paid to the so-called political sources of unemployment, i.e. the role that the trade unions and governments have in worsening unemployment (through labour market regulation). In essence, emphasis was placed on the supply side incentives, and the regulatory framework, while very little attention was paid to the structural sources of unemployment/labour market inactivity, with an assumption that attraction of any foreign direct investment (FDI) would create jobs (in a gender neutral fashion). The same trend can be traced in the research agenda on the barriers to activation and employment of women (with a gender twist, such as focus on childcare policies).

Schelkle and Hassel (2012) argue that this trend has also been taking place in Western Europe, where the policy focus shifted away from government macro-steering to micro-optimisation which provided a lot more policy options, and thus made it very popular with both governments and the EU. Therefore, the demand side of unemployment and inactivity (among other issues) got sidelined along the way. However, while gender research in Western countries has had a much more pluralist agenda (including very influential feminist research), due to a chronic lack of research funding a significant problem of unemployment/inactivity in some Eastern countries, labour market research in (and often on) Eastern Europe has been predominantly micro policy driven.

In this paper, I argue that while these individual policies typically discussed in the literature may have had some influence over female labour market participation outcomes, none of them have played a decisive role. In other words, literature has failed to provide a systematic answer to why some transitional countries have experienced difficulty with re-activation of women into the labour force while others have not. For example, narrow association of women's labour market access with available social policies makes us neglect the fact that, when given the right incentives in the labour market, women will gain enough political and social leverage to make childcare more available, i.e. demand for it will create the supply of it. There is no evidence that would make us think that by changing policies such as childcare, women will, *ceteris paribus*, all of a sudden start working. Likewise, there nothing would suggest that economic development per se would improve women's position in the labour market. Instead, my research shows clear divergence in FLFP trends across varieties of capitalist development these countries have pursued, which leads me to hypothesise that different trajectories in transitional restructuring and the different capitalist development models these countries have adopted during transition have structurally and politically either encouraged or constrained female labour market opportunities.

### **3 Literature review**

#### *3.1 Political economy perspectives on determinants of FLFP*

As mentioned in the introduction to this paper, Margarita Estévez-Abe engendered the VoC framework in 2005. According to her line of argument, different types of economic coordination and the institutional complementarities associated with them affect men and women differently (Estevez-Abe, 2005).

The source of these differences in gender outcomes is primarily the skill regime a country has. When employers invest in firm-specific training, turnover is more costly for them, so interruptions from work are not as desirable in a specific skills regime as in a general skills regime. Since women's interruptions from work are more predictable than men's, due to childbearing and family reasons, employers rationally discriminate against women in hiring, training, and promotion. In response to this discrimination, women do not have the incentive to invest in specific skills so they specialise in family work. As McCall and Orloff (2005) further summarize the argument: 'the role of social policy in facilitating women's employment in a skills-specific regime is to provide child care— rather than generous



parental leaves, which are disproportionately taken up by mothers—so that the employment of mothers is as continuous as that of fathers, or to offer less discriminatory employment in the public sector. By implication, public sector and social policy supports for women's employment in general skills regimes is less imperative' (McCall & Orloff 2005, p.163).

Therefore, while specific-skills regimes tend to reduce disparities among workers based on education and training, they tend to exacerbate disparities based on the gendered division of labour, in the sphere of both paid work (Estévez-Abe 2005) and household work (Iversen et al. 2005). General-skills countries, on the other hand, foster greater class disparities and weaker gender disparities (McCall & Orloff 2005, p.162).

This argument feeds into the wider notion that societies can be compared on a variety of different dimensions of equality, including gender equality, as noted by a number of feminist scholars. As Estevez-Abe and Morgan (2008) point out, a state with relatively high levels of income equality may have low levels of gender equality. This can be the case because 'some welfare states treat women primarily in their roles as dependent housewives or mothers, while treating only men as autonomous citizens. Other welfare states, in contrast, treat men and women as equal citizens.' (Estevez-Abe and Morgan 2008, p.5). When women are treated by the welfare state as dependent, they receive benefits through their husbands, rather than directly. This is of great concern to feminist scholars, because these countries treat half of their adult population (i.e. women) as dependent by default. Within the VoC framework, these observations can be translated into maxims that CMEs are conducive to income equality while LMEs are more favourable to gender equality. This can be illustrated by the examples that Estevez-Abe and Morgan (2008) provide: 'Germany and Japan are more egalitarian than the US when it comes to distributive equality. Nonetheless, the economic institutions in Germany and Japan tend to lock men and women into rigid roles. It is structurally more difficult for women in Germany and Japan to combine work and family than their counterparts in the US. It is also structurally more difficult for men (and women) to change their careers. The very institutions of CME that lock economic actors into long-term relationships also limit citizens' choices to reverse their past decisions to try something new' (Estevez-Abe and Morgan 2008, p.5).

Although engendering of the VoC framework has produced extremely useful insights into the linkages between production and gender regimes, the framework has also been widely criticised for not examining the continually growing services economy and the impact it has had on industrial relations. These criticisms have been very important for feminist scholars, since the service economy plays a highly prominent role in providing women with new economic opportunities (e.g. Mandel and Shalev 2009, Rubery 2009). For example, the exciting new field of stratification economics, which analyses how institutions interact with class and gender inequality, has focused on how emergence of low wage services performed by women from the lower classes, such as cleaning, cooking and minding children, have 'freed' the better-educated women with higher earning potential from household labour and allowed them to enter the 'official' labour market (e.g. Weeden and Grusky 2005, Bernardi & Garrido, 2008, Mandel and Shalev 2009). These studies imply that greater FLFP comes at a cost of increasing social stratification among women and that therefore analyses of

differences between men and women need to also take into account the within-group class differences. Therefore, unpacking the aggregate of high FLFP and understanding how it affects women at different skill levels is an extremely important task for scholars examining gender equality.

Most recently, Kathleen Thelen (2012, 2014) has even criticised the conventional wisdom that the future of social equality depends on the faith of coordinated market economies. In other words, she argues (following Streeck, 2009) that at a certain point in history “Williamsonian” economic efficiency enhancing functions of institutions and their “Durkheimian” functions as mechanisms that promote social cohesion were compatible in coordinated market economies but that this may not be the case any longer due to liberalisation through labour market dualisation. And indeed, income inequality in Germany, as the epitome CME has been growing over the past decade (Baccaro and Pontusson, 2014).

Thelen (2014) also argues that embedded flexibalisation, associated with Scandinavia and even the Netherlands, and its focus on ‘social investment’ policies (such as training for all kinds of people at all stages in life), which collectivise risks that follow liberalisation, can be the new overlap of efficiency and social cohesion functions of institutions. This is particularly relevant for gender relations in the labour market, because of expansion of the service economy and the huge influx of women into the labour market over the past few decades whose economic interests have not been well served by labour protection policies from the manufacturing era. It also throws a new angle onto the ‘impossibility’ of having both gender and social inequality within the VoC framework.

Wren (2013) has also made a recent contribution to the political economy of de-industrialisation and the rise of the service economy. In her work, Wren discusses how well equipped existing ‘varieties of capitalism’ are to meet the skills demands of the growing service economy and examines the role of increased female participation in the labour force in shaping these outcomes. One of her important findings is that, contrary to conventional wisdom about liberalisation, substantial public sector investment is needed in order to support growth of high productivity services in an economy. In her own words, ‘*increases in public investment in school and college based education have significant positive effects on employment in dynamic service sectors*’ (p.17). Therefore, along similar lines as Thelen (2014), Wren (2013) is an advocate of liberalisation that is embedded through public sector supported social investment, and sees an important role for working women, as a growing constituency, in ensuring and maintaining such a trajectory of liberalisation.

While certainly not exhaustive, the above-surveyed literature represents a very useful starting point for the analysis of political economy determinants of FLFP in the context of Eastern Europe.

### *3.2 Capitalist diversity in Eastern Europe*

Emergence of new institutional settings during post-socialist transition has taken place through the interaction of the international political economy and these countries’ different past legacies, so different types of capitalist regimes have been established across Eastern

Europe (Bohle and Greskovits 2012).

While this capitalist diversity is mainly reflected in the various national production systems that these countries have established following the collapse of communism, other institutions, such as national welfare and educational systems that support and complement these production regimes in these countries also diverge. Along the lines of the Varieties of Capitalism (VoC) literature, this research assumes that these institutions are mutually dependent and that they are reinforcing/supporting certain patterns of socio-economic development.

The VoC framework has been expanded to account for the Eastern European emerging capitalisms. While Baltic states have been identified as the LME type, Slovenia has been classified as a CME (Feldmann, 2006). On the other hand, CEECs have been recognised as belonging to a completely different type, the so-called Dependent Market Economies (DMEs). The main characteristic of the DME model is the high external dependency on global production chains for sources of capital and innovation (Nolke and Vliegthart 2009). This was one welcoming development in VoC literature, not least because the VoC literature has been criticised for treating national production systems as closed, i.e. ignoring forces of globalisation at the point of production (e.g. Watson 2003).

Bohle and Greskovits (2012) analyse capitalist diversity that has developed in Eastern Europe within the framework of Polanyi's work. Polanyi saw capitalism as a permanent conflict between pro-market tendencies of capital and protective resistance of the society to market forces (Polanyi 1944 in Bohle and Greskovits 2012). Bohle and Greskovits (2012) make a compelling case to show how interaction of these countries' path dependencies, transitional domestic politics and transnational influences has affected Central Eastern European countries differently from the Baltic states and Slovenia.

According to Bohle and Greskovits (2007), 'the neoliberal Baltic states excelled in market radicalism as well as macroeconomic stability, but lagged behind other states in industrial transformation and social inclusion... In contrast, the embedded neoliberal and less market-radical Visegrad states achieved better results in building complex, competitive export industries. At the same time, they have been somewhat more socially inclusive too.' (p. 462-3).

Bohle and Greskovits (2007, 2012) explain emergence of these different types of capitalist regimes through the interplay of two groups of factors: political decisions and past legacies on one hand and transnational influences on the other. This argument stands in stark contrast to the VoC literature, which assumes prior existence of established and consolidated national institutions embedded in national production systems, which resist global forces of convergence.

Therefore, emergence and consolidation of institutions which coordinate economies activities in post-socialist countries 'were much more thoroughly shaped by the influence of transnational factors than in the case of Western liberal market and coordinated market economies.' (Bohle and Greskovits 2007, p.464). On the other hand, some historically embedded institutions, especially some components of educational and social protection systems, have remained embedded in Eastern Europe despite the strong economic and social

impact of transition.

From the above literature, one can gather that both institutional change and institutional continuity have characterised post-socialist transformation. For example, Bohle and Greskovits (2012) explain how national welfare systems have been strengthened through political and social conflict in some countries, while they have been weakened in others. In that sense, these countries' welfare systems may not be perceived as complementary organic developments to national systems of production, which would be in line with Estevez-Abe et al (2001) argumentation, but in fact, they can be observed as creating certain types of social constraints on the process of institutional change as envisaged by economic reformers. Following Streeck (2009) and Thelen (2012), we could also understand these conflicts as conflicts between "Williamsonian" economic efficiency enhancing functions of institutions and their "Durkheimian" functions as mechanisms that promote social cohesion.

### *3.3 Educational reform and skill regimes in CEECs*

A sizeable portion of VoC literature on Western market economies focuses specifically on education regimes and skill formation (see Busemeyer and Trampusch, 2011 for a detailed overview), which is of great relevance for this paper's argument. In addition, development of the service economy is also conditioned upon a skill regime a country has. As Thelen (2012) points out, 'the service sector thrives more on general skills—whether at the high end (e.g., software engineering, which involves broad technical training) or at the low end (e.g., retail and hospitality industries, where there is a premium on social and communication skills)' (p.152). Therefore, she continues to argue, while 'high-end manufacturing may flourish in an environment characterized by employment stability [...], in high-end services, labor mobility often plays a crucial role in promoting skill acquisition— among other things, by providing a mechanism to ensure that the general skills in which a worker invests will be valued at full marginal product (Becker 1993, p. 34)' (p.153). Even at the low-skill level, according to Thelen (2012), 'a high-quality public school system that provides foundational general skills is arguably better equipped than traditional firm-sponsored apprenticeship training to generate the kind of social and communication skills that lower-level service-sector jobs demand' (p.152).

However, neither the VoC literature on Eastern Europe nor the Bohle and Greskovits' (2012) influential typology, delve in great detail into the implications of skill regimes (or their absence) for capitalist diversity in Eastern Europe. One point on educational systems that does come across in work on capitalist diversity in Eastern Europe is that these countries' have struggled to fully reform their educational systems. Bohle and Greskovits (2012), for example, argue that this absence of reform has been due to the scarce resources following pressures of international capital for subsidies, as well as EU-imposed tight budgetary constraints.

However, a different stream of literature that focuses on the political economy of educational reform argues that educational reform in the region has been a lot more about political will to dismantle strong teachers' unions and absence of clear guidance from Western donors than about financial resources (Padure, 2009). Furthermore, recent work on educational reform in Russia (Johnson, 2009) has suggested a linguistic barrier to educational reform, which may be worth exploring in the wider context of Eastern Europe. For

example, as Johnson (2009) argues, linguistic confusion over key reform ideas such as “quality” and “international standardisation” has taken place, because they have not been adapted to the Russian cultural context. These words that made up the reform agenda acquired a negative connotation in the Russian society because they were misunderstood as questioning the intrinsic value of Russian education and an attempt to neo-colonise the foundation of Russian culture.

Given such a plethora of compoundable reasons for resistance to educational reform, there seems to be a lot of evidence pointing that educational and economic reforms in the region have not been developing hand in hand. These processes also leave room to hypothesise that absence of educational reform in the region has disproportionately affected women, since ‘old’ skills appear more useful in the manufacturing sector, which has been defeminised through the process of industrial upgrading.

The problem of skill mismatch becomes even more pronounced when we consider that a very *laissez-faire* approach dominated the labour market policy in most of Eastern Europe, inspired by the neo-liberal discourse, especially during the first stages of transition. The expectation was that the market would match workers and jobs in the new economy as soon as privatisation takes place, yet this did not materialise due to labour market frictions, such as occupational and geographic mobility of workers (Roland 2000). Furthermore, there is an emerging literature on skills matching in Eastern Europe, which has been identified as a strong driving force behind poor labour market outcomes in the region (Bartlett 2012). Some of this literature acknowledges that the situation may be worse for women, but there are very few answers to why this may be the case.

#### **4 Argument**

This section presents the paper’s argument in detail. The argument is based on the following observations, which will be supported by data in the sub-sections that follow:

1. Industrial upgrading in CEECs during transition, which has relied on external sources of capital and innovation, has led to defeminisation of industrial labour, i.e. it has had a negative impact on female intensity of manufacturing.
2. Women’s share in the services sector has not increased in CEE during transition, although the services sector, which has expanded massively since the fall of communism, would have been expected to be a very significant driver of female employment.
3. Reduction of female opportunities in the growing manufacturing sector and the lack of substantial female entry into the service economy has resulted in low/stagnant FLFP in CEECs.

Sub-section 4.3 then discusses the processes that have led to the above empirical observations. These can be summarised into the following: Industrial policies in CEECs that have attracted FDI through large subsidies created political pressures to compensate losers of privatisation, restructuring and industrial upgrading of state owned companies, created fiscal constraints for CEECs, which had to be contained due to pressures for macroeconomic stability from the EU. These budgetary constraints, compounded by other barriers, have not allowed for expansion of public employment (which favours women), nor for educational reform towards more general skills, which would have increased occupational mobility of labour towards the private services economy.

Industrial policies in CEECs have attracted FDI into specific industries through large subsidies, which resulted in many people losing their jobs. In order to maintain political stability, which was an important driver of inwards investment, CEECs compensated these losers by offering them extensive monetary incentives to leave the labour market. Presence of fiscal constraints (due to EU pressures for macroeconomic stability) and absence of political pressures (due to pacification of losers of transition), public sector employment, which favours women, continued to shrink, while educational reform which would have increased occupational mobility of labour towards the private services economy did not materialise.

#### *4.1 Impact of industrial upgrading on female industrial employment in CEE*

The fact that the manufacturing sectors in CEECs restructured and upgraded towards more complex, export-oriented production has had important gender implications in these countries' labour markets.

First of all, manufacturing has been the largest single sector in all Eastern European countries in terms of employment throughout transition (see Graph 6 below). Furthermore, it manufacturing is a lot more significant in terms of employment in Slovenia and CEECs than in the Baltic countries, which is consistent with the fact that these countries experienced re-industrialisation while the Baltics have not.

#### **Graph 6: Share of manufacturing in total employment, 1997-2008.**

Source: Eurostat.

However, when we look at women's employment in manufacturing, we notice that their share is significantly higher in the Baltics than in CEECs. We also notice that this trend is getting more pronounced in the later stages of transition (see Graph 7 below).

#### **Graph 7: Share of women in manufacturing, 1997-2008.**

Source: Eurostat.

We also use the MIT Economic complexity index<sup>2</sup> constructed by Hausmann et al, 2011, in order to show that share of women in manufacturing is significantly negatively correlated with economic complexity of manufacturing (correlation coefficient of -0.76 at 5% significance level; see Graph 8 below).

### **Graph 8: Correlation between share of women in manufacturing and economic complexity, 2007.**

Source: Eurostat and The Observatory of Economic Complexity, MIT.

Such trends should not come across as surprising given the experience of other countries. Empirical evidence from East and Southeast Asia shows that industrial upgrading due to increasing capital intensity and manufacturing productivity in sectors targeted by the FDI leads to defeminisation of manufacturing labour (Tejani and Milberg 2010). Although it is not entirely clear through which mechanisms manufacturing ‘drops’ female labour as it increases in complexity, the proposed mechanisms have been wage growth (which squeezes women out of these sectors) and/or occupational segregation (women never had access to those sectors which have been subject to upgrading).

And indeed, there is strong evidence in favour of the occupational segregation argument since gender-based segregation by sectors of employment has historically been pervasive across the world (Bettio and Verashchagina 2009, p.7). Industrial sectors where female participation has been dominant are textile, footwear and leather industries (Cueto and Sanchez-Sanchez 2010, p.2). The communist countries of Eastern Europe and Central Asia, although famous for their high engagement of women in industrial employment, have not been immune to this gender bias in the sectoral distribution of labour (Lobodzinska 1995, p. 23).

In line with the occupational segregation argument, it appears that industrial upgrading in CEECs (as well as in Slovenia) has taken place in male-intensive industries, while low-skill low-wage industry such as the female-intensive textile industry has lingered on in the Baltics, continuing to provide opportunities for female employment.

Nonetheless, this does not explain why only male intensive sectors would be subject to industrial upgrading.

A neo-classical economic approach to analysis would attribute such developments to market forces. Sauré and Zoabi (2009) (in Gaddis and Pieters 2012) argue that male and female labour market outcomes may depend on countries initial factor endowments, which determine how a country specialises following trade liberalisation. Following a model

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<sup>2</sup>The researchers of the American Harvard and MIT universities concluded a study on economic complexity 2011. The atlas analyses the foreign trade of 128 countries and sets up an economic growth ranking which is based on the so-called Economic Complexity Index. The basis for the analysis is the quantity and complexity of exported goods and the frequency of exports. Consequently, services and non-export goods were not included in the study.

developed by Galor and Weil (1996), they differentiate whether the comparative advantage of the liberalising country lies in sectors with predominantly female or male labour.

Using such a theoretical framework, one can conclude that the loss of comparative advantage in the feminised industries (such as textiles and related industries such as garments, leatherwork and clothing) following the collapse of communism was what led to the female exit from industrial employment in CEECs during transition.

However, by using the framework of loss versus gain of comparative advantage upon trade liberalisation, this theoretical literature on the gender impact of sectoral restructuring and trade reforms appears to take a very stylised view of international trade. In such a stylised world, countries simply gain and lose comparative advantages, while it seems that in reality, as Bohle and Greskovits (2007, 2012) have shown, these countries' domestic policies and past legacies have in fact created these new systems of production in interaction with transnational actors.

So, in other words, industrial restructuring is not an explanation of why something happens, but a process that needs to be understood in its own right, if we are to understand the gender biases that it may produce. Furthermore, in a wider context, the way industrial restructuring takes place affects other institutions in a country, which in turn can create complementarities with the new systems of production that can affect genders differently.

In order to consider how and why restructuring was biased against female industry in the case of CEECs, we need to consider the parallel processes that have affected female-intensive vs. male-intensive industrial sectors.

The European Union's trade policy during the 1990s and the early 2000s was particularly biased against the female labour-intensive textiles and clothing (T&C) industry in Eastern Europe. It consisted of tariffs, quotas and promotion of outward processing trade (OPT), all of which protected EU producers (Corado 1995; Hanzl and Havlik 2003; Heron 2012). Given that, an explanation such as the loss of comparative advantage in female intensive industrial sectors due to opening of markets seems to be a grave oversimplification of what happened to female industrial employment in Eastern Europe.

As Feenstra (1998) points out, 'in contrast with the traditional paradigm of international trade theory, evidence suggests that today the largest share of world trade takes place in intermediate goods, and final consumer goods sold in one country are often the assembly of components processed in many different locations' (in Baldone et al 2001, p.80).

A special case of this new international trade paradigm is outward processing trade (OPT). Textile and clothing industry, which is a very female intensive industry, is particularly prone to OPT and it has been affected by this process more than any other industry globally. Other segments of industry do not lend themselves as well to OPT or to being as 'footloose' as textiles (Hanzl and Havlik 2003, p.84).

'OPT' enables import-competing firms to outsource the most labour intensive aspects of production (e.g. garment assembly) while retaining the higher value added tasks (e.g. natural and synthetic fibre production, textiles design and manufacturing, the cutting and dyeing of



fabrics) within the domestic economy. In this way, the high cost firms could in theory maintain price-competitiveness in their own domestic market and resist competition from low cost exporting countries' (Heron 2012, p.90).

These global trends substantially affected the way industrial restructuring during post-socialist transition in the CEECs unfolded. Hanzl and Havlik (2003) point out that CEECs were forced to change their industrial policies as they re-oriented their trade to the EU. 'FDI inflows contributed to active industrial restructuring and helped the CEECs to move up the 'quality ladder' towards more sophisticated industrial segments, such as electrical engineering or transport equipment. However, the textiles sector has not been a prominent target for foreign investors as other forms of international production integration - that is outward processing (OP) - are preferred' (Hanzl and Havlik 2003, p. 64).

'As a consequence of the increasing competition, especially from low-wage producers, European Union producers of textile and apparel pursued strategies aiming at the reduction of their production costs. This ... resulted in the shift of the labor-intensive production phases toward countries characterized by relatively low labor costs, while maintaining in the producers' home countries the fundamental phases of design, intermediate inputs provision, and distribution of the final goods. Abundant evidence on this phenomenon can be found in the data on outward processing trade between Western and Central Eastern Europe' (Baldone et al 2001, p.80). For EU member states, this OPT strategy started in the late 1980s and later, which coincided with the demise of communism and opening of the Eastern European economies.

Furthermore, empirical evidence shows that OPT does not utilise host countries' comparative advantages, so it cannot generate growth potential for the domestic industry. In other words, 'the extent and forms of the delocalization of production in this sector are driven essentially by EU producers rather than by host countries' characteristics' (Baldone et al 2001, p.80). 'Preliminary econometric evidence confirms that labor costs, along with geographic and cultural proximity, are the most important reasons for the original choice of a given country as a processing partner' (Baldone et al 2001, p.102).

Apart from OPT being the favoured mode of trade with CEE for Western Europe in the labor intensive sectors, such as textiles, 'OPT benefited from special, softer regulations in trade between the EU and the CEECs: First, tariffs were levied on value added only. Second, beginning in March 1992, the Europe Agreements abolished tariffs for most categories of textiles and clothing imported after outward processing, which was then extended to all products in December 1994. Consequently, imports related to non-OP co-operation agreements (mainly subcontracting) and to FDI were at a disadvantage. These different regulations for OPT clearly benefited EU producers and discriminated against genuine Eastern European products. The differences vanished by 1 January 1997, when tariffs on non-OP imports were removed as well. After the elimination of trade barriers between EU and CEECs the advantages associated with OPT were reduced – see Revue Elargissement (2002)' (Hanzl and Havlik 2003, p.64).

Furthermore, members of the World Trade Organisation (WTO) signed the Agreement on

Textile and Clothing (ATC) during the Uruguay round in 1994. ATC established a ten-year period to eliminate the use of quotas in all textile and clothing trade between WTO nations, which expired on 31 December 2004. Trade data show that this has had a huge impact on Western European imports from CEECs (Heron 2012).

Therefore, EU promotion of OPT, coupled by the tariffs on genuine Eastern European products in the female-intensive textile industry, has contributed to unsuccessful restructuring and development of the local textile related industry in Eastern Europe. The fact that CEECs are dependent on Western FDI for technological progress (e.g. Jensen 2002) has made this trend even more pronounced.

Initial studies of the textile industry in Eastern Europe warned that female industrial employment is going to suffer disproportionately due to the unfair EU trade policy (e.g. Fong and Paull 1993). Later studies then showed that OPT had saved much of the potentially disproportionate impact of sectoral restructuring on female employment (e.g. Ingham and Ingham 2005). Only a few studies warned that OPT based employment in CEE is highly unsustainable, as it is purely based on low labour costs (e.g. Corado 1995, Hanzl and Havlik 2003).

The high political acquiescence and tolerance of social inequality in the Baltic countries, has, on the other hand, allowed the low-skill low-wage industry such as textiles to be sustained amid wider de-industrialisation in these countries.

This sub-section has served to provide empirical evidence for defeminisation of manufacturing in CEECs. It also discussed the reasons behind such a process and argued that it was not due to comparative advantage in male intensive manufacturing sectors, but in fact due to a much more complex international political economy of production and trade.

#### *4.2 The service economy and female employment in CEECs*

Literature on FLFP in Western capitalist economies has always emphasised the massive contribution of expansion of services to female employment. According to Goldin (1995), female labour market participation through economic development in capitalist countries has followed a U-shaped curve. Women work in agriculture at low stages of economic development, then withdraw into the household during the period of industrialisation, as incomes grow but female employment in manufacturing is stigmatised. Finally, as societies develop and de-industrialise, and employment opportunities in the service sector increase, women gain greater access to education and consequently return to the labour market.

Along these lines, tertiarisation has been the presumed mechanism through which economic development increases FLFP at the later stages of economic development. Gaddis and Klasen (2012) are the first ones to formally test this proposition. Using rigorous econometric examination of panel data for a large number of countries between 1980 and 2005, they show that tertiarisation is indeed the necessary condition through which economic

development has a positive impact on FLFP.

**Graph 9: Share of services (public and private) in total empl., 1997-2008.**

Source: Eurostat.

Although the services sector has expanded massively since the fall of communism (see Graph 9 above), women's share in the services sector has in fact dropped in CEECs during transition (see Graph 10 below). The opposite trend in terms of female share in services sector has been observed in the Baltics (the top three lines in Graph 10).

**Graph 10: Share of women in services (public and private), 1997-2008.**

Source: Eurostat.

These puzzling trends in the services sector of the CEECs invite us to take a closer look at the role of education in these economies.

Given the insightful observations made by Thelen (2012) on how the service economy thrives on general skills (presented in section 3.3), we cannot help but wonder whether it is possible to concurrently pursue educational policies that would enhance labour mobility into the service economy, while maintaining labour stability and social cohesion in the newly re-industrialising sectors of these economies. This issue may be further exacerbated by the inability of CEE economies to expand public sector employment in order to absorb female labour (like Scandinavian countries have done). Therefore, in the next sub-section, we examine the political economy that has led to defeminisation of both manufacturing and the service economy in these countries.

*4.3 The political economy of 'embedded neoliberalism' and its impact on female economic opportunities*

The process of transition in CEE as described by Bohle and Greskovits (2007, 2012), has followed the 'embedded neoliberal' trajectory. This has required the balancing of the following international and domestic economic and social interests:

- a. Interests of foreign sources of capital and innovation (FDI), which required economic support in the form of subsidies.
- b. Losers of privatisation and restructuring of state owned enterprises had to be compensated and politically marginalised to ensure political stability in CEE, which was important for attraction of FDI.
- c. EU and the process of accession, which have required macroeconomic stability.

Industrial policies in CEECs that have attracted FDI through large subsidies, as well as political pressures to compensate losers of privatisation, restructuring and industrial upgrading of state owned companies, created fiscal constraints for CEECs, which had to be contained due to pressures for macroeconomic stability from the EU.

These budgetary constraints have not allowed for expansion of public employment (which favours women, as shown by Anghel et al, 2012), nor for educational reform towards more general skills, which would increase occupational mobility of labour towards the private services economy (e.g. see Thelen 2012). The tight budgets have been compounded by other sources of resistance to educational reform in CEE (as discussed in section 3.3; e.g. resistance of teachers' trade unions, the fact that educational reform is a long term process that is not visible in the short run and as such not politically urgent, the fact that manufacturing-led growth puts a premium on specific skills and labour stability rather than mobility).

In summary, as Bohle and Greskovits (2012) argue, due to the political pressures to compensate the losers of transition as well as subsidies for international capital, amid EU-imposed tight budgetary constraints, it was the educational reform that suffered. Absence of educational reform has meant that the educational system has continued to produce mismatched workers for the new service economy, which would have impacted women more than men, since their opportunities for employment in manufacturing were being substantially reduced as the transition progressed.

## **5. Concluding remarks**

This paper has sought to answer how new capitalist orders established in CEE during transition reduced female opportunities for employment. The paper has shown that the particular capitalist development trajectory pursued by the CEECs has resulted in defeminisation of *both* industrial and service labour, which is counterintuitive to all existing theories on the role of women in economic development. The paper then attempted to account for these two concurrent processes of defeminisation (in industry and services) by analysing the political economy which has surrounded the processes of industrial upgrading, educational reform and EU accession, as well as their interdependencies. Through the tracing of these processes in CEECs, the paper has attempted to draw attention to how the changing and increasingly globalised nature of economic development in today's world creates novel socio-economic patterns and trade offs that may have strong implications along gender lines.

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World Bank.

## Appendix

**Table A1. GDP per capita in selected Eastern EU Member States, 2008**

<b>Country</b>	<b>GDP per capita<sup>a</sup></b>	<b>GDP per capita (PPP)<sup>b</sup></b>
Czech Republic	8,042.0	23,625.0
Estonia	6,783.9	10,448.0
Hungary	5,947.2	11,210.3
Latvia	6,055.7	13,040.4
Lithuania	6,041.4	15,088.9
Poland	6,235.8	11,212.9
Slovak Republic	8,545.6	16,174.8
Slovenia	13,836.2	15,976.0

Source: World Development Indicators, World Bank.

Notes: a. in constant US dollars, 2000; b. In constant US dollars, 2005.