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The resurgence of Political Economy (PE) in analysing social change is very much concomitant to phenomena like globalisation, the (relative) decline of American hegemony and Western dominance in the international system, the hollowing out of the nation-state and, indeed as an overarching structure, the process of transnational class formation. All these issues popped up in the scholarly literature during the 1970s and have been dominant themes ever since. In the European context, a PE perspective developed in reaction to two different but in a deeper sense interrelated occurrences: the extended relaunch of European integration from the mid-1980s onwards, on the one hand, and the collapse of state socialism in Central and Eastern Europe, on the other. The former apparently took the form of an acceleration in *economic* integration – after all, the extended relaunch was about completing the Single European Market and establishing Economic and Monetary Union – but in reality it was about new power configurations and about a redistribution of welfare, this time at the transnational European level. The latter has been dubbed as the double transformation, i.e. from command economy to free market capitalism and from authoritarian rule to parliamentary democracy. Processes of economic and political change were inextricably bound up, but not in a direct linear way as so often claimed (economic liberalisation, for instance, supposedly contributing to democratic consolidation in a positive sum way). It was the social realm that played a crucial intermediary role. That is, in addition to the international (European) setting in which the double transformation took place. In short, both the supranational solution to the sovereign debt crisis of the European welfare state (the so-called ‘fiscal crisis of the state’, which itself was never purely economic in nature) and the collapse of real existing socialism (eventually bringing about the end of the Cold War setting in Europe) were important sources of academic interdisciplinary exchange.

Political Economy proper originally referred to the study of the intersection of economics, i.e. market integration, and politics, i.e. state formation, including their institutional, cultural and ideological environments. As such it was very much related to the emergence of capitalist production and consumption and to the rise of the nation-state during and after the age of mercantilism. A particular influential PE strand took the shift from class-divided to genuine class society, as part and parcel of the rise of industrial capitalism, serious. It was Karl Marx who emphasised the centrality of capital and class in analysing industrial societies. His historical materialism was internationalist in nature but confined to the nation-state in its application. This was particularly true for the Marxist-Leninist literature on classical imperialism of the late 19th and early 20th century. Jumping through history, it was only in the course of the 1960s and 1970s that historical materialist analysis became truly international or, indeed, global. Two separated – but in the course of events progressively interconnected – developments were responsible for this: the process of decolonisation and the rise of new imperialism, on the one hand, and the emergence of a new and increasingly dominant global actor, i.e. the multi- or transnational corporation, on the other. These two tendencies came together in such diverse literatures as dependency and world system theory, the New International Division of Labour approach, regulation theory and neo-Gramscianism, among many others. Arguably the overarching label Global Political Economy – or heterodox IPE - captures these theoretical and empirical developments of the last three decades best, particularly since it combines both geographical (global, transnational), economic (transnational capital, global commodity chains) and political (hollowing out of the state, governance, hegemony) notions. Not applicable to every GPE-scholar is the present author's emphasis on transnational class formation. In the remaining part of this contribution, I will briefly explain the intrinsicies of this approach and then apply it to the double transformation in Central and Eastern Europe (CEE) and the subsequent integration of this region into the European (and, indeed, global) heartland of transnational production and finance.

This article takes a position similar to what David Harvey calls historical-geographical materialism or what Kees van der Pijl refers to as the interrelationship of modes of production and modes of foreign relations, the latter combining 'definite patterns of occupying space, protecting it, and organising exchange'. The ontological position taken here is that the unequal distribution of power and welfare in time and space is independent of cultures and common within, across and between communities of all sorts (be it tribes, nations, civilisations or, indeed, religions). As such, this real world of unequally distributed power and welfare is the most important 'dependent' variable. Following this language, and looking at post-communist developments in CEE, integration is one of the most important 'independent' variables: how did (the prospect of) European integration alter existing power relations and patterns of socio-economic inequality in the region? But 'integration' as such does not bring us any further. Following Marx' method of abstraction, we need to unpack 'integration' to fully understand its real *historical, that is, social* meaning. The notions of class structure, class formation and class agency will be used to give a deeper meaning to the process of European integration and its extension to CEE. Without identifying its internal social structure and the class strategies resulting from it, integration will remain an empty abstraction.

A central concept in a historical materialist approach to European integration, then, is the notion of class. In reaction to those who proclaimed the 'death of class', Erik Olin Wright distinguished two conditions for a genuine class society: 1) ownership and control of the economically-relevant assets or income-generating productive resources (such as land, capital [including shares, stock options, etc.], skills, information, labour power) by a small minority in society; and 2) the consequences of this unequal distribution of income-generating assets for the material wellbeing (i.e. welfare and security) of the people. Or to put it the other way round: 'the more egalitarian the distribution of assets and the less a person's material wellbeing depends upon their relationship to those assets, the lower the classness of a society'.

We have to keep in mind, first, that the income-generating nature of capital assets is anchored in the labour process. Or better, that the level of income inequality (whether or not the result of direct ownership or control of capital assets) is related to the level of exploitation of labour power and the price it fetches in the market, like other commodities. In this sense, it can be argued that the post-war period of de-commodification has come to an end in the course of the 1970s and has turned into a period of accelerated commodification of labour since the early 1980s. This indeed is the real meaning and objective of the flexibilisation of labour markets in Europe, one of the centre-pieces of neo-liberal restructuring. Second, we have to realise that both the ownership and control of economically-relevant assets, and the income-generating nature of it, are increasingly transnational phenomena. In Europe, the dominant trend of transnational production and finance and the ever closer integration of capital markets are just two cases in point.

Is this enough ground to speak of transnational class formation? Certainly not. At stake is the difference between class and class *formation*. An important addition is that the structures, which reproduce or decrease/increase the unequal distribution of assets and income at the transnational level, have to be reduced to the agency of transnational actors (in the same way as these and other structures determine the behaviour of transnational actors). In other words, we have to ascend from the abstract level of commodification and exploitation to the concrete level of agenda setting and policy planning. Apart from the institutional context, the level of ideas is of particular importance here. How can we present decisions – which have the net effect of increasing inequalities – as being in the general interest? And which are the politicoinstitutional points of reference at the national, transnational and supranational level, and which transnational coalitions are possible or necessary in order to translate certain interests into policymaking.

In other words, a process of class formation does not take place spontaneously. It needs political and ideological leadership and action based on a highly developed political and ideological consciousness of the dominant social class *agents*; 'dominance' is then defined in terms of actorness or agency. Being dominant means being powerful in material terms, i.e. effectively controlling the mechanisms of decision-making and non-decision-making. It is the political (or power) expression of class. Following the above mentioned definition of Erik Ohlin Wright, in political terms we can then distinguish two conditions for a genuine class society: 1) ownership and control of politically-relevant assets or agenda-setting and decision-making democratic resources (such as seats in parliament, government institutions, governance structures [including access to epistemic communities and networks], information, education, etc.) by a small minority in society; and 2) the consequences of this unequal distribution of agenda-setting and decision-making assets for the material wellbeing (i.e. welfare and security) of the people. Or to put it, again, the other way round: 'the more egalitarian the distribution of assets (i.e. the more democratically accountable) and the less a person's material wellbeing depends upon their relationship to those assets, the lower the classness of a society'.

Finally, 'dominance' (in terms of powerful in material terms) needs legitimacy in order to become hegemonic. In other words, it needs a constant stream of ideas which – synthesised in long-term strategies within a comprehensive concept of control – provide the framework in which economic and political interests are constructed (or made explicit), and their potential antagonisms neutralised. Returning to our claim that the process of European integration must be understood as an instance of transnational class formation, it is *inter alia* at this level of ideas that we can question state-centric views of European integration. The EU is increasingly functioning as a 'quasi-state' structure, characterised by a complex system of multi-level decision-making in which national (and subnational) governments, bureaucracies and business elites develop converging ideas about, and interests in, a New European Political Economy. Elsewhere I have extensively argued that the European Round Table of Industrialists (ERT) has been a particularly influential actor in shaping the socio-economic contours of such a new form of bourgeois domination at the European transnational level. In a world of ongoing commodification and accelerated deregulation and flexibilisation, transnational business opinions play a privileged role in mobilising economic interests, governments and Union institutions. The ERT was clearly the *primus inter pares* in the European landscape of think tanks, agenda setting and policy planning groups, etc.

Immediately after the 1989 revolutions in CEE, and throughout the 1990s, the ERT published a number of reports and put pressure on member state governments and European institutions in favour of big bang enlargement. The recurrent theme in these reports was the positive impact of the free and unrestricted movement of capital, i.e. of West European foreign direct investment (FDI), on the double transformation in CEE. The transformative impact of EU enlargement, first and foremost through the so-called Copenhagen criteria, would guarantee a level playing field in which European capital could freely operate, to the benefit of the people in CEE. They would profit from the FDI-induced recovery of output, the introduction and application of modern technologies and new forms of industrial organisation, the creation of jobs, etc.

Reality has shown a somewhat different outcome. Apart from the fact that job-creating greenfield investments were outstripped by labour-shedding rationalisations in companies which had been privatised to foreign capital, two broader social and political consequences of FDI in CEE have to be stressed. Arguably, it is the dependent and peripheral incorporation of the CEE countries into the European heartland of transnational production and finance that is the most characteristic feature of their double transformations until the very day of today. First, it has been argued that the double transformation in CEE boiled down to the introduction of 'capitalism without capitalists'. The emerging social structure in the post-1989 period was supposedly characterised by the absence of a ‘capitalist class’ or the lack of an ‘organised group of major capitalists’. The new power elites in the CEE countries were technocratic-managerial of nature and did not face competition from a propertied class. Contrary to this rather state-centric interpretation, it is my belief that all the elements of our definition of *class* and *class formation* (se above) can be applied to the new situation in CEE. It is foreign capital – and the quasi-state structures and cadres at the supranational level organically related to it – which plays an essential role in the process of *transnational* class formation in CEE. The ownership and control of economically-relevant assets, and the income-generating nature of it, are increasingly transnational phenomena, while the growing inequality in the distribution of these assets is defended – that is, presented as the ‘general interest’ – by the ‘new power elite’. This link between national power elites and transnational class agents can be the result of mutual interests and consent, the behavioural and structural power of capital and/or overt pressure from the EU.

Second, FDI in CEE was first and foremost directed to the most attractive and often strategically important industries and services such as banking, telecommunications or utilities. One could argue that in times of globalisation the concept of ‘strategic sectors’ has become obsolete. Strength and competitiveness should be emphasised, rather than nationality. This may be true, however, in societies where globalisation does not pose new economic security threats (for instance, because inward flows of goods and capital are more than counter-balanced by outward flows). But in CEE, the massive sell-off of the so-called diamonds of the former state sector has increased foreign dependence and has unilaterally moved strategic decision-making power to the head offices of foreign companies. This in turn has had (and still has) an important impact on employment and social cohesion.

The most recent offspring of the credit crunch, i.e. the sovereign debt crisis in the so-called cohesion countries Greece, Spain, Portugal and Ireland, has been frequently explained by referring to the so-called competitiveness gap within the eurozone. Structural reforms should be implemented in these deficit countries in order to balance trade flows and hence put an end to the German beggar-thy-neighbour policy. Among the structural reforms most often suggested, labour market flexibility and fiscal austerity figure prominently. Yet the most obvious way out of the structural eurozone crisis is technological innovation as one of the central pillars in a more comprehensive attempt to increase competitiveness. For this to happen, public and private investments have to be increased and redirected, which at least partially runs counter to the present fiscal austerity programmes and the outward orientation of the respective capitals. The dilemma’s involved are difficult to solve, particularly because of the macroeconomic and monetary discipline imposed from above (i.e. through the mechanisms of asymmetrical regulation of the EU) but certainly not insurmountable. By the end of the day, this is a matter of political decision-making power and the governments in the cohesion countries and their respective business elites have still something to choose, albeit within the ‘limits of the possible’

The international financial press recently prefers to talk about the peripheral economies within the eurozone when referring to the cohesion countries. This tends to mask the fact that the real periphery is somewhere else, namely in CEE. In this ‘new periphery’ there is no freedom of choice whatsoever when it comes to issues of competitiveness. Foreign owners of local industries and financial services are unlikely to invest in research and development activities in CEE; governments heavily depend on EU’s structural funding to improve, for instance, economic infrastructures and are as much obliged to reduce sovereign debt as eurozone member states. Moreover, foreign ownership of economically relevant assets in CEE makes these countries and their respective economies vulnerable to foreign-induced crisis. Among the many channels for contagion from the credit and eurocrisis are a reduction of FDI to CEE, decreasing exports from CEE countries to the eurozone as a result of a weak euro and slackening economic growth in eurozone member states, a liquidity squeeze because of credit/capital needs of West European governments and financial institutions, etc. In addition, and finally, recent studies indicate that the new CEE member states of the EU have been excluded from major decisions since 2004 and have basically obtained B-status membership. This suggests that the classness of European transnational society has become higher in terms of power distribution too since big bang enlargement. If this is true, the present eurocrisis in retrospect may turn out to be peanuts when compared to the looming crisis of nationalism.

Suggested further reading

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