

The State and Market in the Transition Economies: Critical Remarks in the Light of Past History and the Current Experience

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Introduction

The aim of this paper is to explore the clash between the unprecedented shift to market determinants of allocation in the former Eastern bloc and the underlying realities of that region that have forced a significant retreat in the various programmes for economic change. Conventional wisdom regarding this shift asserts that modern historical experience (that is, of industrial societies) offers only two feasible choices – the market economy and the command economy – the latter of which has demonstrably proven to be false. The realisation of this in Eastern Europe is then understood as part of a wider triumph for the market in the 1980s and 1990s. From this perspective, Stalinism (the politico-economic system constructed after Stalin's consolidation of power in the former USSR in 1927/28), is seen as no more than an ideologically inspired, retrogressive programme, imposed on the societies of Eastern Europe, which ultimately foundered on the rocks of reality.

The argument of this paper is that this is false reasoning. First, the view that the market is a natural and inevitable form, whose successes have been demonstrated in the West, profoundly misunderstands both the nature of the market and the nature of the Western market economy. Second, it is no less erroneous to see state control in

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Eastern Europe as a simple imposition of the Soviet-style model. This imposition existed, but it was able to build on strong pressures that, quite independently, were expanding the role of the state in this area, so that, whatever the nature of the regime after 1945, there would have been a higher level of state control and ownership than that which obtained in Western Europe. Third, for more than two decades, the East European economies did perform relatively well by registering high growth rates which, especially during the 1930s, market economies had been unable to do. To say this is in no sense to justify these regimes, for this is to fall into the trap we shall argue against, that of seeing only two alternatives – state and market. In reality, the successes of the East European regimes after 1948 were based on a logic of development that served the particular interests of those who controlled these societies, rather than the population at large. But this does not alter the fact that they proved viable economies in their own terms. Fourth, we shall argue that when they began to fail, their ruling groups began to switch to the market as a form of salvation – but did so in such a way as to misunderstand the limits of its potential.

As a result, they were quickly forced into different degrees of retreat so that – following Karl Polanyi – what we might call ‘the second great transformation’ proved to be as incapable of sustaining itself as did the first great market experiment of the nineteenth century – but the failure of the second has been much more intense. In these terms, the period 1989-1998 has shown, we shall argue, the failure not of one system but of two – state and market – and the people who have paid the price for both failures have been the populations of these countries.

The West and the Historical Limits of the Market

Over the last two decades, the ideological insistence on the centrality of the market and its benefits has grown to such an extent that the reality of the actual role of the market has been obscured by abstract theorising based on highly restrictive and questionable assumptions. It is important to begin, therefore, by putting the market

argument into perspective, and recognising the real limits of the market experience. These limits are of two kinds – those relating to the general role of the market in history, and those relating to its specific role in the history of capitalism. We shall briefly consider each in turn.

So far as overall human development is concerned, it is important to recognise that market forms have been a peripheral force in determining production and more general social progress. As Marx (1976, 271) pointed out (writing in particular of the labour market, but the more general idea permeates his work) the market 'has no basis in natural history, nor does it have a social basis common to all periods of human history'. The development of the market and market exchange – including that of labour power – to a central position in social life has been the 'product of many economic revolutions, of the extinction of a whole series of older formations of social production'. Marx was not alone in his insistence on this point. It was also the core of Karl Polanyi's anthropological and historical critique of the idea that the market was a dominant force in human history, and the culminating point of social evolution. Although Polanyi saw his work as a doubled-edged critique of both classical and neoclassical economics as well as Marxism, he, nonetheless, avoided examining the extent to which Stalinism - by simply equating the market with capitalism - was in contradiction with the fundamental of Marx's analysis of class society. In fact, Polanyi's general arguments converge quite closely with those of Marx and the classical Marxist tradition.

For Polanyi (1957 [1944], 37, 43) the:

'market economy is an institutional structure which, as we all too easily forget, has been present at no time except our own, and even then it was only partially present ... [P]reviously to our time no economy has ever existed that, even in principle, was controlled by markets... Though the institution of the market was fairly common since the later Stone Age, its role was no more than incidental to economic life.'

It is the exploration of this peripheral role of the market in human history that has been the central contribution of Polanyi

and those who have followed in his steps. The difficulty they have had in establishing their argument, as Polanyi himself insisted, was that once the idea of the market became a central component of modern ideology, it led to the assumption that rational economic man was market-oriented and a consequent approximation of all past social categories to those of the market, even to the extent of language and terminology.

Nevertheless, a formidable amount of evidence has built up regarding the limited role of the market in human history. There are two main ways of questioning this. One is to question the evidence itself and this has certainly been done by some market theorists and historians. They have been helped by Polanyi's occasional comments that appear to dismiss the market altogether, when his main point was the peripherality of the market rather than its non-existence. Once this is recognised, then the evidential critique has little force.¹ The second is rather more sophisticated and consists of the argument that the market would have existed if it could, but rational economic calculus has frequently made it 'unprofitable' for human society to use market forms. This is essentially the argument of those who have been influenced by transaction-cost analysis. What such an argument does is to attempt to undermine Polanyi's central point of the crucial role of social institutions by reducing those institutions to an implicit economic calculus derived from market economics – but now applied to the institutions of social evolution.² However, the evidence against this view, and the problems of its theoretical assumptions when applied to history, have been shown to be compelling (Basu and Jones, 1987).

This is no less true if we turn to the limitations of the market in capitalism. Polanyi argued that the creation of the nineteenth century conception of the market reflected not just social processes

¹ For an example of the argument over evidence see Silver, 1983; Mayhew, Neale & Tandy, 1985, and Silver, 1985.

² See, for example, North, 1977.

but an ideological programme to be found in the writings of the classical economists, which they then succeeded in having institutionalised in policies such as enclosures and the creation of the New Poor Law. As Polanyi (p.3) saw it, the market had an 'extreme artificiality'; 'the great transformation' was an experiment with human society that could not work:-

[T]he idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society, it would have physically destroyed man and transformed his surroundings into a wilderness.

As a result, the market experiment failed and society pragmatically began to shift away from it. For Polanyi, the nineteenth century was far from representing the triumph of laissez-faire, 'society protected itself against the perils inherent in a self-regulating market system – this was the one comprehensive feature ... of the age'. However, such protection did not go far enough – with the result that 'the origins of the cataclysm [collapse of nineteenth-century civilisation] lay in the utopian endeavours of economic liberalism to set up a self-regulating market system' (Polanyi, 76, 29).

All of this was splendidly put, and Polanyi remains a powerful antidote to much free-market theorising. Nonetheless, he was weak in explaining what guided this pragmatic retreat from the extremes of the market and in identifying its limits within capitalism. He was no less weak, also, in tending to see this retreat as part of an assertion of control over social processes rather than as a manifestation of the control over exploited and alienated groups. To go beyond these weaknesses, it is necessary, therefore, to recognise the way in which it is capitalist competition itself which, on the one hand, undercuts the market through its encouragement of powerful private monopolies and, on the other, increases the power of the state in economic life. Far from these elements being contradictory to capitalism, they

derive from its earlier market forms and express its longer-term dynamics.

The clearest emphasis of this shift in capitalism away from the market towards forms of monopoly competition and state – capitalist competition comes again from within the classical Marxist tradition: particularly its development in Lenin's and Bukharin's writings on imperialism – though it is there too in Trotsky and Rosa Luxemburg.³ But a similar emphasis can also be found in discussions of business structure that have dealt with the 'real' pattern of development, rather than abstract theorising about models. In particular, there is much of value and importance in the various discussions on the way that the 'visible hand' of economic management has taken the place of (or at least, greatly supported) the 'invisible hand' of the market.⁴ It has been a recognition of the importance of this shift that has led to the development of transaction-costs analysis and its application to the theory of the firm.⁵

In the light, however, of the insistence on the force of market ideas in the 1980s and 1990s, an obvious response is to argue that, whatever the past trends towards monopoly and state power within Western capitalism, these trends have been halted – if not turned back – by more recent developments. This was essentially the argument of both Reaganism and Thatcherism in both its political and more theoretical formulations. It has also been argued more robustly by current 'globalisation theorists' that world capitalism internationally has significantly increased its level of integration and competition, as a result of which there has been a diminution in the importance of the state. There is an important, partial, truth in this that is significant when we analyse why the East European economies could not survive in relative isolation from the world market. But it is only a partial truth, for if the argument is taken too

³ See Haynes, 1985, for a discussion of this aspect of the classical Marxist tradition.

⁴ The work of Alfred Chandler is especially important here – not least his *The Visible Hand*, (1977).

⁵ The key text of the transaction-cost approach is Williamson, 1975.

far, then a mistaken picture emerges of the nature of capitalism at the turn of the twenty-first century. Why this is so, is explored below.

Economic measures notoriously lag behind trends and it is by no means clear that the increased competition within world capitalism has done more than to hold the system on a plateau in terms of the state-monopoly-market elements in the past two decades, if that. We cannot explore all of the dimensions of this problem here, but we will refer to two aspects. First, the modern world economy remains one where governments continue in their attempts to exercise strict macro-economic control (Hood, 1991, provides an interesting discussion of the limits to the reduction in state control): indeed, on some indicators, the state actually increased its role in the 1980s. Table 1 provides statistics that are in striking opposition to the popular perception of what has been happening in the advanced world.

**TABLE 1 - Government Expenditure as a Percentage of GDP at Current Prices
1880-1986**

	1880 ^a	1913	1929	1938	1950	1973	1986
USA	n/a	8.0	10.0	19.8	21.4	30.7	37.1
UK	9.9	13.3	23.8	28.8	34.2	41.5	45.9
Germany	10.0	17.7	30.6	42.4	30.4	41.2	47.8
France	11.2	8.9	12.4	23.2	27.4	38.8	53.2
Holland	n/a	8.2	11.2	21.7	26.8	49.1	58.0
Japan	9.0	14.2	18.8	30.3	19.8	22.9	35.5
Average	n/a	11.7	17.8	27.7	26.7	37.4	46.3

^aFigure for Germany for 1881 and Japan for 1885

Source: A. Maddison, *The World Economy In the Twentieth Century*. (OECD, 1989), p.71.

Second, evidence of the level of monopoly concentration is also ambiguous and by no means points to a downward slide. Indeed, as Chandler (1990) has argued, there are powerful forces making for the continuance of the 'visible hand' of economic management. If we see capitalist competition, therefore, as taking

place through a combination of market-monopoly-state capitalist elements, it would be mistaken to take the view that the balance has fundamentally changed in favour of the market.

Despite evidence to the contrary, it is exactly the conception of the self-regulating market as a successful model to explain the workings of the advanced market economy that came to dominate policy prescriptions of post-1989 Eastern Europe. However, in the light of what we have argued, it is clear that the general potential for success was limited. Even if the market were introduced in the way that those who followed the theory suggested, it would not take us back to the free market of economic theory whose practical manifestation in history has, perhaps, been restricted to the world of eighteenth century petty commodity production – about which Adam Smith wrote.

Market and State in the Perspective of East-European History before Sovietization

Although it might be possible to quarrel with nuances of the following judgement by Jackson and Lampe (1982, 573-574) it, nonetheless, sets out as a whole the fundamental problems with the common assumption made about Eastern Europe – that the strong state control of the period after 1948 was simply the product of the imposition of 'socialist ideology':

What sort of state sector did the Communist governments inherit? The question deserves to be asked despite the political discontinuity after 1944. Obviously the new regimes brought their own theory and practice with them. Both Soviet style planning and a new Communist set of top managers were committed to an overriding emphasis on heavy industry and unbalanced growth. Capital for almost all investment would come directly from the state budget. This was new. Much less ahistorical were the state's ownership of important industrial enterprises and state agencies with wide powers in agriculture, trade, and finance. This inheritance derived not only from the experiences of the

Depression, rearmament, and the Second World War but also from the longer-standing legacy of governments more powerful than any private sector of the economy, and industry in particular. Also available, thanks to earlier state attention to higher education, were personnel already trained in technical and administrative skills.

This assumption (the imposition of 'socialist ideology') was always at fault – not simply because of the anti-statism inherent in the classical Marxist tradition – but also because it failed to fully comprehend the forces pressing towards ever greater state action before 1948. It, therefore, misunderstood the extension of state control after 1948 as a qualitatively new force; rather than as an expression of a particular quantitative development and hyper-extension of old trends through the new political rhetoric of the Stalinist regimes.

For reasons which we need not explore in detail now, Eastern Europe gradually began to fall behind Western Europe in social and institutional terms as the latter emerged from feudalism in the sixteenth and seventeenth centuries. Although there are no reliable figures for output, it is indubitably the case that during the first half of the nineteenth century, a significant development gap had opened up. And by the end of the nineteenth century, this development gap created pressures for rapid economic advancement in Eastern Europe. As can be seen from table 2, between 1870-1910, Russia's income per capita remained at one-third of the UK's, whilst the Habsburg empire's – though expanding – was still less than one half of the UK's. Poland and Romania's were less than one third – similar to those of the weakest Mediterranean economies.

The pressure to industrialise were, first, a product of a 'demonstration effect' – that is, the leaderships became acutely aware of their economies' backwardness, and how this could be overcome by industrialisation (Janos, 1982, *passim*). But, second, they were also a more specific product of capitalist competition putting pressure on the East European economies, and of the way in which such competition was increasingly mediated through

**TABLE 2 - Per Capita Income in Nineteenth-Century Europe
Relative to the level of the United Kingdom**

	1870	1890	1910	Growth Rate 1870-1910
UK	100	100	100	1.00
Western Europe				
Belgium	77	79	81	1.03
Netherlands	78	78	78	0.90
France	58	57	61	1.09
Germany	48	50	61	1.09
Switzerland	65	66	73	1.18
Scandinavia				
Denmark	61	61	78	1.55
Finland	35	34	41	1.40
Norway	45	45	49	1.11
Sweden	48	48	60	1.49
Mediterranean				
Italy	46	40	50	1.00
Greece	-	-	26	-
Portugal	35	-	28	0.30
Spain	43	-	51	1.37
Central and Eastern Europe				
Habsburg Empire	32	34	42	1.63
Imperial Austria	38	39	47	1.48
Imperial Hungary	23	26	35	2.00
Czechoslovakia	40	43	52	1.59
Hungary	23	31	44	2.15
Poland	21	23	27	1.53
Romania	19	22	29	1.85
Russia	34	-	32	0.7

Source: Adapted from D.F. Good, "The Economic Lag of Central and Eastern Europe: Income Estimates for the Habsburg Successor States, 1870-1910", *Journal of Economic History*, 54, No. 4, (December 1994), table 6, p.886.

inter-state pressure. Thus, the position of Eastern Europe within the international state system weakened relative to those that were successfully industrialising. The best known example of this was the pressure on Tsarist Russia, first brought home by its poor performance in the Crimean War but, subsequently, building up to a recognition that Russia could not afford to stand still for, in the oft quoted phrase of Sergei Witte, the Finance Minister of the 1890s:

'he who does not go forward will for that very reason fall back... international competition does not wait' (Von Laue, 1960, 215-216).

It was these kinds of pressure that formed the basis of Gerschenkron's (1962, 1968) famous hypothesis about state-sponsored industrialisation being a response to backwardness. But Gerschenkron's analysis suffered from an important lacuna. Whilst it was true that competitive pressures encouraged the state to step in where private capital was failing in backward countries, it was also true that the very backwardness of these countries usually created other pressures which limited the capacity of the state to generate the support for a consistent programme of industrialisation.⁶ The nub of the problem was the implicit tension between the general 'need' for state-led industrialisation and those classes who wished the continuance of the existing pattern of development. Thus, the integration of these economies into the world market as agricultural producers gave the aristocracy and the peasantry (albeit to a lesser extent) a vested interest in keeping the economies open, and state involvement, minimal. Similarly, the weaknesses of native industry and the tendency for entrepreneurs to come from marginal groups who did not share the more suffocating conventions of the old order (such as Jews and other religious and ethnic minorities) had the effect of blunting demands for greater state involvement in general, and protection in particular, from the emergent bourgeoisie.

The social base for a more active state policy, therefore, tended to come from within the state itself, as well as from those who identified their future with the state. Not the least of these were intellectuals (drawn from the middle classes and *petit bourgeoisie*) who had benefited from educational provision, but who now found their opportunities restricted and, therefore, looked to the state as a solution. Janos (1982), in discussing these groups, perhaps

⁶ In the modern era, it has been the perceived failure of autarkic, import-substitutionist economic regimes that have given stimulus to the 'state-or government-failure' literature with its insistence on the constrained ability of the state to successfully implement development programmes, especially in developing countries.

exaggerates in his use of the word 'decline' but, nonetheless, captures the essence of their position when he writes that:-

While the history of the modern Western state may well be described as one of the rising middle class in quest of larger national markets, the history of peripheral states is one of declining middle classes trying to escape the vagaries of the market and hoping to find safe haven in political, rather than economic entrepreneurship.

However, these forces did not yet constitute a sufficient social base to carry the argument for more state-directed industrialisation when faced with opposition from other groups. The intensified competition at the end of the nineteenth century in combination with agricultural depression went some way to shifting the balance in favour of state action – but it far from resolved this problem. Now the aristocracy and the peasantry moved more towards protection and a merging of their interests with those of the bourgeoisie – though this did not necessarily produce a consistent pattern of state action. State policy tended to focus on tariff protection, industrial legislation, the encouragement of technical education and a minimum of state ownership for diverse objectives, rather than just development. As is well known, it was railway development that drew many East European states into a more active role, supplemented by the growing pressures of military competition. But real policy coherence was often limited by the contradictory pressures of different groups and the bargaining process between different factions of the ruling classes. In Rumania, for example, tariffs were raised to help provide a stronger national economic base but in such a way that they reflected more the existing distribution of power, rather than a future developmentalist policy. Thus, the average nominal tariff level on foodstuffs was higher than the comparable level on semi-manufacturers which, in turn, was above that on manufactures (Jackson and Lampe, 266-267). Though there were important ideological advances towards conceptualising the potential of state-

directed development, these tended still to be marginal to policy formation (Montias, 1978, 53-69). As Lampe has argued in respect of South Eastern Europe, 'the total mobilisation of the First World war was needed to force governments into the first experiments with national planning' (Jackson and Lampe, 272).

In all of the war economies of the years 1914-1918, state control was expanded to sustain the war effort. Once the war was over, state control was reduced, but overall state economic intervention remained at a higher level than in 1914. In Eastern Europe, the problem was made more complex by the redrawing of the map to create new entities, but here, too, a higher level of state control was consolidated. However, it was the trials and tribulations of the inter-war years that brought home the difficulties of Eastern Europe and especially the problem years of the 1930s.

As a result of the development of national consciousness in the post-Versailles states, and the more general problems of inter-state relations, there were extensive contemporary discussions of development problems in this area (see, for example, RIIA, 1939). Industry struggled to maintain its position in the face of market conditions. For example, in the extreme case of Poland, industrial output in 1938 was estimated to be 1.3% less than in 1913 and, allowing for population change, industrial output per head had fallen by 16%.⁷ Nevertheless, the focus was initially still on trying to tie development to market forces in the hope that this would be optimal in the long term. Such views were pushed from the outside but they found support within Eastern Europe from those economists who accepted simple market theory and warned, as did the Polish economist Hipolit Gliwic in 1928, against 'the shadow of excessive statism' (Karpinski, 1964, 30). However, the challenge to these ideas strengthened even more in the 1930s as the depression

⁷ Agriculture was also weak in Eastern Europe and its position was compounded by falling agricultural prices. Most countries had large surplus populations despite continued high emigration rates. Overall, in a difficult period, these economies showed themselves to be highly vulnerable to shifts in the world market. For more recent discussions see Jackson and Lampe (1982); Kaser and Radice (eds.) (1985); and Spulber (1966).

undercut much of their base – and state intervention increased again as a pragmatic response to crisis.⁸

Policies of state control, therefore, became more general and developed. Nationalisation went furthest in Poland before 1939 – though it was also extended in other countries. More generally, state ownership was supplemented by policies encouraging cartelisation and state supervision as well as the growing control of foreign trade. Nonetheless, social and economic barriers to making such policies consistent, remained. In this period, we can see a growing articulation of more coherent policies for state-led development, but reality usually lacked any close relation to these.⁹ This was because of the contradictory pressures, both internal and external, which affected its formulation. Apart from the groups already mentioned, we should also note that the growing role of foreign investment played an ambiguous role in assisting this trend. Foreign capital did not necessarily oppose state aid and protection – providing it was the beneficiary – but it did not look with favour on some of the more extreme suggestions. Even more important was the impact of land reform on policy options. Land reform consolidated the power of the peasantry and in many of these societies, this produced a contradiction well summed up by Turnock (1986,79): ‘to put it quite candidly, peasant states could only become prosperous once they ceased being peasant states, yet the transition would inevitably take a long time’. In fact, we can go further and say that to the extent that the peasantry needed to be squeezed to allow industrialisation, it would inevitably use its political power to restrain progress.

The result of this is that although the inter-war years provided a further boost to the growth of the state in Eastern Europe and the

⁸ It is interesting to note that not only did the spirit of the 1930s carry over into the Stalinist regimes, but their later spokesmen could find an identity of interest between their own policies and those of the 1930s. Thus, one regime economist writing in Poland in the mid 1960s, could describe how ‘after 1930 came the triumph of the concept of increasing state intervention in economic life’ (Karpinski, 30).

⁹ The ideas of the Rumanian economist Maniolescu are an interesting example of this. See Schmitter, 1978.

consequent displacement of the market, it still needed a qualitatively new force to draw these different strands together. This new force came not from triumphal Stalinism after 1948 but, with the impact of the Second World War and its immediate aftermath, from Nazi Germany.

Nazi policy in the areas that were conquered after 1939 had several dimensions as far as ownership was concerned. First, Jewish capital was seized, with the original owners fleeing or dying in the camps. Second, enemy-owned capital was also seized. Third, native or friendly-owned industry could be bought, taken over, or subordinated to German capital. Fourth, native industry remaining under the control of its pre-war owners was encouraged to merge and change its forms in line with the needs of the German war economy and fifth, those needs also determined a degree of general re-organisation in the economies which benefited some sections of capital at the expense of others. Although the total amount of change under these headings varied from conquered country to conquered country, the net result was to fundamentally change the nature of ownership in industry and finance in particular. In Poland, for example, according to Bierut, speaking in December 1945 '... the war completely overturned the system of our pre-war production relations...' (Gluckstein, 1953, 37).

In Hungary and Rumania, with whom Germany was allied, the changes in property ownership were rather less because they retained a degree of formal autonomy. But German domination increased as a result of its growing penetration of these economies – and this was accentuated by Western-owned capital being taken over by the German state.

When the war ended, therefore, the result of these changes was to throw property relations into even greater turmoil, and it was as a result of this that before Sovietisation, there was a significant further increase in state control of property. Although there are common elements across Eastern Europe to understand how this occurred, it is best to distinguish three variants – again reflecting the differences we have identified in wartime changes.

One pattern was that of Czechoslovakia and Poland, where there was a major expansion in the size of the state sector. This had three elements that were set out in an important article by Beneš, the Czechoslovakian President, in December 1945, which attempted to explain the rationale for intensive pre-Sovietisation nationalisation.

In the first place Beneš (*Manchester Guardian*, 1945) noted that:-

The Germans simply took control of all the main industries, main banks. If they did not nationalise them directly, they put them in the hands of big German concerns... In this way they automatically prepared the economic and financial capital of our country for nationalisation. To return the property and the banks to the hands of Czech individuals, or to consolidate them without considerable state assistance and new financial guarantees, was simply impossible... That was the main reason for the decree nationalising some of our industries and our banks.

In the case of Poland, there were similar pressures to expropriate former German capital, but in addition, ownership was made even more confused by the shifting of Poland's border Westwards to the Oder-Neisse line, taking in former German territory from which the German population was then expelled. On one estimate, this shift in the border doubled Poland's industrial capacity though, of course, since the native population had been expelled, the newly acquired capacity was 'ownerless' in Polish terms and went automatically into state hands. As a result, if the existing state property, and newly expropriated property in the old Poland, is added to the new state property in the new areas, then the majority of industry was in state hands in Poland by 1945-46.

A second element was what would be called 'ethnic cleansing' in today's world. In Czechoslovakia and Poland, the German speaking part of the population bore the brunt of nationalist hostility and vengeance, and were lumped together in one category as traitors and German collaborators. In Czechoslovakia, the

German-speaking population were treated as pariahs and forced out, with their property falling into the hands of the state. This was how Beneš (Manchester Guardian) put it:-

We confiscated this property as the property of traitors. Were we now to divide it among Czech capitalists and industrialists in accordance with some arbitrarily chosen principle, or was it not better to give it to the state and nation?... It is obvious that our absolutely inevitable national anti-German revolution is in accordance with our endeavours towards changes in the economic structures of our state.

But not only was the state sector increased through the expropriation of former German property in Czechoslovakia, it also benefited from the confiscation of Hungarian property.

The third element which explains the extension of state control was the general swing to the left in this part of Europe, as elsewhere, after 1945. This should not be confused with a switch towards Stalinism, although this was certainly part of the movement. It also involved a movement towards social democracy, and a movement in the political programmes of centre and right-wing parties towards the left. For Beneš (Manchester Guardian) 'there is, on the continent of Europe, a transition from pure Liberalism to a system in which the Socialist elements will have considerable weight and even preponderance'. Similar sentiments were evident in Poland where, in 1946, a referendum was held in which all the legitimate parties urged a yes vote for the item confirming the nationalisation programme.

Far from the expansion of the state sector, therefore, being something that was foisted on Czechoslovakia and Poland by 'Stalinist ideology', an important component of it was a response to necessity and other pressures. As Bierut put it in Poland:-

The only way out of this situation, especially in the case of large enterprises, is nationalisation... [as]... a legal act sanctioning already existing facts and procedures. *It is an adaptation of the law to realities.* (emphasis added – Gluckstein, 37).

The second variant – that of Yugoslavia – presents some similarities with Czechoslovakia and Poland but, due to the role of Tito and the partisans in its liberation, it can be considered as a variant in its own right. Because of the role of Tito and the Yugoslav communists, it might be expected that an ideologically-inspired programme of Stalinist nationalisation was at the root of the initial expansion of the role of the state. But here, too, this was not the case. In Yugoslavia, nationalisation was also ‘an adaption of the law to realities.’ In fact, there was no nationalisation; law passed until December 1946, but already by the first quarter of 1946, some 70-80% of industry was already in state or co-operative hands (Jackson and Lampe). This was not the result of any expansion of workers’ power either, but a reflection of the confusion left by ownerless property, and the expropriation of enemy property under a law of November 1944.

Thus, in each of the three countries we have looked at so far, the immediate ending of the war saw a major advance in state control, especially in the modern industrial and financial sectors. Private property in its narrow legalistic sense was restricted to handicraft production, agriculture and the retail sector.¹⁰ Stalinist nationalisation thus completed a process that was already very far advanced.

This is not true of the third variant – Hungary, Rumania and Bulgaria. Here, when nationalisation laws were passed in December 1947 in Bulgaria, in March 1948 in Hungary, and in June 1948 in Rumania, they did bring about a fundamental change in legal ownership relations. But, paradoxically, the extent of this change was a product of the way that the USSR had discouraged and held back a process of nationalisation before 1947-48. Similar pressures developed in each of these cases to those we have analysed in the other cases. In Hungary, for example, the coal mines and power stations were nationalised in

¹⁰ There was, however, some small-scale nationalisation in these sectors, in some countries.

1946 and banks in September 1947. But the USSR was reluctant to see them develop before late 1947, lest they conflict with its other interests in these economies. As we have seen, Hungary, Rumania, and Bulgaria had all joined the war on the Nazi side. They therefore fell prey to Soviet demands for reparations. When the Nazis were defeated, former German-owned capital was taken over by the Soviet state. Chunks of it were dismantled and taken back to the USSR to aid reconstruction there (Gluckstein, *passim*). Other parts were remoulded into "mixed" companies that were partly owned by the Soviet state, and partly by the East European states.

The problem for the Soviet state was that any process of extensive nationalisation might disrupt its exploitation of the resources of these economies through such mixed companies. In 1945-1947, therefore, Soviet policy was to actively discourage broad nationalisation and it was only with the development of the Cold War that this changed. Even so, these mixed companies still presented anomalous forms that remained into the early 1950s to allow the USSR to go extracting 'reparations'.¹¹

But the prefiguring of elements associated with the 'Soviet model'¹² before Sovietisation was not simply related to ownership. It extended both to a belief in the need for the state to play a greater role in directing development, and to a turn in trade towards the East. With respect to the question of the directive role of the state, this derived from a general belief that the market mechanism had failed, and the need was therefore to plan future development. This did not mean rigid Soviet-style five-year planning, but rather,

¹¹ Interestingly, in Finland and Austria too, Soviet influence was used to hold back nationalisation. Finnish politicians were warned at an early stage that 'nationalisation is contrary to Soviet interests'. In Austria in 1946, proposals for more widespread state ownership were explicitly rejected by the USSR in the belief that they might compromise reparations payments (Gluckstein, 43).

¹² We use the terms 'Soviet model' and 'Sovietisation' in their conventional usage, that is, the Stalinist command economy. But it needs emphasising (because it is invariably neglected) that the original meaning of the term 'soviet' is workers' council - obviously very different to its conventional meaning.

short-term recovery plans, and a longer-term view of the need for the state to direct all sectors of the economy. Such views were supported by a swing in economic thinking away from a reliance on the market, towards a belief that the only long-term solution to the problems of Eastern Europe could come from a systematic "big push" across a broad front. This was most famously expressed in the pioneering analysis of Rosenstein-Rodan that later became a classic in development economics, but which was originally addressed to the problems of Eastern Europe. He argued that in a situation where as much as 25% of the population was either partially employed or unemployed, there was no other solution than a state-directed big push across a broad front because:-

If the industrialisation of international depressed areas were to rely entirely on the normal incentive of private entrepreneurs, the process would not only be very much slower, the rate of investment smaller and (consequently) the national income lower, but the whole economic structure of the region would be different (Rosenstein-Rodan, 1943, 206-207).

Alongside this 'prefiguring' of Sovietisation in the areas of state control and planning¹³, a further element can be found in the shift in trade orientation towards the East and a foreign trade regime based on greater control. This was partly a reflection of hostility to the political indifference of the West in the 1930s, but it was also a reaction against an excessively pro-Western economic stance before the war. At the same time, this shift was also encouraged by immediate post-war trade and monetary difficulties which led these countries to look eastwards. However, this was the element that was least consolidated because the USSR itself was an

¹³ It must, however, be stressed that Rosenstein-Rodan argued against the autarky of the 'Russian model', advocating instead 'substantial international investment or capital lending'. But, where this was not forthcoming (as proved to be the case in Eastern Europe), then it is accurate to view the big push strategy as a 'prefiguring of Sovietisation'.

underdeveloped force in the world economy (as well as being in chaos). It could not, therefore, hold the Eastern bloc together simply in terms of economic attraction. It lacked the manufactured goods or capital to supply to Eastern Europe. These economies were, therefore, in a very real sense caught between West and East in this period.

The Rise and Fall of Stalinism in Eastern Europe 1948-1989

We have tried to show how the underlying logic of the policies pursued after 1948 by the Stalinist regimes, rested on deeper foundations than is conventionally imagined. We do not intend here to explore the actual processes of Sovietisation of these societies which are well described in the standard accounts. What is important for us is to understand that for a long period the policies pursued by the post-1948 states were successful, as already stated, in their own terms (that is, predominantly in developing their heavy industrial and military sectors). This success was bought at the enormous cost of squeezing their own populations and, at times, massive political repression to put down opposition as, for example, in 1953 in East Germany, in 1956 in Hungary in 1968 in Czechoslovakia, and 1981 in Poland. But, from the point of view of the rulers of these post-1948 regimes and their supporters, what they were able to do was to use their political power to break the blockages that had prevented more coherent policies being pursued in the past.

Their initial successes saw a surge in growth and rapid urbanisation and social change. As a result, the ruling classes of these countries could be genuinely pleased with what they had achieved by the 1960s. They could also take comfort from the extent to which their challenge was taken seriously in the West, and the way they formed an alternative pole of attraction to the poorer countries whose post-colonial rulers were often also looking for alternatives to the market. The evidence for this confidence is set out in table 3. This uses official data to show the regimes' view of themselves, and their early successes (as well as later failures).

TABLE 3 - Decline in the Performance of the Comecon Bloc according to Pre-1989 Official Data and Concepts (in per cent)

	1951-55	1956-60	1961-65	1966-70	1971-75	1976-80	1981-85	1986-88
National Income	10.8	8.5	6.0	7.4	6.4	4.1	3.0	3.0
Industrial Production	13.6	10.1	8.3	8.3	7.9	4.7	3.4	4
Capital Investment	11.9	13	6.1	7.9	7.9	3.0	2.5	5.9
Agricultural Production	4.0	4.8	2.1	3.7	1.6	1.0	2.1	2.1
Exports	11.9	9.7	8.4	9.1	15.5	13.3	7.9	0.6
Imports	12.3	11.6	8.0	8.9	18.5	10.5	7.2	0.3

Source: *Statisticheskii ezhegodnik stran - chlenov soveta ekonomicheskoi vzaimopomoshchi*, (Moscow 1989), p. 18.

Table 4 can help put these official figures into a clearer perspective as it is based upon more reliable Western recalculations. This table shows the ratio of GDP per capita in Eastern Europe to 1970 and the way that the development gap was, in the main, held

TABLE 4 - East and West European GDP Per Capita for 1938-1970 Relative to Britain

	1938	1948	1970 ^b
UK	100	100	100
W.European Ave ^a	69	66	-
Bulgaria	18	17	35
Czechoslovakia	47	51	46
Hungary	30	26	48
GDR	-	-	91
Poland	28	37	56
Rumania	-	-	27
USSR	-	-	75
Yugoslavia	-	-	32

Notes: ^a) This refers to Belgium-Luxembourg, France, Netherlands, and Switzerland; ^b) 1970 figures are based on market exchange rates. The UN report from which they are derived (cited below) points out that for East European economies, estimates of net material product were adjusted to GDP by adding the value added of non-material services and the consumption of fixed capital and then deducting material services used as inputs in the production of non-material services. It cautions that '[r]ecent studies have shown that these estimates of GDP for countries in transition have deficiencies and may need to be revised in the future' (p.9).

Source: figures for 1938 and 1948 derived from United Nations Department of Economic Affairs, *Economic Survey of Europe in 1948*, (Geneva 1949), table E, p.235; figures for 1970 derived from United Nations *National Accounts Statistics*, Series X, No. 18, Special Issue, *Trends in International Distribution of Gross World Product*, (New York 1993).

constant and, in some cases, closed in the years from 1948 to 1970 – when the West was experiencing its long post-war boom.

This ostensibly favourable outcome was a product of national economic development whose logic was to compete with the West primarily in military and technological terms.¹⁴ In order to build an alternative national economic base, links with the world market were highly restricted, rather than policies pursued (as was the case with the East Asian 'tiger economies') of using state power to assist in the establishment of a world market position in certain sectors. This drive was partly a product of Cold War needs (a national industrial base to support the arms economy), but it was also a product of a carry-over of earlier (especially nationalist) traditions.¹⁵

It was the success of rapid industrialisation, and the conscious presentation of it as the solution to past failures and indignities, that helps to explain how the new leaderships were able to build a class base of support in these societies. Although these were repressive societies (particularly in respect of working-class dissent), the totalitarian model of complete social atomisation does not apply. Dissent was marginal not simply because of fear, although that existed, but because important sections of the population could identify with the regimes and their aspirations. It is worth recalling the comment of Jackson and Lampe quoted earlier that these regimes were able to draw on a legacy of surplus 'personnel already trained in technical and administrative skills' – and it was these who formed the key elements in the early Communist parties

¹⁴ Because proportionately greater resources were channelled into the military-industrial complex by the Eastern bloc, the GDP per capita figures will not provide an accurate picture for variation in living standards. Here, the gap widened in favour of the advanced West. Thus, it is not surprising (at least in part) that there were continuous attempts by East Germans to jump over the Berlin wall, rather than vice versa.

¹⁵ Rumania is a fascinating case in so far as the regime continued to push these policies to the extent of reducing its integration with Comecon in the 1960s. This was not simply an aberration on the part of the Rumanian leadership, but a reflection of the way in which they had consciously assumed the mantle of Rumanian nationalism. A number of commentators have drawn attention to the striking similarity between the post-1948 Rumanian Communist ideology of 'socialist development in one country' and the ideas of the Rumanian Liberal Party in the 1920's and its slogan of 'By ourselves alone'.

in the late 1940s and early 1950s (to be later supplemented by the beneficiaries of the widening educational base created by post-1948 policies).

The consequence of this was that the post-1948 regimes could build strong social bases not in the working class, but in the middle, white collar, and managerial layers of the population – and to such an extent that they could reduce their dependence on coercion. In Rumania, this went even further with the regime using its base to develop independence from the USSR in the 1960s. This case is especially interesting as the Rumanian Communist Party was one of the weakest at the end of the Second World War with at best, a few thousand members. Communist rule, therefore, had to depend initially on the support of the Red Army, but so successful was the regime in its programme of developmental nationalism that it was able to stand on its own feet in an astonishingly short period of time.

The result of all of this was that in the 1950s and 1960s, for many in the West as well as in Eastern Europe, these societies were seen to embody the successes of 'socialism' – not in terms of human liberation, of which there was none – but in terms of successful state-led industrialisation drives. By looking only at the factory chimneys soaring skywards and ignoring the conditions of the people inside, the illusion could be maintained that here was a real alternative to market capitalism. This made it possible, on the one hand, to ignore the extent to which the classical Marxist tradition had been distorted by Stalinism, and on the other, to disregard the way in which underlying competitive pressures of world capitalism had pushed the state to the fore, in a particularly intense way, in this part of the world.

The illusion began to come under pressure in the 1970s, so that by the end of that decade, economic and social problems were proving exceedingly difficult to manage. During the 1980s, the whole bloc began to stagnate and moved into crisis. The economies could no longer go on in the old way: fundamental changes were required.

A full elaboration of the reasons for this growing crisis is beyond

the scope of this paper.¹⁶ We merely wish to highlight four main components of significant importance. The first was the general way in which, as the long boom in the world economy petered out, the pressures forcing greater integration persisted – so that the negative consequences of the relative isolation of the Eastern bloc were more painfully exposed still. The second relates to internal factors: in particular, to the bureaucratic rigidity that prevented a sufficiently flexible ‘intensive’ method of restructuring, when ‘extensive’ measures began to show diminishing returns. The third was the way in which important sections of the ruling class began, in what might be described as a ‘semi-conscious way’, to relocate themselves so as to take advantage of market openings coming out of previous reforms (this process has been brilliantly described for Hungary by Hankiss (1990, ch. 9). The fourth component, which is of direct interest to our discussion here, was a complementary ideological shift towards the market mechanism as a solution to the failure of state-driven industrialisation where, as already seen, such industrialisation had previously been a solution to the failure of the market. However, as we shall now see, such market ideas took little account of the reality of these economies, nor did (or could) they expect the downward path of the world economy. The result has been a lurching from one form of crisis to another.

The Ideological Shift to the Market in Eastern Europe.

The shift towards the market in Eastern Europe was neither peculiar to that region, nor a product of the immediate circumstances of 1989. Rather, it reflected the particular form taken here by what was actually a worldwide shift. In the West, this trend was identified with the failure of Keynesianism, culminating in the ideological assault of Reaganism and Thatcherism (resting upon *laissez-faire* supply-side and monetarist economic theories). What is interesting and important

¹⁶ The literature on this subject is voluminous, and stems from before the actual collapse of the Eastern bloc. See for example Gomulka, Desai and Kantorovich, 1986; Lavigne 1995, chs 3-4.

to understand is the immense attraction these market ideas had to sections of the ruling groups and their theorists. By 1989-90, the French journalist Gresh (1990, 14) could write that Moscow had 'the greatest concentration of Thatcherite economists on the planet'.

In Eastern Europe, the realisation of the failures of the command economy had the same impact not only amongst the leaderships, but also amongst the opposition, who accepted the way in which the old regimes identified themselves with socialism. It was recognised by practically everyone that, though Western market capitalism suffered from problems, it, nonetheless, had shown itself to be unquestionably superior to 'state socialism' - and so proved a viable model to adopt.

This conceptualisation of the possibilities in terms of two abstract and ahistorical models of market and state, therefore, acted to close the debate in such a way that only one conclusion was possible - namely that the market had the answer. The fact that it did not - both in the general sense that the world economy as a whole was slowing down - and in the specific sense that there was an enormous gap between rhetoric and reality, was hardly recognised at all.

But the market was seen not simply as an economic solution, it was also believed to carry the seeds of a political one too. The equation of the market and democracy was an important sleight of hand in that it helped to obscure the social programme that was implicit in the market arguments. The establishment of parliamentary democracy in Eastern Europe, contrary to the paternalistic arguments of those who had deluded themselves about the benefits of the not-so-benevolent dictatorships before 1989, was an important advance. For the first time, in decades, workers could organise in free trade unions, had the right to strike, and the right to engage in open political activity. Ideas could be freely discussed, books and newspapers published and genuine international contacts forged. But the concept of democratisation was restricted to the political sphere. The question of bringing all socio-economic processes under popular control was not posed by the opposition before, during and after 1989. Instead, it shared

much of the market ideology, although not necessarily in the extreme form of its most, vocal, official proponents.¹⁷

The result was that the implicit social programme of the marketeers (which at first they themselves may have barely been conscious of) remained hidden until the transition was well under way, and its implications could be seen more clearly. Bielecki, the then Polish Prime Minister, expressed this well in the spring of 1991 when he said that 'we have obtained consent to build a market economy from people who do not fully realise what a market economy is all about' (*Contemporary Poland*, 26).

The essence of this social programme has been the conservation of power in two senses. First, market restructuring has created the potential for existing power holders to restructure their own social base away from the state towards the private sector. The two most obvious manifestations of this are firstly, what Hankiss (1990, 254) has called the 'migration of the bureaucracy' into the private sector, working for Western capital or newly-established firms and agencies. This was already evident in Hungary before 1989 but has been more general and widespread since. The second manifestation has been 'nomenklatura - or spontaneous - privatisation' where managers through illicit means become private owners of "their" state-owned enterprises (see Lavigne, 1995, 168-170; Bim, Jones, and Weisskopf, 1994, 259-260). The result of these processes has been that socio-economic power in the sense of control of the economy and the main social institutions remains essentially with the same class of people who had control before 1989. The second aspect of the social programme of the market was specifically to shift the burden of the transition onto the shoulders of the mass of the population by severely cutting real wages (see table 6; also see Glyn, 1995, for the waste this has entailed). Industrial restructuring implies increased

¹⁷ But the limitations of opposition ideas were evident in the heady days of 1989, and later in the former USSR, as it became clear that their's was no more than a vague yearning for a third alternative which could build on the market, but not be restricted by it. But this yearning was barely formulated and hardly coherent enough to offer an alternative to the more full-blooded market conceptions.

efficiency: this has meant either cutting down large swathes - with consequent mass unemployment - or extracting more surplus from those in work. Both of these objectives had been evident before 1989, but under the old regimes the opposition had prevented them from being implemented, especially in Poland. Post-1989, they were to be attempted in a far sharper form with the argument that 'there is no alternative' gaining credibility because it came from the new governments, and was supported, in however a qualified fashion, by those who had played honourable roles in the pre-1989 opposition. The words of General Jaruzelski in May 1990 catch this perfectly for Poland - but have a more general resonance across the bloc, 'We tried economic reforms time and again. But we always met with public resistance and explosions. It is very different now. Now with a government that enjoys public confidence, it has become possible to demand sacrifices'.¹⁸

What the market ideology could not do was guarantee that the transition would be successful in creating powerful new market economies. On the contrary, as the ideology of the market encouraged wildly optimistic assessments of what was possible, so it also encouraged even more adventurous programmes; ones which would more quickly come to grief as the depth of the crisis became apparent. This is highlighted in the next section.

¹⁸ *The Guardian*, 7 May 1990. The various international institutions are also aware that their advocacy of the market carries an implicit social programme, as Jacques Pollak (a former leading IMF official) has put it, 'the proprieties of the Fund contain an unwritten rule that, if at all possible, political arguments should be dressed up in economic garb' (*Economist*, 12 October 1991, p. 52). It is interesting to note that this is not the first time in East European history that the market has been used in this way. Kingston-Mann (1991, pp. 94, 105), for example, has shown that during the nineteenth century in Russia, there was an appeal to 'the politically-stabilising, incentive-generating and productivity-oriented virtues of Western-style property ownership' as part of strategies of what she calls 'repressive modernisation': 'in the pre-emancipation era, educated Russians were disquietingly eager to cite Western economic theory in support of a variety of coercive schemes ...'. This logic persisted into the new century to be embodied in the 'repressive modernisation' of a Stolypin. It is tempting, therefore, to see the history of the Russian people as being sandwiched between oscillating policies of the state-driven repressive modernisation of a Peter the Great, or a Stalin, and the market-driven repressive modernisation of a Stolypin or the modern marketeers.

The Bitter Realities of the Failure of State and Market

Everywhere in the former Eastern bloc, the transition costs have been far greater than the early proponents of market reform imagined. Table 5 provides changes in GDP since 1989. Indubitably, the scale of the collapse has been truly enormous - in many cases greater than the collapse of the major industrialised economies during the great depression of the 1930s. We acknowledge that the performance of the East-Central European countries has been better than that of the former Soviet republics, but we do not intend to explore the reasons for this as it is not germane to our conclusion for the region as a whole. Moreover, we contend that it cannot be justified that the relatively better performance of these countries represents 'success' as the data provided below indicate.

TABLE 5 - Index of Real GDP for the Major Transition Economies (1989=100)

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Albania	100	90.0	65.1	58.8	65.2	70.0	79.4	86.5	79.5
Bulgaria	100	90.9	80.2	74.4	73.3	74.6	76.5	68.2	63.8
Czech Republic*	100	98.8	84.7	79.2	78.5	80.6	84.4	87.7	88.6
Slovakia*	100	97.5	83.3	77.5	74.3	77.9	83.7	89.5	95.3
Hungary	100	96.5	85.0	82.4	81.8	84.1	85.8	86.7	90.5
Poland	100	88.4	82.2	84.4	87.5	92.1	98.5	104.5	111.7
Romania	100	94.4	82.2	75.0	76.1	79.1	84.5	88.0	82.2
Russia	100	97.0	92.2	78.8	71.9	62.9	60.4	57.4	57.7
Yugoslavia (GMP)	100	91.6	81.3	60.0	43.4	46.2	49.0	51.4	53.5

Notes: *) Net material Product for 1989-1990

Source: For 1989-95 UN Economic Commission for Europe, *Economic Survey of Europe 1995-96* (New York and Geneva 1996), Appendix Table B. 1, p. 184; for 1996-97 *Wirtschaftslage und Reformprozesse in Mittel- und Osteuropa*, (Sammelband, Berlin 1998).

The corollary to the economic collapse has been a major deterioration in various socio-economic indicators - hence in the overall well-being of the population. This can be witnessed by the following tables of some highly revealing statistics. Various other statistics can also be shown which further provide evidence for the thrust of the argument presented here.

TABLE 6 - Index of Real Wages for the Major Transition economies (1989=100)

	1989	1990	1991	1992	1993	1994	1995	1996
Bulgaria	100	111.5	68.0	76.7	77.6	63.7	60.2	49.6
Czech. Rep	100	93.6	68.9	76.0	78.8	84.9	92.2	100.4
Slovakia	100	94.2	67.3	72.6	71.4	75.3	81.9	
Hungary	100	94.3	87.7	86.5	83.1	89.1	78.2	74.3
Poland	100	75.6	75.4	73.3	71.2	71.6	73.7	77.9
Romania	100	105.2	88.9	77.3	64.4	72.7	79.8	
Russia	100	109.1	102.4	68.9	69.1	63.7	45.9	52.0

Source: UNICEF International Child Development Centre, *Education for All: Regional Monitoring Report No. 5* (Florence 1998), Statistical Annex.

TABLE 7 - Incidence of Low Income (in per cent) for Central European Transition Economies

	1989	1990	1991	1992	1993	1994
Bulgaria ^a	-	13.8	52.1	55.5	59.4	63.5
Czech.Rep ^b	4.2	8.6	29.8	26.7	n/a	n/a
Slovakia ^c	4.1	4.9	30.2	27.8	31.3	n/a
Hungary ^c	10.1	n/a	15/6	n/a	22.5	n/a
Poland ^d	24.1	40.7	37.9	36.3	n/a	n/a
Romania ^b	28.2	21.8	28.7	46.2	59.9	n/a

Notes: ^a) 15% of 1989 average wage for household; ^b) 35% of 1989 average wage for households; ^c) 10% of 1989 average wage for households.

Source: UNICEF International Child Development Centre, *Central and Eastern Europe in Transition: Public Policy and Social conditions*, Regional Monitoring Report No.3, (Florence 1995) table 1.4, p.8.

TABLE 8 - Annual Registered Unemployment Rate for the Major Transition Economies

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Albania	-	9.5	8.3	24.4	24.8	16.1	13.9	-	-
Bulgaria	-	-	-	13.2	15.8	14.0	11.4	11.1	12.5
Czech. Rep	-	0.3	2.6	3.1	3.0	3.3	3.0	3.1	-
Slovakia	-	0.6	6.6	11.4	12.7	14.4	13.8	12.6	-
Hungary	0.4	0.8	8.5	12.3	12.1	10.4	10.4	10.5	10.4
Poland	-	6.1	11.8	13.6	16.4	16.0	14.9	13.6	-
Romania	-	-	3.0	8.2	10.4	10.9	9.5	6.3	-
Russia	-	-	0.1	0.8	1.1	2.2	3.2	3.4	2.8

Source: See table 6.

**TABLE 9 - Total Number of Crimes for the Major Transition Economies
(per 100,000 population)**

	1989	1990	1991	1992	1993	1994	1995	1996
Bulgaria	672	772	2062	2630	2599	2639	2452	2337
Czech. Rep.	1166	2099	2745	3345	3858	3604	3637	3822
Slovakia	879	1323	1668	1980	2744	2576	2137	1850
Hungary	2150	3291	4256	4332	3895	3795	4908	4572
Poland	1442	2318	2265	2297	2217	2351	2526	2324
Romania	208	422	606	635	964	1043	1310	1422
Russia	1099	1244	1466	1861	1890	1779	1865	1781

Source: See table 6.

Why has the experience been, at best, disappointing - and in many cases, catastrophic? A simple argument (frequently adopted by 'shock therapists')¹⁹ is that it is a product of half-hearted market reform - but it is evident from the preceding statistics that those economies which opted for the 'shock therapy' route (for example, Poland, Czechoslovakia, Russia) have not, overall, fared any better than those which adopted a more 'gradualist' path (Hungary, Rumania, Bulgaria). Moreover, to then argue that those economies which did undertake shock therapy - but then pulled back too soon (as in all cases) - ignores the enormous social and political pressures that forced the retreat. We contend that such arguments have more than a touch of those early doctors who, when the patient failed to respond to bleeding, recommended still more. The real problem has not been a failure to carry through a more consistent market reform, but the illusion that such reform would deliver dramatic improvements. This could only be maintained by neglecting the real logic and profound difficulties of thoroughgoing marketisation.

¹⁹ Note that advocates of shock therapy do not view the post-reform experience as being 'catastrophic'; on the contrary, they view the performance of the Polish economy in particular (which achieved its 1989 level of output only in 1996) as being highly successful (see, for example, Jeffrey Sachs' letter in the *Financial Times* on 24 April 1996). We reject such unfounded optimism. See Haynes, 1996, for a general critique of the role of Western economists in Eastern Europe.

A better explanation, we argue, has to relate to three fundamental factors. The first is that the transition is taking place in the context not only of a short-run world depression, but against the background of a longer-term slow-down in the world economy, and a re-ordering of power relations. The consequence of this is that Western aid and investment has not been forthcoming on anything like the scale that had been hoped for and, to the extent that aid packages are being put together, they are essentially following the development of crisis rather than being developed to avoid it. Similarly, Western (particularly EU) markets have displayed a much higher degree of protectionism than East European governments and their policy advisers had envisaged, thus preventing whatever comparative advantage that did exist, from being fully realised. The political economy of power means that the market does not function in an unimpeded way, but is the prisoner of wider socio-economic and political considerations. But, even where the market is free, as in the important area of foreign investment, far from capital flooding in to take advantage of considerably lower labour costs, countervailing factors (for example low productivity, the need to import state-of-the-art high tech. equipment, high transport costs etc.) can act as a disincentive to FDI. Indeed, if the debt burden and capital flight are taken into account, then Eastern Europe actually exported capital to the advanced West, rather than importing it (Haynes, 1992).

The second is the assumption that rapid liberalisation will lead to the appropriate supply response, leading to quick and positive restructuring and, in turn, to rapid growth and increased efficiency. Results, as witnessed, patently do not provide support for this. A crucial reason why (and of special relevance for those viewing the market mechanism as the optimal resource allocator) is that it neglects to take account of severe market failures residing in the transition economies.²⁰ This has meant that the supply response has

²⁰ On the neglect of market failures in Eastern Europe, see Husan, 1996.

not been of the type envisaged - indeed, restructuring can be viewed as following a downward path. This provides stark and compelling evidence against the belief that free markets can, by themselves, enable the removal of the key market failures of 'frictions' and 'rigidities' - which are considered 'external' to intrinsically efficient markets.

The third factor is that the downward spiral has been given a further push by the collapse of Comecon. This has been partly a product of political revulsion from the enforced ties of the old order, and partly a consequence of a leap into the realm of hard currency - and the consequent collapse of all trade that cannot be financed in this way²¹

The consequence of economic decline has not just been a retreat from the more extreme marketisation plans, but something much more: a shift, in some cases, to virulent nationalism. Under the pressure of spiralling crisis, there has been a fracturing of the old ruling classes: those that politically moved to organisations advocating untrammelled market reforms have been forced to give way to those advocating a more cautious path. The latter - being the remnants of the old Communist parties, now refashioned as social democrats were, almost without exception, voted into office in the aftermath of the post-reform slump. Their appeal is to old loyalties, as well as to the new 'imagined communities' that are being invented out of the crisis. The extremes of this new nationalism can be seen in the former Yugoslavia and the former USSR, but its dangerous logic is no less evident in Albania, the Baltic states, Czech and Slovak Republics, Hungary, Rumania, and so on. Thus, far from the transition economies achieving rapid growth and stability, evidence strongly points to a region destined for continuing uncertainty and turbulence. This is altogether a very different scenario to the triumphalism of the 1989 reformers, and one where the ahistoricism of the economic programmes has been made so strikingly obvious.

²¹ See Haynes, 1994, for further discussion of the form of the economic crisis.

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