Market Failure, State Failure, Institutions, and Historical Constraints in the East European Transition

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Introduction

In The Culture of Contentment, his critique of economic complacency, John Kenneth Galbraith argued that although we should beware too uncritical a view of the lessons of history, one that is ‘most nearly invariant is that individuals and communities that are favoured in their economic, social and political conditions attribute social virtue and political desirability to that which they enjoy. That attribution, in turn, is made to apply even in the face of commanding evidence to the contrary’.1 Essentially the same point has also been made about the failure of western economists to face up to the deficiencies of their own theories and policies by Paul Ormerod in a much more closely reasoned critique aimed directly at economists themselves. Ormerod points to the questionable premises of orthodox economic theory, the inconsistencies and gaps in the theories derived from those premises and the failure of them to produce coherent policy prescriptions that work. Yet like Galbraith he is struck by the paradox that ‘to the true believers, within the profession itself, the ability of economics to understand the world has never been greater’. Indeed there seems to be an inverse relationship between the degree of failure of economics and belief in its capacity to succeed, ‘sociologists and psychologists have documented many case studies concerning the reactions of groups when views which they hold about the world are shown to be false. In such situations, far from recognizing the problem, a common reaction of individuals is to intensify the fervor of their belief’.2 Both Galbraith and Ormerod are primarily concerned to an attack the economic basis of policy in the West but such considerations appear to apply with even more force to the countries of the transition in the former Soviet bloc. There the idea of the Washington consensus, now transformed into a post-Washington consensus, continues to be pushed as a cure-all to the regions’ problems, ‘in the face of commanding evidence to the contrary’.

This paper attempts to extend these arguments to the way in which the transition in the Soviet bloc has been conceived. We first review some of the

questionable approaches to the role of the market that underpins so much thinking about the transition. We then attempt to situate the transition in a broader historical perspective before finally suggesting that recent attempts to learn from ‘the mistakes’ of the early transition years reflect a far less substantial rethinking than is actually necessary. Much transitology still bears all the hallmarks of belief in a theory ‘in the face of commanding evidence to the contrary’.

The Limits of the Market

The development of a capitalist economy in the advanced world long preceded the articulation of the idea of the market as not only a self-correcting but an optimising mechanism. The first centuries of the development of capitalism combined market and quasi-market forms with other coercive mechanisms and the earlier theorists of political economy saw this as a necessary combination. As is well known, Adam Smith’s elaboration of the role of the invisible hand formed only a part of his *Wealth of Nations* and in some senses the rest of this book can be seen as a series of qualifications to this idea. It was only in the nineteenth century, first through arguments of what is now known as ‘popular political economy’ and then later through the first development of the ideas of the marginalist revolution, that market theorising came to be supported by a more elaborate and abstract set of arguments that sought to legitimate the all-encompassing role of the market mechanism. Ever since neo-classical economics has presented this development as one involving increasing scientific rigour in which the earlier ideas became stepping-stones to the neo-classical synthesis. But it is not obvious that this is the case. Critics of neo-classical economics have continuously insisted that its core ideas crystallised out at the end of the nineteenth century – just at the time when the development of monopoly and state elements were bringing into question some of the underlying assumptions of the competitive market. Nor is it at all clear that economists like Smith and Ricardo were engaged in the same methodological exercise as later neo-classical economists. It can be argued that what they were trying to do was to abstract to the essence of the developing capitalist economy and its relationships whereas what neo-classical economics does is to abstract from that essence by constructing an analysis of functioning markets which is at a tangent to the real world that it ostensibly seeks to explain.

Serious historians of economic thought reject what has been called ‘the narrative of scientific progress’ as an explanation of the development of economic theory. One reason for this is that neo-classical economics, despite its claims to scientific rigour, has actually insulated itself from basic tests as much, if not more than, alternative forms of economic theorising over which it claims superiority. In this sense, though Galbraith does not give his argument this foundation, the paradox of arguments being held all the more firmly in the face of commanding evidence to the contrary reflects a serious epistemological problem in orthodox economic theory. Not only does market theory in its current form not address the real
character of modern capitalism but it is supported by a high theory which depends not on building models of the real world with real data so much as the adoption, as Weintrub puts it, of ‘mathematical argument … associated with formalisation in the sense of axiomatisation, with precisely developed chains of reasoning’.\(^3\) Yet, of course, it is the very fact that economic theory can claim to have an axiomatic character that appears to give it legitimacy even when the policies that are supposed to flow from it break down in the face of real world pressures. This failure is seen not so much as a criticism of the theory itself as its application or even ‘the real world’ which must be made to approximate more to the assumptions of the theory. Just as Brecht’s government that had lost the confidence of its people saw the solution in terms of electing a new people so the neo-classical economist sees the solution to the failure of theory to explain and predict the world in terms of the creation of a new world rather than a rethinking of the theory itself.

One response to this is to argue that it does not matter. Whereas earlier generations of economists had the pretension that through their work one could come to know the world we now understand things better. What we are faced with is conflicting narratives of economics – classical, neo-classical, Keynesian, post-Keynesian, monetarist, radical, Marxist etc – each with its own set of axioms and chains of reasoning. What we lack is any real ability to choose between them. This appears to be the conclusion to which Weintrub pushes in his otherwise useful discussion of developments in recent economic theory. If this argument is pursued consistently then at first sight it leads to a superficially radical conclusion. Since we cannot choose between economic discourses in terms of their ‘scientific rigour’ then what must sustain one over the other is ‘power’ embodied in both external, social and political interests and internally in terms of the hegemonic claims of the rhetoric of the discourses. This essentially Foucauldian view of the dominance of particular kinds of theory has the great advantage of drawing attention to the way in which the hegemonic claims of market theory in the 1980s and 1990s have to be understood as social and political constructions. But we wish to go beyond this and still insist that the theory is also wrong and we especially want to insist on this in the face of its widespread use to legitimise policies which we believe have been counter-productive in terms which could easily have been predicted (and were predicted) to be counter-productive at the start of the transition process.

We have elsewhere tried to identify the way in which economists, east and west both misunderstood the nature of the role of the market in general and in capitalism in particular.\(^4\) Here we want to consider the importance of reflecting the long-run historical experience of the former Soviet bloc in any attempt to consider the possibilities of transition.

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When the Berlin Wall fell, George Bush, then the American President, summed up what he believed was the lesson of the collapse of the Soviet bloc in the following terms ‘Today leaders around the world are turning to market forces to meet the needs of their peoples … the jury is no longer out. History has decided’.  

5 The market and private enterprise had, it seemed, triumphed over the state and the plan. But before this argument is too easily accepted its terms need to be thought through. In the first place the economies of the Soviet bloc were very peculiar types of ‘planned state economies’. Socialism, defined as popular control and determination of priorities, clearly did not exist, so that the socialist character of these economies had to be defined in terms of the role of state property. This reduction of socialism to state ownership is problematic at a number of levels. Firstly, in terms of theory the Marxist tradition, from which Soviet Russia claimed legitimacy was in fact anti-statist. Marx, of course, identified socialism with the withering away of the state, a position that Lenin re-enforced in State and Revolution. Secondly, even if we reject this theoretical tradition, the question has to be posed as to the extent to which legal forms of ownership are a guide to the character of social relations. As critics of the Soviet claim to the title ‘socialist’ continually pointed out, this rested on what could be called the ‘juridical illusion’ – the failure to address the substantive question of the effective disposition of the means of production. The state might claim to control the means of production but the interesting question is: who controlled the state and on what terms? Thirdly, this emphasis on state ownership failed to deal with the geographical and historical variety in the degrees of state control and ownership. In these terms, it is not at all clear when a society becomes ‘socialist’ – is it simply in terms of property by value of assets or output so that 51% state makes for ‘socialism’ while 51% ‘private’ makes for capitalism? Should attention focus on particular types of property or output? How do we deal with the fact that under NEP in Russia in the 1920s the major part of assets and output actually came from the private sector? No less we would also suggest that ‘planning’ in these societies was peculiar. The lack of democracy and popular accountability meant that they were driven from the top down. While it was common to describe the control mechanisms through which these top-down pressures were articulated as ‘central planning’ a number of commentators suggested that a better term might be ‘central direction’.  

6 But the question arises of central direction or planning to what end? One of the important omissions in much theorising about Soviet-type economies was the lack of any systematic discussion of their dynamic. Planners were assumed to prefer what they preferred and the task was then to see how successful they were in realising their preferences. But the imperatives of the planners and their political masters did not simply arise in their heads. They reflected, as we try to elaborate more below, competitive economic and political pressures from the

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wider world economy in which these societies were located. Central direction therefore involved changing combinations of internal and external pressures over which, it could be argued, the planners had no more control than those who run giant western companies or state enterprises.

If we can make these qualifications about the state-plan argument in the east then in the West no less we would need to recognise it was also a peculiar type of ‘market’ capitalism that appeared to be victorious. The growth of big business and state intervention have modified enormously the role of the market in late capitalism. It is striking, for example, that despite the rhetoric of markets and liberalisation the level of state expenditure seems resilient in economy after economy, especially in the advanced world. Often what seems to be at stake is more changing forms of state control and regulation rather than their roll back. Equally arguments about ‘effective disposition’ are relevant to an understanding of economic forms in the East. Naive views about the articulation of the interests of property owners through the market crumble when confronted with arguments about the managerial revolution, which have developed since the 1930s. Arguments here about the separation of ownership and control reflect the need to go beyond legalistic arguments about shareholder power to consider the real effective control to utilise the power of the corporation.

All of this is to suggest that the analysis of the rise and fall of the Soviet type system requires a different and more sophisticated argument about the nature of the systems East and West than is allowed for in the mainstream, liberal account. But after 1989 such doubts were swept aside by the vision of the power of the free and self-regulating competitive market, based upon rapid privatisation, to act as a cure all to what was in fact a long run structural weakness of the transition societies in the world economy. But not only ought the experience of western capitalism to have warned against such naive views, so too should an understanding of the past failures of development in Eastern Europe. Ironically it did not, in part, because the communist regimes that controlled these societies were seen as “unnatural” ideological impositions, enforced by the power of the Red Army. All that was necessary, therefore, was to lift the wrong ideological imposition and impose a new and ostensibly more viable one in the form of the market. Richard Layard (an adviser to the Russian Government) and John Parker (of the Economist) even boasted that “history is bunk” … the historical record provides no real guide to present behavior …’, a philosophy that led them to write The Coming Russian Boom, a book that will ever stand as a monument to the misplaced enthusiasm of the market fantasists in a decade that has brought no credit to economic theorists as policy makers. To make better sense of the Eastern European experience, therefore, it will be helpful to reject historical nihilism and locate current problems in the broader framework of long-run economic trends.

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

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.\(^8\) And by the end of the nineteenth century, this development gap created pressures for rapid economic advancement in Eastern Europe, which have persisted ever since.

In fact, Eastern Europe before the development of Communist rule, both because of variations between areas and changes within areas over time, offers something of a laboratory for different hypotheses concerning economic development. Some parts, for example, were located in large multinational empires before 1917–1918 and therefore benefited from being part of broader internal markets.\(^9\) Others had the claimed benefits of autonomy and independence.\(^{10}\) Then the configurations changed again when the multinational empires collapsed. Culture, as measured by religion for example, varied enormously. Patterns of landholding differed sharply with huge and growing large estates in, say, Hungary before 1914 and egalitarian peasant landholding in Bulgaria in the same period. Then post World War One land reform offered new structures for economic change. Economic policies varied between countries and within countries over time. Interestingly, market forms were, in this early period, widespread or at least the attempt to encourage their development was. Modernizing elites, which sometimes had a disproportionate influence on policy because of the relative autonomy of parts of the political system, often saw it as their task to remould society from above in the image of nineteenth century market economics.\(^{11}\) Attractive though the ideas of Frederick List later were for some, Adam Smith got there first and admiration for his ideas helped to establish much of the intellectual terrain. The region even offers a test of external multi-national control over key parts of an economy in as much as following the financial crisis of the 1870s the Ottoman Empire experienced a debt crisis that led to the European powers imposing the Ottoman Public Debt Administration on it in 1881.

All of these variations have led to a considerable historical literature on the varieties of backwardness in Eastern Europe. But the crucial point for the transition is that whatever the form problems took, they all contributed to the general phenomenon of relative backwardness. It is this idea that is at the core of the traditional historiography of development in the region. More recent

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\(^{8}\) See Haynes and Husan, ‘The State and Market’.


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attempts to calculate long-run series of output per head have sometimes been used to suggest glimpses of alternatives in the past or even ‘golden ages’. We have discussed these interpretations elsewhere and suggest that no-one has offered convincing evidence that before 1914 any Eastern European society had the basis for a sufficiently self-sustaining pattern of growth that could have put it on a long run convergence path with the more advanced parts of the world economy. So far from this changing in the inter-war period, the relatively depressed pattern of the region became even more evident so that even the Czechoslovak economy, often imagined as the most dynamic, had not recovered its 1929 level of output by 1937.12

What explains this? One aspect of the explanation is that, however positive the internal configurations, they could not compensate for problems in the world economy. Since these were all low-income follower-economies they remained a small part of the world economy. The usual pattern was, therefore, for them, to benefit from its upturns but be buffeted or dragged down when the world economy turned down. This can be seen in the changing patterns of export-led growth, movements in the terms of trade and flows of foreign capital.13

It was exactly this pattern of relative failure that encouraged the process of state intervention as some politicians tried to use the state to help close the gap with the advanced West. States which aspired to hold their own in a competitive industrialising world could not wait for what were seen to be failing ‘market forces’ to deliver a solution. As Sergei Witte, the Russian Finance Minister of the 1890s, famously put it, ‘he who does not go forward will for that very reason fall back … international competition does not wait’.14

Alexander Gerschenkron made these pressures of backwardness one part of his core hypothesis about the pattern of European industrialization.15 Follower countries would be forced to find more and more extreme substitutes for market policies and this would ultimately lead to widespread state intervention. Gerschenkron’s detailed argument continues to attract critical interest but its key lacuna remains under-explored. What factors determined the capacity of states to adequately substitute for market failure? At one level Gerschenkron’s hypothesis was optimistic in that he appeared to assume that if the right internal combinations could be found then a positive external environment for growth would allow for the initiation of a rapid pattern of catch-up and a gradual emergence


of more market-based means of mobilization. But what if the external environment was less conducive? Where Gerschenkron talked of the ‘advantages’ of backwardness that might exist in the global economy, perhaps there were disadvantages of backwardness that helped to trap weaker economies lower down the international division of labour? And what if there were serious internal barriers to the development of adequate substitutes for market failures and in particular to a coherent state policy? Gerschenkron paid little attention to the first issue but the latter did trouble him. He was aware that his argument might have to be qualified by the experience of ‘economic spurs that failed’ which he believed was the case in economies as diverse as those of Austria and Bulgaria.16

We would suggest that the nub of this internal problem was the implicit tension between the general ‘need’ for state-led industrialisation and those classes that 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. However, these forces did not yet constitute a sufficient social base to carry the argument for more state-directed industrialisation. Real policy coherence was often limited by the contradictory pressures of different groups and the bargaining process between different factions of the ruling classes. Though there were important ideological advances towards the conceptualisation of potential of state-directed development, these tended still to be marginal to policy formation.17

It was the 1930s with the experience of generalised global depression and internal crisis that finally undercut much of the remaining credibility of these kinds of arguments in the region.

Nonetheless, social and economic barriers to making such policies consistent remained. Apart from the groups already mentioned, we should also note that


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 ‘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’.  

The result of this was that although the inter-war years provided a further boost to the growth of the state in Eastern Europe and the consequent displacement of the market, it still needed a qualitatively new force to draw these different strands together. Writing in July 1941 of what the post-war world might look like, C.A. Macartney, the leading British expert on the Danubian and Balkan areas, predicted that in Eastern Europe generally

There will be need for capital to develop its resources, of markets to take its supplies, and of a more liberal immigration policy for its surplus populations. All this can, however, be done far more cheaply than might be supposed if it is combined with a form and even ruthless reorganisation on a planned basis.

In the event circumstances that created the conditions for this derived not from triumphal Stalinism after 1948 but from the impact of the Second World War and its immediate aftermath.

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.

When the war ended, therefore, the result of these changes was to throw property relations into even greater turmoil. There was no chance that pre-war property relations could be re-established. Nor was there any great interest in this because the general perception was that private property and the market had catastrophi-


19 C.A. Macartney, Problems of the Danube Basin, (Cambridge: Cambridge University Press, 1942): 156. Readers should be reminded that Macartney was writing at one of the lowest points in the Second World War. One possibility he considered was the break up of the USSR but, if that did not happen, he also speculated that ‘the social system of the Soviets might even begin to exert an overwhelming attraction on masses exhausted by war and privation; and the Soviet Union might find its frontiers extended, almost malgré lui, to distances impossible to predict today’, 146
cally failed both as economic and political forms. It was this perception that produced the general swing to the left in Eastern Europe 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. Beneš, in Czechoslovakia, talked of ‘a transition from pure Liberalism to a system in which the Socialist elements will have considerable weight and even preponderance’. One British war correspondent expressed the view that,

it would seem that the pattern of Public Enterprise in mines, steel, railways and large factories coupled with private ownership in smaller units will be well nigh universal in Europe – in Yugoslavia, Greece, Bulgaria, Rumania, Poland, Hungary, Czechoslovakia and probably in France and Italy as well …. The very phrase, “Private Ownership” assumes a grotesque twist before such a spectacle as the ruins of Warsaw. “A revival of international trade,” that panacea of dear old Cordell Hull, bless his heart, can have little meaning to these countries whose whole fabric has been torn to shreds. They have nothing left with which to trade. An influx of American automobiles and washing-machines would certainly be delightful, but it would be a one-way traffic.20

Thus in much of Eastern Europe widespread state control and nationalisation developed before the process of Sovietisation got properly underway in 1947–1948 and it did so with widespread support not only within the region but from outside too. 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.21

This process of pre-communist statisation was essentially a top-down process albeit one led by the new groups that came to power in the wake of the defeat of the Nazis who had cleared away some of the social groups whose opposition had prevented more consistent statist policies developing in the past. This was

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21 P.N. Rosenstein-Rodan ‘Problems of Industrialisation of Eastern and South-Eastern Europe’, Economic Journal, Vol. 53, June-Sept., (1943) 206–207. His hope was that industrialisation would be linked to the world economy but without international links his ‘big push’ strategy did to an extent prefigure important elements of ‘Sovietisation’.
the fundamental difference between the thrust of radicalism that developed in Europe at the end of World War One and that at the end of World War Two. In the former period the push came very much from below in favour of ideas of ‘workers control’ or the more lukewarm ‘socialisation’ but against both private property and statisation which was seen as an expression of state capitalist tendencies beyond popular control. This was also the inspiration of the early Communist Parties which saw in the Russian Revolution an expression of workers control that, far from leading to the hyperdeveloped extension of state control, would actually lead to a withering away of the state.\footnote{See C. Sirianni, Workers Control and Socialist Democracy. The Soviet Experience, (London: New Left Books, 1982).}

This did not of course happen for reasons that we leave aside here. The important point is that under Stalin the conception of socialism so much shifted to one of state control, nationalised and centrally directed development, that alternative perspectives were squeezed out. Indeed when crisis or wartime opportunity led some in the Communist Parties to toy with earlier ideas of workers control and soviets, they were fiercely opposed from their leaderships within these parties as well as from without. This was then compounded by Soviet policy as the Nazis retreated before the Red Army. Early Soviet policy was geared towards payment of reparations re-inforced through the exploitation of mixed companies and it was thought that any process of extensive nationalisation might disrupt this pattern. 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.\footnote{Soviet influence was used to hold back nationalisation in Finland and Austria too. 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. See Y. Gluckstein, Stalin’s Satellites in Europe, (London: Allen and Unwin, 1953), 43.}

### 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. Suffice it to say that, in the worsening atmosphere of the early Cold War, the processes of statisation that were already strongly apparent were now taken to the ultimate conclusion. Not only did this involve the destruction of the remaining private ownership in the more advanced sections of the economy, but it also operated through the destruction of the peasantry as a social force. It also required the overwhelming of any working class opposition that emerged to the increased exploitation embodied in the attempt to industrialise from above.

*In its own terms* this development drive had considerable success, that is in terms of the rapid development of the heavy industrial and military sectors. This
success was brought 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, development, and social change. One measure of this is the urban transformation that occurred. Russia had led the way from the 1930s. There the urban share rose from some 16–17% in 1926 to 32% in 1940 and then it surpassed 50% in the early 1960s and reached two thirds of the population at the end of the 1980s. In Eastern Europe in a country like Bulgaria where blocked development had held down the urban share before 1940, urbanisation occurred in an even more compressed period after 1948.

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 1. This uses regime data to show the regimes’ view of themselves and their early successes (as well as later failures).

This favourable early outcome was partly a product of national economic development whose logic was to compete with the West primarily in military and technological terms. In order to build an alternative national economic base, links with the world market were 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.

In this way, these regimes carried over and incorporated nationalist traditions and aspirations within the framework of what was called ‘Marxism-Leninism’ (in reality, having nothing to do with the ideas of Marx or Lenin). But these successes also reflected the wider fact that forces within the global economy of the 1950s and 1960s were creating the most favourable global conditions for growth that have ever been known. The successes of the east therefore were not entirely separate from those elsewhere in the world economy and when the world economy began to slow in the 1970s the interconnecting mechanisms became more obvious. As Konstantin Chernenko, later to be a short lived Soviet leader, put it in Sofia in 1979 ‘socialism is not spared the caprices of nature and the crisis of the capitalist world’.24

But in the meantime it was the success of rapid industrialisation, and the conscious presentation of it as the solution to past failures and ‘national’ indignities, that helps to explain how the new leaderships were able to build a

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Table 1: Rise and Decline in the Performance of the Comecon Bloc according to Pre-1989 Official Data and Concepts (in percent)

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<tr>
<td>Nat. Income</td>
<td>10.8</td>
<td>8.5</td>
<td>6.0</td>
<td>7.4</td>
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<td>4.1</td>
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<td>Indust. Prod.</td>
<td>13.6</td>
<td>10.1</td>
<td>8.3</td>
<td>8.3</td>
<td>7.9</td>
<td>4.7</td>
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<tr>
<td>Cap. Inv.</td>
<td>11.9</td>
<td>13</td>
<td>6.1</td>
<td>7.9</td>
<td>7.9</td>
<td>3.0</td>
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<td>Agric. Prod.</td>
<td>4.0</td>
<td>4.8</td>
<td>2.1</td>
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<td>13.3</td>
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<tr>
<td>Imports</td>
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<td>11.6</td>
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Source: Statisticheski ezhegodnik stran — chenov soveta ekonomicheskoi vzaimopomoshchi, Moscow, 1989, p. 18.

class base of support in these societies. 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. These regimes were able to draw on a legacy of surplus ‘personnel already trained in technical and administrative skills’. It was these people who formed the key elements in the early Communist parties in the late 1940s and early 1950s (to be supplemented later 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.

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 not only a real alternative to market capitalism but a superior economic form. The illusion began to come under pressure in the 1970s in some parts of the bloc but elsewhere optimism survived until late on. In Bulgaria, for example, spectacularly high levels of growth (even on western recomputations) allowed Todor Zhivkov to boast that ‘social optimism, faith in the future, confidence in the coming days – these are the most important acquisitions of the of the socialist working man, a characteristic feature of his life’. And as late as 1979, the World Bank gave neighbouring Romania the imprimatur of success in a section of its annual report entitled ‘Importance of Centralized Economic Growth’. It predicted that ‘it remains probable that Romania will continue to enjoy one of the highest growth rates among developing countries over the next

decade and that it will largely succeeded in implementing its development targets’.  

But, as seen in Table 1, in the 1980s even these Balkan ‘miracle’ economies began to feel the effects of stagnationary tendencies and the growth rate of the bloc began to fall behind the West’s. We quote the official Comecon data not because we believe that data to be trustworthy – western recomputations are much more so – but because we simply wish to show that even on the officially available data, problems were becoming sharply apparent at this time. The fuller story of this slowdown can be found elsewhere. Here we will only emphasise the interaction of the external and internal dimensions. The paradox, externally, was that although the world economy was slowing down, it was continuing to integrate – increasingly incorporating East European economies – which were no longer rigidly autarkic. In reality, for certain countries, trade shares were quite high. Bulgaria, for example, had a trade share in excess of 100% of its national income at some periods. Importantly, however, these economies remained more open to themselves than the world economy at large. Attempts in the 1970s to import high technology goods in the endeavour to ratchet up efficiency came to grief as rising debts in the 1980s put severe pressure on hard currency resources. When the tendencies towards slower growth became apparent, therefore, not only did investment levels come under pressure but the high technology import component was even more seriously affected. In fact, the majority of investment good imports from the advanced West were of an older vintage type. In per capita terms, the GDR was the biggest importer with $100 of imports per head on the eve of the bloc collapse – but this compared to $200 in South Korea, $370 in Taiwan, $890 in Hong Kong and $2800 in Singapore. Not surprisingly, investment good exports from Eastern Europe and the Soviet were minuscule in terms of overall OECD trade: whereas they made up 25% of East Asia exports to the OECD they made up only 6–7% of Soviet bloc exports.  

These difficulties were then compounded by the well-known internal problems of bureaucratic rigidity and the inability to restructure so as to make best use (or better use) of the investment that was occurring. Some of those in power remained oblivious to these tendencies, the more insightful (and opportunistic sections) began to adapt in a semi-conscious way even before 1989, a process that was brilliantly described by Hankiss for Hungary.  

This should not lead us to the mistake of devaluing the courage of those who protested in 1989 but it does point to the more complex character of that year. Sections of the nomenklatura within these societies had already begun to recognise, even if only partially, that Eastern Europe was paying an increasingly high price for its partial integration within the world economy.

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27 Quoted K. Danaher, ed., 50 Years is Enough: A Case Against the World Bank and the International Monetary Fund (South End Press, 1994), 10.
Some also had a growing sense that the bureaucratic rigidity that existed could only be overcome by a loosening of state ties and that, if this was to happen, then they had to be strategically placed to benefit from the changes that were in the offing. Thus, when the push came for change in 1989 these forces tried to ride with some success the wave of popular discontent. They were helped in this by the dominance of the view that not only was market the solution to the problems of the eastern bloc but it was a sufficient solution inasmuch as it was possible to combine the market economy with liberal democratic forms that would grow within it.

The Ideological Shift to the Market in Eastern Europe

In the aftermath of the collapse of the Soviet bloc a debate erupted amongst Western sovietologists over why their ‘science’ had failed to predict the demise of the Soviet system. Enjoyable though this acrimony was, it arguably hid a more dramatic failure, namely the failure to predict the scale of the crisis of the new. Buoyed by the idea that ‘markets work’, transition plans were foisted on these societies by a combination of domestic elites and external agencies whose views were informed by the so-called “Washington Consensus” with its stress on privatization, price liberalization, and a liberal foreign trade and investment regime. It was recognized by practically everyone that though Western market capitalism suffered from problems, it, nonetheless, had now shown itself to be superior to ‘state socialism’. The assumption was, therefore, that these relative successes could be replicated through the imposition of free market policies. This conceptualization 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. This self-belief and willingness to impose an ideologically informed transition from above generated echoes not merely of Karl Polanyi’s vision of nineteenth century liberalism but also, as some critics pointed out, had disturbing echoes of the faith of Stalinist and Maoist ideologues. Where once ‘there were no fortresses that the Bolsheviks could not storm’, now there was no ‘transition that could not be stormed by the market Stalinists or market Maoists’. 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 was an important advance. 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. The implicit social programme in the market argument 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 realize what a market economy is all about’. What was involved was a social shift, the conservation of power. Market restructuring created the potential for existing power holders to restructure their own social base away from the state towards the private sector. The most obvious manifestations of this are firstly, what Hankiss has called the ‘migration of the bureaucracy’ into the private sector, working for Western capital or newly established firms and agencies. The second manifestation has been ‘nomenklatura – or spontaneous – privatization’ where managers through legal or illegal means become private owners of “their” state-owned enterprises. That this was happening early became apparent but the shock therapists viewed it with relative indifference arguing that what was important was not so much the primitive accumulation of capital but ‘the primitive accumulation of capitalists’. This found its sharpest embodiment in the notorious remark of Chubais as, with western advice, he presided over the corrupt Russian privatization programme: ‘they steal and steal. They are stealing absolutely everything and it is impossible to stop them. But let them steal and take their property. They will then become owners and decent administrators of their property’. So, far from decent administrators emerging, the whole process often became mired in corruption and if this does not reach Russian levels everywhere, it is the level of the corruption indices, even for supposed more model examples like the Czech Republic, which provide an indictment of the polices pursued.

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, as can be seen in Table 2. The words of General Jaruzelski in May 1990 catch this perfectly for Poland – but have a more general resonance across the bloc, ‘[W]e 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’. Tables 2 to 4 set out some of the key components of this

33 E.Hankiss, East European, 254.
35 Financial Times, 1 November 1996.
37 The Guardian, 7 May 1990. According to Jacques Pollak (a former leading IMF official), ‘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, 52.
Table 2: Index of Real Wages for the major Transition Economies (1989 = 100)

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Table 3: Incidence of Low Income (in per cent) for Central European Transition Economies

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a) 45% of 1989 average wage for households; b) 35% of 1989 average wage for households; c) 40% of 1989 average wage for households.


Table 4: Annual Registered Unemployment Rate for the major Transition Economies

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<td>2.2</td>
<td>3.2</td>
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Source: See Table 2
social crisis and its scale. Beyond these data we should also note that in many parts of the former Soviet bloc, this crisis has resulted in increases in mortality rates and reductions in life expectancy. This human cost has yet to be fully accounted for but it is striking that part of the (entirely correct) condemnation of the old regime was the demographic cost of its failures in the 1970s and 1980s. Yet in the 1990s the policies that were supposed to create the solutions have had the impact of creating a uniquely severe demographic crisis to accompany the uniquely severe economic crisis of the transition. Whether under any scenario these sacrifices can be considered ‘acceptable’ is questionable but a stronger case might at least be made if it could be shown that the reforms producing them had begun to deliver dynamic market economies that were finally capable of delivering the sustained growth necessary to allow East Europeans to achieve their aspirations of a standard of living that would converge to Western levels. But the evidence for such a scenario is very limited indeed.

Table 5 shows GDP changes since 1989 with falls that range from nearly 20% in Poland by 1991 to 45% in Russia by 1998. By the end of the decade, only Poland had clearly managed to exceed its 1989 level of output and although it continues to be held up as a ‘success story’ we should insist that a return to 1989 levels is a meagre standard compared to the advanced West or East Asian developing economies. Moreover, behind the Polish ‘success’ is a less pleasant story of huge increases in regional differentials, a disturbingly high level of unemployment, widening social inequality, growing male and female employment and income gaps and a trailing agriculture sector which employs a quarter of the workforce yet produces only some 6% of output.\(^{38}\) It is perhaps not surprising therefore that even Polish supporters of the transition do not seem to see it as a simple vindication of shock therapy. Thus, Grzegorz Kolodko, a former First Deputy Prime Minister and Minister of Finance from 1994–1997 (and who was seen by Western transition advisers as ‘a safe pair of hands’) now writes that ‘the belief that a market economy can be introduced by “shock therapy” has been wrong, and in several cases when attempted, has caused more problems than it has solved’.\(^{39}\) Elsewhere, the scale of the collapse and the slowness of the recovery remain historically unprecedented and in the worst cases, by the end of the 1990s, there was still no real evidence of recovery at all. Far from the market delivering its promised successes, Eastern Europe seems set on a long haul to a very uncertain future.

Worse still, the impact of market reforms has created a whole series of perverse forms of restructuring – not the least of which has been the fundamental weakening of the state and its difficulties in developing coherent policies. One


Table 5: Index of Real GDP for the major Transition Economies (1989 = 100)

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Source: See table 2.

Table 6: Total Number of Crimes for the major Transition Economies (per 100,000 population)

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Source: See table 11.2

manifestation of this problem is set out in table 6, which shows the scale of the increase in criminality which is a measure not only of the dislocation at the bottom of society but also dislocation at the top.

Why has this happened? A simple argument that was advanced until quite late in the transition experience was that market solutions were only being halfheartedly imposed and what was necessary therefore was a redoubling of efforts. But it is by no means obvious that this is the explanation. Indeed by 1996–1997, this argument was wearing thin and the coup de grace was administered first by the eruption of crisis in the supposedly model market East Asian economies and later with Russia’s financial collapse in the summer of 1998. A proper expla-
nation would instead have to focus on the combination of the failure of the global economy to offer a more positive environment for change, the precipitous collapse of the internal Eastern bloc trading mechanism as the rush to the west occurred and the way in which internal reform was constrained by the political economy of power. We have discussed elements of this elsewhere. Here our interest lies in the theoretical adjustments that have been made since the scale of the failure has become apparent.

From the outset, there were critical voices raised about the narrowness of the market nostrums espoused by the reformers. But in the first instance these voices were marginalised as the so-called Washington consensus was pushed not only by western governments and international agencies but was taken up by domestic reformers who, if they did not use it as the basis of real policies, used it as an ideological cover for polices dictated by cruder self-interest. We cannot, however, forbear noting that when a final reckoning is made of the cost of transition, the intellectual and material corruption will be found not to have stopped at the borders of Eastern Europe but to have found a ready home in the policy advice networks. These doubts, however, coalesced around the argument that successful markets need successful institutional structures and it was exactly these that were missing and showed no sign of emerging ‘naturally’ despite the hopes of the market theorists that some kind of Hayekian spontaneous order would emerge. As the catalogue of failure extended and deepened this argument began to acquire a wider hearing. Writing in 1997, a group of eminent European economists robustly insisted that

‘What was fundamentally wrong with the concept of shock therapy was its neglect of institution building, efficient corporate governance, the development and implementation of the laws necessary for a market economy, the creation of a modern and effective public administration, the development of appropriate social policies, and other tasks which inevitably take time. These are issues where the neo-liberal approach is weak, typically lacks insight, and is frequently plain wrong.’

More sharply still, those voices were once overwhelmed by the ‘market chorus’ now talk of ‘the moral and historical cretinism of the blind free market approach’.

Within the World Bank, IMF, and East European countries themselves these views also began to find an echo and be pushed by economists such as Joseph Stiglitz. Indeed, to his considerable credit, Stiglitz began to recognize that crisis-induced market corrections imposed enormous and often counterproduc-

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43 A. Lieven, ‘History is Not Bunk’, *Prospect*, (October, 1998).
tive costs on those at the bottom. And in a more restrained way, the so-called Washington consensus began to turn into what is now called a “post-Washington consensus” advising a mixture of ‘appropriate markets and appropriate institutions’. But important though this shift is, we do not believe that it goes anywhere far enough or that, in important instances, we can simply take the new found protestations of the need to locate markets in ‘appropriate institutions’ at face value.

We should note, first of all, that so far from this being a case of experts ‘learning by doing’, in many cases the learning has involved doing unto others what they would never have done or do to themselves. This should lead us to view their new-found interest in institutions as deeply suspicious and it leaves a huge question mark over the extent to which they should be trusted to reconfigure what they now claim to be more adequate institutionally-based polices. Indeed many elements of this ideological readjustment seem no more than a cynical attempt to ward off criticism and legitimize the right of those whose policies have been so catastrophic to continue to play a leading role in policy advice and consultancy.

But more substantially, three precise problems arise with this new-found interest in institutions. The first is the problem of how “good” institutions come into being. Institutions are not created out of thin air, nor can they be parachuted in from above. They do not reflect the force of some abstract and anonymous ‘society’. Rather they are the outcome of complex social processes configured not only by the struggles of those with power to order their mutual relations but also by the struggles of those without power to introduce some improvement into their lives. While history suggests that the mutual self-interest of the capitalists offers part of the explanation of how in the advanced world more ‘appropriate’ institutions have come into being, it does not suggest that this is the whole or even the larger part of the process. Indeed, the European Bank for Reconstruction and Development seems to recognize this when it writes that ‘markets alone are not sufficient to generate the demand for supporting institutions’ though it then conspicuously fails to present any clear suggestion as to what might be sufficient to enable such institutions to come into being. This omission is sadly characteristic of the new romance with ‘adequate institutions’. Thus, when John Williamson seeks to justify his role in encouraging what he calls ‘a little bit of overkill’ and ‘excesses’ in Poland he argues that a parallel can be drawn from Britain. ‘I am much more comfortable with Tony Blair than with Mrs. Thatcher, but I am not sure that we could have him without her’. But this is to conveniently forget that, without the struggles of past generations to establish a Labour Party and a strong trade union movement, without the continual struggle

45 See, for example, the telling comments of John Williamson (whose work in the 1990s embodied the Washington consensus) to Grzegorz Kolodko quoted in Kolodko, ‘Transition’, 242.
46 See EBRD, Transition Report, 35.
of pressure groups to widen popular rights and limit the influence of those with power, Williamson (and the British population) might all too easily not have had a choice of either Mrs. Thatcher or Mr. Blair for, as James Millar has put it, ‘the default mode in today’s world is not a market economy. It is stagnation, corruption and great inequalities of income’. Moreover, much as he might like to conceive the Blair project in Britain as no more than intellectual adjustment, the defeat of Conservatism in the 1990s owed, perhaps, less to Blaisert ideas than to those who disobeyed and protested against the excesses of Thatcherism and those who challenged its intellectual and material corruption and who finally won a dominant voice because they had institutions which they could influence and which could respond to them.

To put the point in the rather more decorous language of social science, good institutions are the result of a strong civil society that continually tries to exert discipline over those in charge of ‘society’, and continually tries to mold the interests of the few to take account of the many. And here is the nub of the problem of institutions in the transition in Eastern Europe because it can be argued that the very nature of the reform process has undercut the possibility of such a strong civil society emerging. At the top, the form of the transition – most obviously in the crime-ridden bandit capitalisms of the former USSR, but also in Central Europe – has reinforced the control of society by the few. At the bottom, the social crisis has increased alienation and acted to demobilize the mass of the population weakening the potential for movements and parties to develop that might have been able assert the pressure from below from which could emerge the institutional structures taken for granted in the advanced West.

It is here that the second problem arises because if ‘institutions matter’ and are now to receive the blessing of the ‘post-Washington consensus’ the question is: which institutions? In its 1999 Transition Report, the EBRD writes that ‘in many ways, the development of institutions that support markets and private enterprise is at the heart of the transition’. The key phrase here is ‘support markets and private enterprise’ – what is proposed is essentially a utilitarian approach in which institutional efficacy is judged by the extent to which it is perceived to support the market mechanism. Thus ‘among the more important market-based institutions are corporate law, including provisions for the protection of creditors and shareholder rights, bankruptcy, regulation of infrastructure and finance, and competition policy’. Some of these terms are broad and so might be argued to encompass many elements but the essential narrowness of the vision is still apparent. Moreover, they do not envisage the types of institutional supports that have long been argued are necessary for tackling market failures in developing countries, e.g. skill development and training, enhancing technological capabilities – including Research and Development, and provision of information, that are still considered to be within the realms of government policy even in an

48 Quoted Lieven, ‘History’.
49 EBRD, Transition Report, 34.
increasingly ‘globalized’ world.\textsuperscript{50} But what is completely neglected are the institutions of labour law that grant trade union rights, protect workers from unfair dismissal and regulate conditions at work; the institutions that give workers the capacity to enforce these rights, in however limited a way, namely the trade unions themselves. There is rarely any mention of the consumer law that moderates \textit{caveat emptor}, nor the campaigning organizations that seek to bring unfair business practices into the light of day. Also neglected are the environmental law and environmental protection agencies, backed not only with real powers of enforcement, but an external constituency seeking to discipline business in the interests of society – not only by exposing business failings but the failures of the regulatory agencies themselves. We need not go on. At best, what we have are residual elements in this conception of ‘institution building’. The reason is obvious: those institutions which have helped to make life worth living in the advanced world are not reducible to the narrow ‘support of the market and private enterprise’ varieties, indeed they may often conflict with them. The ground of the post-Washington consensus has not, it seems, shifted as far as its propagandists would like us to think. Indeed, we would go further and warn that this new-found interest in ‘appropriate institutions’ can easily slide in these hands into support for the argument for the ‘strong state’ in its less attractive sense – the argument that is now frequently to be found in Russia and other parts of the former USSR where some of the more authoritarian political implications of this narrowly expressed argument are well understood.

At this point, some more thoroughgoing institutionalists may well feel that we do them a grave injustice by not distinguishing their ideas from those of the market economists who use ‘institutions’ as little more than a flag of convenience. We are happy to accept that real institutionalism, as it develops from the likes of a Veblen or a Polanyi, is more substantial than its bastardized neo-classical form whether expressed in the terms of the EBRD or even a Douglas North. We willingly recognize that some institutionalists, though we regret too small a number, may even share our view that the core institutions that matter are those that are built from the bottom up, often over the opposition of those at the top. But we would still insist that it is necessary to go further still and to address one other aspect of the transition.

This is the argument that the world economy does not create helpful conditions for strong patterns of economic and social convergence but rather \textit{reproduces generalized structures of inequality}. While ‘appropriate markets’ and ‘appropriate institutions’ \textit{within} countries can help enable some economies to claw their way up the development ladder, these are exceptions rather than the rule. Indeed, in the transition countries – even in the nominally successful ones – there has been an uneven slide downwards in the international division of labour. The

point here is simple, though its neglect is widespread. In 1989–1991 these were economies whose structures were, as we have seen, uncompetitive vis-à-vis the West’s. They therefore could either have been made more competitive by their renovation, based on substantial programmes of aid, investment, and technology transfer, or be severely damaged by the process of competition. Since the former was not forthcoming it has been the latter that has been the characteristic pattern. The costs have been enormous and not only in terms of redundant capital. The human cost has been heavy too – not only in terms the various socio-economic indicators as already seen – but also in the effective and widespread deskilling. The nuclear physicist who survives as a computer technician or the chemical engineer who migrates to the West to earn a living as a hotel chamber maid hardly attest to a healthy rationality of the restructuring process. This has not been a gale of creative destruction: the creative elements have been few and far between and those that do exist seem to offer little hope of providing the basis for dynamic development.

In one sense, this should not be surprising. Global inequality, of which the predicament of the former Soviet bloc is a part, has proved tenaciously resistant in the face of arguments that freer markets are all that is necessary for convergence to occur. Indeed, as we have argued elsewhere, even in its own terms this argument is utopian.\textsuperscript{51} In the abstract, at least, the only chance for Eastern Europe to avoid a similar fate to that of much of the rest of the world would have required the realization of some of the talk of ‘new Marshall plans’ that characterized the early 1990s. In this sense, the insights of a George Soros, disparaged though they were, have stood up and continue to stand up better than the theorists of the transition.\textsuperscript{52} But Soros knows to his cost that his own philanthropy (whose resources, of course, derived from his own destabilizing manipulation of financial markets) has not been complemented by a generous response from the advanced world. Nor was this ever likely to be the case because the same forces which structure global inequality also create the powerful institutional forces that have a vested interest in maintaining the processes that create inequality.

To this extent, those who insist that the ultimate solution to Eastern Europe’s problems lie in global integration are right, but not in the way they imagine. The collapse of the Soviet bloc, by opening up a new democratic agenda, however weak and sickly, does at least provide the opportunity to link movements and campaigns in both East and West that can confront both the institutions and processes of global inequality and the ideas that support it. Before this view is too easily dismissed as utopian the fundamental argument of this paper should be recalled. We have argued that there has been a consistent failure to address the real historic constraints that have determined the fate of the region and the way that they derive from the interaction of the local with wider forces. An


alternative in the future must start from a cool appraisal of this and be willing to follow the analysis through, even if it leads in a direction that is unpalatable to those who think they have the ears of the powerful. Here perhaps, lies the true irony of 1989. These revolutions were pictured as the dethronement of ‘utopia’ in the name of practical policies. Yet what they actually gave rise to was just as utopian an attempt to impose market economics, one that makes the market experiment of the nineteenth century look pale by comparison. Elements of this utopianism still survive and have influence. Thus, for example, Kolodko suggests in his discussion of the ‘post-Washington consensus’ that not just success but an appealing vista of soaring growth will come through its marginal revisions of past policy failures: ‘in the coming years, the post-socialist markets will become not only rapidly growing economies, but owing to the east Asian turmoil – the fastest growing region in the world’. And to support this new flight of fancy he produces growth projections, many of which were invalidated before his work appeared in print. The wrecks of this market utopianism can be found scattered across the former Soviet bloc and with this type of thinking, there no doubt will be more. The ‘successes’, if that is what they are, are guarded by burly men who protect the ostentatious displays of wealth by the minority. History does not give us a chance to start again but it can invite us to begin a fundamental rethink of our ideas, to the argument for which, this paper has tried to contribute.
