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Author(s): Ramnath Narayanswamy
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Causes and Consequences of the East European Revolutions of 1989

Ramnath Narayanswamy

The grand transformation in central Europe clearly proves the democratic impulse to be more enduring than the socialist impulse. The latter appears to be in a process of dramatic breakdown while the former continues to be on the ascendant, asserting its relevance and reinforcing its determination to exist in a unipolar world by unambiguously conveying the message that it has not outlived its purpose.

This paper examines three separate yet interrelated issues—the factors that impelled the grand transformation in eastern Europe, the nature of the problems involved in effecting the transition to a democratic regime based in the market and the theoretical issues they raise in the analysis of comparative economic systems.

IT is customary in the social sciences to distinguish between the appearance of a phenomenon and its essence. The object of scientific inquiry is commonly perceived in terms of uncovering the essence by delving into the tension underlying the complex relationship between appearance and essence. If we restrict ourselves to the level of appearances alone, the functioning of a centrally planned economy as viewed by the person in the street can be roughly summarised as follows: there is no unemployment, yet almost nobody works. Despite the fact that nobody works, the plan invariably gets fulfilled. Despite the fact that the plan is always fulfilled, the shops are frequently empty. Despite the fact that there is never anything in the shops, the refrigerator in most houses is always full. Despite the fact that the fridge is full, everybody is always complaining. Despite the fact that everybody complains, the same people always succeed in getting elected.[1]

It is perhaps appropriate to begin this exercise by noting that this disparaging picture of daily life under a centrally planned economy is not an exaggeration born out of an ideological opposition to the socialist tradition but is in effect a representation that is actually firmly grounded in reality. Accordingly, howsoever dramatic the dismantling of Stalinist regimes in eastern Europe in 1989 may have been to the outside observer, it is important to underline the fact that the seeds of the collapse of these systems were present in these systems from the very outset. This is because there is an implacable dilemma confronting every centrally planned economy which causes the system to choose between ideological legitimacy and economic performance. It should be evident to anybody familiar with the contemporary history of eastern Europe, that the communist regimes of central Europe invariably chose the former at the expense of neglecting the latter. This resulted in poor economic performance which every successive regime attempted to offset by a series of abortive 'economic reforms', none of which were able to register any substantive degree of success. Paradoxical though this might appear, poor economic performance (which can be described as an equilibrium condition of the system's normal functioning) was not only rooted to the system itself, but it also appears to have become a major threat to the survival of the system.

It is nonetheless a matter of interest to record that few specialists and observers of Soviet and east European affairs were able to foresee the grand transformation in central Europe in 1989. Coming exactly two hundred years after the French revolution of 1789, the democratic impulse has clearly proved to be more enduring than the socialist impulse; the latter appears to be in a process of dramatic breakdown, while the former—long considered to be no more than 'bourgeois deceit'—continues to be on the ascendant, asserting its relevance in what continues to be a deeply divided world and reinforcing its determination to exist in a unipolar world by unambiguously conveying the message that it has not outlived its purpose after all. The plethora of intrinsically impressive commentaries that have appeared in not only the Soviet Union but equally in Europe, United States and western Europe, are unanimous in their assertion that what we are witnessing is nothing short of a virtual collapse of the socialist order. They also suggest—not without a certain element of foundation—that the only viable alternative confronting the erstwhile socialist economies of the Soviet Union and eastern Europe lies in effecting a transition to a free market economy. It is proposed here to examine three separate yet interrelated issues including (a) the factors that impelled the grand transformation in eastern Europe, (b) the nature of the problems involved in effecting the transition to a democratic regime based in greater or lesser measure on the market mechanism, and (c) the theoretical issues they raise in the analysis of comparative economic systems.

Rise and Fall of the Communist Utopia

Western scholarship on the Soviet and east European economies, especially those studies that highlighted the systemic imperatives behind the working of a centrally planned economy that caused it to be intrinsically incapable of delivering the goods, has been replete with the notion that the erstwhile socialist countries have been in a state of crisis. The unprecedented demise of Stalinist regimes in eastern Europe in the wake of Gorbachev's ascension to power in the Kremlin in 1985 does indeed confirm in a rather spectacular way, the fundamental weaknesses of the economy of the Soviet-type. Not surprisingly, the manner in which the Soviet Union under Gorbachev began to throw the economic and political mechanism into virtual disarray and the corresponding upsurge of the revolutionary tide in eastern Europe in late 1989, have produced the image of the socialist planned economy as a crisis-ridden mechanism that is sooner or later doomed to result in an unmitigated disaster on the one hand and a reassertion of the virtues of the market mechanism on the other. This has understandably given rise to the temptation to view the future prospects of the Soviet and east European countries as being contingent upon a tug-of-war between the plan and the market in which genuine issues underlying the current debate such as what kind of market and what kind of planning are either underestimated or plainly and simply, ignored. It is perhaps useful to recall what Michael Ellman re-emphasises in a recent text that in the real world, pure market economies or pure centralised economies simply do not exist. Not only are they invariably impure, but they are also necessarily mixed.[2] What matters then is the nature of the mix: its durability, its desirability and feasibility, all of which are determined by factors that are not exclusively economic.

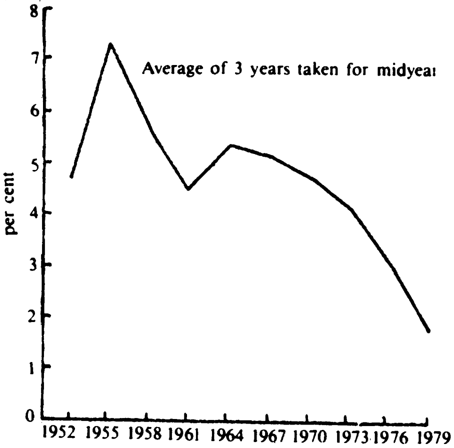
Accordingly, despite euphoric assertions of the triumph of 'capitalism' over 'socialism' (the extremely stylised use of these terms makes their usage irrelevant), it is necessary to bear in mind that the socialist economies were successful in several domains including growth rates, improvements in living standards, health care and social welfare.[3] A recent, even if outdated though no less valuable, book on the Soviet economy argues that if judged in terms of the tension between equality and efficiency, the Soviet economic system can be said to have been successful in accomplishing the equality side of the bargain whereas it was the efficiency side of the marriage where things did not quite work out.[4] While it is difficult to endorse such a hypothesis since there are good grounds to suggest that even the equality side of the bargain was not without its problems, what cannot be disputed is the fact that Soviet-type economies were certainly more egalitarian than their capitalist market counterparts. The fact that the crisis of the 80s exhibited such symptoms as declining growth, increasing shortages, stagnation in incomes, inflationary pressures and a more difficult environment in international trade was not by itself terribly remarkable. Neither was it unusual. It seems to me essential to emphasise that what we are witnessing is the breakdown of an economic system that is collapsing because it was unable to adapt itself to the needs of these economies as they became increasingly mature. The fact that this maturity was brought about by the very 'administrative-command model' that is being so widely condemned today, should not obscure the early, even if expensive, successes registered by the centralised model in the early years.

In other words, the transformation of Russia from a relatively backward agricultural country into a modern industrial power was accomplished through high rates of investment as a result of which the economy grew rapidly in the post-war period and despite the fact that a large part of rising output went into investment and maintaining a huge military-industrial complex, this did not prevent a significant rise in living standards. The problem with such a strategy of industrialisation lay in the paradoxical nature of its result: while it helped to usher the Soviet Union into the modern age, it also helped to create and firmly institutionalise a topsy-turvy system of incentives. The individual citizen had no interest in producing efficiently. Self interest took the form of manipulating bureaucratic institutions for personal aggrandisement. The isolation, coercion and terror that Russia suffered for close to 30 years under Stalin enabled the system to function for the time it did. Against such a background, it should hardly be surprising if the limited liberalisation following Khrushchev's denunciation of Stalin at the XXth Congress of the CPSU in 1956 (the first major attempt at administrative decentralisation was initiated by Khrushchev a year later) witnessed a gradual decline in growth rates and productivity.

It can certainly be argued that the breakdown of the planning system in the socialist economies was caused in effect by the systemic operation of compulsory planning and that life has made it its business to show that a decentralised non-hierarchical system coupled with a macro-economic policy based on parametric (indirect) instruments is preferable to a system in which micro-management is based on discretionary micro-regulation by a hierarchically organised economic administration. On the other hand, it can equally be argued that it is not to centralised planning that blame must be apportioned but rather to the ideological objectives that were subjectively conferred upon the planning process that gave rise to certain undesirable voluntaristic policies (such as forced collectivisation and rapid industrialisation), all of which resulted in distorting the working of the planning system. For example, would centralised planning in the USSR have led to a less harsh and more humane brand of socialism had there been no Bolsheviks directing the process? While it is hard to answer the question when so posed, the issue is not insignificant. What is more relevant to our concerns is however the fact that—ideological considerations notwithstanding—the economic system that developed in the USSR after the October revolution and in eastern Europe in the post-war period was inefficient, wasteful, bureaucratic, woefully indifferent to consumer needs and centralised to such an excessive degree that it could provide for neither incentives to increase productivity nor stimulate technological innovation. It should also be recorded that the performance of the socialist economies in terms of production efficiency, social costs, way of life, freedom and even equality, was not only not good but decidedly poor.

Why? One possible explanation for the failure of the administrative-command model which characterised the erstwhile socialist world of the USSR and eastern Europe lies in the extensive methods of resource utilisation first employed in the USSR and later transplanted in eastern Europe in the post-war period. Being heavily contingent upon a quantitative increase in the factors of production (notably labour and capital), such a model of growth which is based on capital deepening through high savings and investment, can be useful to a country which is interested in expanding its infrastructure which is what it was indeed meant to accomplish in the USSR and eastern Europe. The first years of Soviet planning for example, was quite literally directed towards planning for development because its function lay not so much in managing an infrastructure as much as in in actually creating it.[5] The abandonment of the New Economic Policy in the late 20s—despite its impressive results—and the model of guided market economy that it embodied and the subsequent incorporation of the economy under the implacable orbit of centralised planning (which later came to be categorised as a 'law' of the notorious 'political economy of socialism'), suggests that 'rapid growth rather than recovery became the pressing economic issue. It was therefore considered necessary to establish new factories in heavy industry that would provide the means for further growth of the economy. Workers in large numbers had to be drawn from the countryside for the purpose. The more rapid the process, the greater the need for adequate provision of wage goods to sustain the industrial proletariat. In the historical experience of the west, industrialisation had proceeded in a market environment...By contrast, if the aim had been to push industrialisation beyond this

SOVIET GNP GROWTH RATES: 1951-1980



Source: Padma Desai, Perestroika in Perspective, London, 1989, p 4.

balance, with substantial investments in heavy industry—more steel and more machines aimed at more growth—then the market could not have been left to function on its own. The populace might have wanted to spend income on bread and shoes, but if the priority of the state had been to build steel mills, the populace and the market would have to yield to the state and its objectives. Administered allocations would then have been a necessary policy requirement, a natural consequence of the state's objectives'.[6]

There are however two problems that need to be addressed here and both these problems are intimately connected with the Soviet and east European experience. The first problem lies in the exhaustible nature of the sources of extensive growth, that is to say, there is a limit to capital deepening and mobilisation of manpower from the countryside. An excessive emphasis on extensive resource utilisation can lead to a rapid depletion of the very sources on which extensive growth depends. Essentially, this is what happened in the USSR and eastern Europe in the 80s though the process of economic decline in both these regions began much earlier. In the USSR, the decline began in the late 50s (see Figure), while in the case of eastern Europe, the decline began to culminate in the 80s (see Table 1) after a period of mixed performance in the seventies.[7] It may be well worth noting in this connection that quantitative indicators of economic stagnation—useful though they undoubtedly are—represent only one side of the medal. The medal also has a reverse side—a qualitative dimension—that is equally instructive. A visitor to any of the east European countries cannot but be struck, for example, by the poor quality of goods produced, the chronic shortage of goods and services, overmanning of enterprises, neglect of public services, the virtual absence of maintenance and service facilities, poor working conditions, neglect of environmental considerations for which the erstwhile GDR had a particularly appalling record and so on.

The second problem—not unconnected to

the first—lies in recognising the difference between a strategy of growth and a model of growth. The Soviet economic system has for example gone through four distinct phases until its breakdown in the early 90s. These can roughly be divided into War Communism (1918-21), the brief interlude of the New Economic Policy (1921-28), the period of rapid industrialisation and forced collectivisation (1929-45) and the post-war period which saw the articulation of a fullfledged Soviet model of economic development based on state ownership, centralised planning and one-party dominance. It may be recalled that each phase was characterised by growth strategies that are not reducible to those that were employed in the other phases. Yet, all the phases and the different growth strategies they embodied helped in articulating what came to be known as the Soviet model of economic development in the post-war period. The Soviet and east European experience suggests that while extensive growth-oriented practices can help a country with a low industrial base to rapidly expand its infrastructure, it is virtually impossible to disband the system once its growth objectives have been met. This is principally so because the set of behaviours, practices and institutions that come to be established in the application of extensive growth-oriented policies become so firmly entrenched that the economic system finds itself incapable of making a transition from extensive resource utilisation to intensive accumulation. Current developments in both the Soviet Union and eastern Europe are an eloquent testimony of the extent to which both these factors are at work in obstructing the transition to a mixed economy and insofar as this is true, the process of transformation will provide a new lease of life to institutional economics which despite its increasing importance in the formulation of economic policy continues to remain neglected.

The breakdown of the command system in the USSR and its slower disintegration in eastern Europe following the east European revolutions of 1989 therefore have their origins in (a) the depletion of the sources of extensive resource utilisation and (b) in the increasingly anachronistic nature of the economic mechanism as these economies began to mature.[8] The waves of economic reforms which swept the Soviet and east European landscape first in the 50s, then in the 60s and to a lesser extent in the 70s (though these latter do not perhaps deserve to be characterised as reforms), may be viewed as unsuccessful attempts by the political leaderships in the erstwhile socialist economies to stem the pace of the decline without substantially altering the status quo; apart from Hungary, Yugoslavia and China, where there were concerted efforts to move away from the Soviet model, in most of the other countries of central Europe, the reforms were not directed at challenging the pillars on which the centralised system rested, but were instead directed towards making the traditional system perform more efficiently by alternately employing traditional and not so traditional methods and solutions.[9]

However, even in countries which experienced radical reforms, the outcome was far from satisfactory. In Hungary, the reforms have resulted in a hybrid where a system of direct controls has been replaced by a system of indirect controls[10] while in Yugoslavia and China, they have led to not only unanticipated consequences but have even contributed to undesirable levels of destabilisation.[11]

The process of economic decline however could not be stemmed and was reflected in a decline in the growth of output per worker in eastern Europe from 5.5 per cent in the 70s to 2.2 per cent in the 80s. There was also a sharp drop in investment productivity. The incremental capital-output ratio of eastern Europe averaged approximately 12 in the 80s which meant that more than twice as much investment was required per unit of capacity in eastern Europe as in a typically efficient middle-income economy.[12] In the 80s, the economic decline appeared to feed on itself. If there was popular discontent, the leaderships responded by shifting resources from investment to consumption which resulted in diminished growth of output, while in other countries, appeasement measures led to a sharp rise in external debt and serious macro-economic instability. What is important to note here is the fact that when the political revolutions of eastern Europe in 1989 laid the grounds for major economic reforms, the economic crises had compelled most of these countries to contemplate upon radical measures to overcome the crises. Even a cursory survey of economic literature in such countries as Poland and Hungary does more than confirm this impression.

The crisis of the 80s which impelled the grand transformation in eastern Europe was therefore the result of a combination of several factors notable among which include extensive forms of development initiated through a rigid inflexible institutional framework which resulted in the absence of systemic incentives to stimulate either productivity or technological innovation, particular forms of crises specific of a mode of economic regulation through shortage, an adverse international environment to which the east European countries responded with greater imports resulting in macro-economic instability, rapid erosion of the legitimacy of the communist parties in central Europe

TABLE 1: STATISTICAL OVERVIEW OF ECONOMIC PERFORMANCE

	Price Reform	Exchange Rate Reform	Trade Reform	Privati-sation	Capital Market
Bulgaria	0	0	+	0	0
Czechoslovakia	0	+	0	0	0
Hungary	+	+	+	+	+
Poland	+	+	+	+	+
Romania	0	0	0	0	0
Yugoslavia	+	+	+	+	0

Source: The Institute of International Finance.

TABLE 2: STATUS OF ECONOMIC REFORMS IN EASTERN EUROPE
(Early 1990)

	Popultion Mid-1987 (Millions)	GNP/Capita (US Dollars)*	GNP Growth 1985-89 (Per Cent)	Investment/ GNP 1980s (Per Cent)	ICOR 1980s	Inflation 1985-89 (Per Cent)	Debt/GNP 1985-89 (Per Cent)	$ Export Growth 1985-89 (Per Cent)
Bulgaria	9.0	5,633	2.8	26.5	7.3	1.9	16.0	0.6
Czechoslovakia	15.6	7,603	2.5	21.1	10.0	0.6	6.3	0.6
East Germany	16.6	7,361	3.6	20.8	5.2	1.1	20.2	-1.5
Hungary	10.6	6,491	1.3	28.1	18.0	10.6	70.0	2:6
Poland	37.7	5,453	2.2	27.7	12.7	77.1	51.7	2.7
Romania	22.9	4,117	4.2	32.8	7.4	0.2	11.3	-1.4
Yugoslavia	23.4	4,898	0.4	39.3	55.7	362.6	35.8	5.8
Average		5,946	2.4	28.0	11.6	64.9	30.2	1.3

Source: The Institute of International Finance and (*) Plan Econ. Inc (based on adjusted CIA data).

which were founded on the hope and assumption that their economies would catch up with and surpass the west, the continued absence of political democracy which contributed to exacerbate popular discontent, the unanticipated consequences of Gorbachev's campaign for glasnost and perestroika in the Soviet Union which led to an acceleration of the pace of political reform (this is perhaps the only instance in the post-war history of eastern Europe where the Soviet Union did not directly or indirectly influence any of the changes in the political leaderships of the east European countries), and the increasing dissatisfaction among reform-minded economists in eastern Europe with market-socialist reforms that led them to first take a closer look at the capital market and then went on to a re-examination of the system of ownership which contributed to the general acceptance of the idea of market economy in eastern Europe.[13]

What must however be emphasised here is the fact that the eventual dismantling of these systems was not only unavoidable but also desirable. The fact that these economies presented themselves to the outside world as socialist systems and by virtue of that fact were allegedly superior, progressive and antithetical to capitalist market economies and the fact that this belief was subscribed to by overwhelmingly large sections of the left—and not only the left—in India and elsewhere does not in any way invalidate the proposition.[14] At the risk of stating the obvious, something certainly died in 1989 and it seems to me important to emphasise that what died in 1989 was the Soviet interpretation of socialism in which the latter was defined in the best tradition of the 'political economy of socialism' as a system based on state ownership, centralised planning and one party dominance. The fact that this interpretation of socialism was and continues to be equated with the idea of socialism as outlined by Marx and Engels (which perhaps explains why large sections of the Indian left are deservedly embarrassed by the recent events in eastern Europe and take dubious comfort from the claim that for all that happened in eastern Europe, their version of 'socialism' still survives in China and Cuba) is in my view, both right and wrong: it is right insofar as the Soviet interpretation of socialism was a valid interpretation of the ideas of Marx and Engels, but it is wrong to equate this interpretation as the only legitimate interpretation possible (pre-revolutionary Soviet and east European claims notwithstanding) since the tensions present in their writings lend themselves to a variety of interpretations that are not reducible to one another. While the welcome demise of Soviet-style socialism should not be equated with the demise of the idea of socialism, the collapse of a dominant interpretation of socialism does indeed pose a challenge to the socialist tradition by underscoring the need to explore ways and means of combining traditional socialist goals with political democracy and market competition. If the socialist movement has to have a future, it will clearly have to drastically reorient its goals and perspectives in a manner where it can stand apart and still remain faithful to its hominocentric concerns. But this is a challenge addressed to the socialist, not to the present writer.

Towards Free Markets in Eastern Europe

It is no exaggeration to state that the massive economic restructuring currently under way in eastern Europe represents one of the greatest economic experiments of our time and if for that reason alone, its results will be closely watched and carefully monitored by all those interested in embarking on similar historic journies to explore ways and means to achieve higher living standards and increasing the range of economic choice. But there are other good reasons as well. The collapse of Stalinist dictatorships in central Europe has paved the way for such a transformation by establishing its political preconditions; the removal of a centralised, outdated and command-oriented political structure can certainly be counted as a positive gain to the projected transformation. But as most of the east European governments are coming to realise, this is a necessary but by no means sufficient condition to effect the transition to a market economy.

It must be remembered that the world has yet to witness an example of a centrally planned economy which has been able to successfully effect a transition from a socialist economy to a market economy. While countries as Hungary and China have been able to register substantive departures from command structures, the departures in both these countries have proved to be more significant in the agricultural sector and considerably less significant in the industrial sector where the problems connected with breaking away from state ownership and centralised planning have proved to be more intractable. It is in this specific sense that current reform initiatives in eastern Europe may be expected to break new ground and its outcome will be closely monitored in China as well as the Soviet Union where the impediments to marketisation are of a kind that is comparable.

What is more relevant to our concerns here is the fact that there are a whole series of problems that are not only likely to arise but that these will have to be confronted here and now if the reforms of the 90s are to yield the kind of outcome that is expected of them. We may also straightaway note that the range and breadth of these problems are both profound and extraordinary. Apart from strengthening democratic institutions and practices in the fledgling democracies, nearly all the east European countries will have to meet three challenges simultaneously. These include stabilisation of their economies, implementation of economic restructuring in earnest and initiate genuine institutional change.[15] The reform experiences of the erstwhile socialist world also suggest that it is imperative that these three tasks are carried out simultaneously rather than sequentially because a rapid reduction in living standards under the present circusmtances is in any case inevitable. The current state of the Soviet economy for example, is a good illustration of how living standards deteriorate in the absence of structural reform: the postponement of such critical steps as price reforms, currency reforms and fiscal reforms contributed to make things worse than they already were. But the most significant argument against gradualism—even if the existence of the requisite political will is taken for granted—lies in the fact that a market economy is a very difficult system: 'A market economy is a very complicated mechanism and it cannot function well if all its different parts are not aligned to each other properly. Replacing the four tyres on a car with tyres of different designs, gradually one at a time, would unbalance the vehicle and land it in a ditch. The new tyres will have to be mounted all at once.'[16]

A preliminary survey of the current state of economic reforms in eastern Europe (i e, as of early 1990) presents an extremely mixed picture (see Table 2) with Hungary, Poland, Czechoslovakia and Yugoslavia having undertaken reforms in prices, trade, and exchange rates on the one hand and Bulgaria and Romania having registered virtually no reforms at all. While the past year has witnessed a number of developments in all the countries (Yugoslavia is in the throes of economic crises and civil war, a non-communist government was elected in Bulgaria in November 1991 and one of the items on its agenda includes new legislation on foreign investment, privatisation and landownership, Czechoslovakia took its first step towards the establishment of a capital market in July 1991 and so on) which have not been reflected here, the table is nevertheless illustrative of the current state of economic reforms in eastern Europe in at least one important respect: the more industrially advanced countries (Czechoslovakia, Hungary and Poland) appear to have begun the journey more readily than the relatively less industrialised countries (Bulgaria and Romania) which suggests that there appears to be a connection between levels of industrial maturity and susceptibility to economic reform, a subject that will doubtlessly merit close attention in the reforms of the 90s.

The east European revolutions of 1989 gave rise to a widespread illusion that is still prevalent in the region that once the ossified political structure and the institutional arrangements legitimising that structure are removed, the process of economic reconstruction would take no more than two or three years. It was a similar illusion that preceded the process of German reunification during which time it was not uncommon to find commentators speaking of the completion of a process of reconstruction in east Germany lasting no more than eight or nine months, let alone years.[17] In the two years that have elapsed since the events of 1989, it is becoming increasingly clear that what the east European countries need is not merely changes in economic policy or far-reaching reforms in the system of economic management, but comprehensive systemic change throughout the region.

This is principally because a market economy and the sophisticated mechanisms of communication and co-ordination that are instrumental to its functioning cannot be decreed by fiat. Neither can the market be expected to function in an environment which is not conducive to its functioning; these conditions will therefore have to be created. It is in precisely this domain that the daunting legacy of state socialism will pose the greatest of hurdles in making the transition to markets. These hurdles are not only economic, but include social and political aspects as well. An understanding of some of the vital differences that separate the functioning of a market economy from a planned economy is essential to appreciate the magnitude of the difficulty.

The centrally planned economy of the Soviet-type—based on state ownership, centralised control and one-party dominance—was founded on certain ideologically inspired assumptions that included uninterrupted high growth rates and the creation of a new type of socialist man who would be devoid of socially undesirable features. The significance of these assumptions lies not so much in their obvious naivete but in the consequences they resulted in which included the imposition of a programme of industrialisation based on a one-sided emphasis on heavy industry on the one hand and a grossly overextended system of income distribution and social security on the other.[18] In contrast to market economies, major investment decisions in planned economies were taken by bureaucrats and central planners. Since the planning mechanism in these countries was edified as a progressive alternative to the spontaneity of the market mechanism, the role played by the latter was severely limited.

A number of east European reformers have therefore come to focus their attention on exploring ways and means of coping with the problems created by the earlier system of plan-based management since it is now universally acknowledged that the earlier system precluded any major macroeconomic adjustments to external disturbances. As a result of which structural deformations tended to accumulate over the decades which means that an ever-growing share of the GNP produced is bound to be spent on servicing their hard currency debts. Secondly, the autarkic policies followed in the past will cause the adaptation of the east European economies into the international division of labour to a long and protracted process. Thirdly, the excessive preoccupation with building heavy industry (which in Stalinist economic doctrine was seen as the engine of growth), has resulted in what a Hungarian economist describes as a two-dimensional lack of capital. This refers on the one hand to those sums that in a normal market economy would constitute a part of the depreciation rate of infrastructural activities (human capital, housing fund, services) which in the east European countries were regrouped and spent on fulfilling the priorities of industrialisation and to the other part of capital (good education, financing pensions, unemployment benefits, retraining and resettlement arising from the loss of jobs and outlays to preserve the environmental balance), which was never accumulated.[19] Fourthly, almost all the east European economies will have to cope with the destruction of human capital that resulted from the adoption of the Soviet model: teachers in primary and secondary education were compulsorily moulded along political and ideological lines (this did not exclude harassment and penalties which were widespread against those who did not conform), as a result of which the education system in eastern Europe is virtually unfit to cope with the task of training and retraining either untrained or semi-skilled sections of the labour force who are likely to lose their jobs during the transition. Fifthly, the level of the physical infrastructure in all the east European economies are so worn out that it threatens even the normal processes of reproduction. Finally, the striking backwardness of the tertiary sector and the costs of modernising the latter.

Apart from economic difficulties that are in most part inherited from the command-administrative model that characterised most of the east European economies (except Yugoslavia), there exists a whole range of social and political difficulties which will have to be overcome. Under state socialism, the entire gamut of economic activity from planning and co-ordination to execution was carried out by the all pervasive organs of the state apparatus. Despite the political revolutions of 1989, the role of central intervention and arbitration within these economies continues to play a significant role since market co-ordination and democratic political institutions are yet in a formative stage.

A comprehensive process of systemic change will require, among other imperatives, a rewriting of the social contract that was struck under the old regime which consisted in a trade off between employment security on the one hand and deprivation of political and civil rights on the other. The consequence of this trade off are well known: it not only led to an institutionalisation of the 'we pretend to work and they pretend to pay us' syndrome, but it also resulted in stifling innovation since the latter involved only risk but no reward. The widespread aversion to risk-taking that was a natural consequences of the system, the lack of transparency in economic affairs, aggravation of problems of regional imbalances and employment and the problem of transforming the prevailing educational system to bridge the gap in qualifications and imparting technical skills will be some of the major obstacles to systemic transformation in the region.

While the east European revolutions of 1989 have succeeded in dismantling the Stalinist regimes that had entrenched themselves in the post-war period, there is still no guarantee that the development of democratic institutions will automatically follow: 'Currently in eastern Europe, we see more of a transition from authoritarianism than a movement toward democracy. Nothing guarantees that political institutions will develop rapidly enough to permit the reform process to unfold smoothly. Certain "rules of the game" must be inculcated into the body politic such that the political system is not just valued for the rewards it gives, but is valued as a system in and of itself—even when many do not enjoy the rewards they believe they are entitled to from that system. The history of Latin America on this point is largely one of splendid democratic constitutions, yet woeful adherence to the spirit of those documents. This is the danger eastern Europe must avoid.'[20]

Some Considerations on Transformation

The current transformation in eastern Europe can be expected to provide fresh theoretical insights to the analysis of comparative economic systems despite the fact that the subject matter of traditional comparative analysis has rapidly depreciated. Mainstream economic analysis has by and large been confined to models, categories and behaviours that are set against a full-fledged market order. The fact that the east European economies do not correspond to such an order highlights the inability of mainstream economics to accommodate, let alone explain, the kind of issues that underlie systemic transformation in the erstwhile socialist economies of eastern Europe. A little over 40 years of centralised planning has led to such a completely distorted pattern of economic behaviour among economic agents that the process of effecting a return to an economy dominated by competition rather than the planning apparatus in eastern Europe will require the inauguration of a new field of scientific analysis within which the new historical challenges facing these countries can be located and analysed.

Indeed, it is the havoc caused by the earlier system of command-administrative planning that lends the transition in eastern Europe its specificity: 'Let it suffice to note', writes Lazslo Csaba in a recent volume, 'that this makes the central European starting point fundamentally different from that of the privatisation drive which swept through many of the developed and developing nations during the 1980s. The story in central and south-eastern Europe is not about expanding an already dominant private sector and cutting back an overextended state. It is about creating—and letting to evolve—the market order, where bureaucratic co-ordination is subordinate to market co-ordination'.[21]

Quite apart from the fact that socialist economic doctrine has suffered serious reverses with current developments in the erstwhile socialist economies, the economic decline of eastern Europe under state socialism has underlined the value of markets. This implies that a large part of economic thinking during this transition will be focused on how can markets be made to work in terms of what they can and cannot do. Among other imperatives, this will involve the recognition that markets should not be narrowly perceived as economic categories alone; they embody important social, political and cultural constituents as well. Irrespective of the eventual failure or success of the east European reforms of the 90s, the current transformation will provide fertile ground for fresh perspectives on the dynamics of institutional change whose import will not be restricted to eastern Europe alone, but will also provide valuable insights to other developing countries involved in embarking on similar journeys.

Conclusion

The erstwhile socialist economies of eastern Europe have committed themselves to effecting a transition from state socialism to a pluralistic market order. Despite the political changes that have taken place in these countries, the new democracies of eastern Europe continue to remain 'planned' in the sense that they are still bureaucratically co-ordinated. A survey of the various steps that have so far been initiated in these countries suggests a long-term direction towards privatisation and deregulation, a process that will easily take 10-15 years at the very least and which will be one that will be largely dependent on the ability of these economies to successfully overcome the problems associated with genuine economic restructuring including inflation, recession, unemployment and external indebtedness, not to speak of ethnic strife, social unrest and the political commitment required to sustain the pace of the reform process. While the eventual possibility of reaching the end of the tunnel might compensate the arduousness of the exercise, it is perhaps prudent to remember that the east European economies have so far done little more than entered it.

The major obstacles that will have to be overcome in all the countries precludes any prospects of a 'smooth' transition. These include deteriorating economic performance, domestic opposition to free markets by vested interests, the lack of both experience and skills for functioning in a competitive market economy, the high costs of rectifying past errors, overcoming the legacy of a huge capital stock that is technologically obsolescent, the emergence of profound historically derived ethnic conflicts that were supposed to have been amicably 'settled' under the ancient regime, the need for a strong political commitment towards effecting the transition that is able to tailor public expectations to existing realities which in the world of realpolitik can never be taken for granted and the fragility of new political institutions that have sprung up in the wake of the collapse of the old order.

Despite the enormous difficulties confronting the east European economies, there are however a number of factors that contribute to make the process of systemic transformation in eastern Europe irreversible. In other words, the possibility of a restoration to anything resembling the old order in eastern Europe is not only highly improbable, but virtually impossible notwithstanding the demise of the USSR and the future course of economic reform and political change in the newly established commonwealth of democratic republics. The factors that militate against such a return in eastern Europe and thereby promote the evolution of a market order include the popular rejection of the ideological premises of state socialism which was based on increasingly high growth rates and the creation of 'a new socialist man', the absence of feasible alternatives other than those of drastic economic restructuring, the collapse of the Soviet Union and resulting abolition of the institutional arrangements and exigencies connected with the 'special relationship' which have opened new prospects and options for all the east European countries, their avowed intention of integrating themselves with the European order, greater possibility of foreign investment, the acceptance in eastern Europe of competition as a public good and the willingness on the part of several international organisations to help these economies to set them on the road to economic recovery.

The economic experiment currently under way in eastern Europe has no parallel in contemporary history and if for that reason alone merits serious attention in several respects. Be that as it may, there can be no doubt about the fact that it is a long and tortuous way ahead. Neither is there any guarantee that the end of the tunnel will in fact be reached. What can at best be said as of now is that there is no feasible alternative to the existing order other than going ahead and changing it.

Notes

1 Pawel H Dembinski (1991), *The Logic of Planned Economy*, Clarendon Press, Oxford.

2 Micheal Ellman (1988), *Socialist Planning*, Cambridge University Press (second edition).

3 Alan Smith (1983), *The Planned Economies of Eastern Europe*, Croom Helm.

4 A Hewett (ed) (1988), *Reforming the Soviet Economy: Equality versus Efficiency*, The Brookings Institution, Washington, DC, p 2.

5 '...Soviet planning had to be planning for development—in the first instance planning to create industry rather than planning how to run industry...' David Dyker (1985), *The Future of the Soviet Economic Planning System*, Croom Helm, London and Sydney, p 3.

6 Padma Desai (1989), *Perestroika in Perspective*, I Tauris, London, pp 9, 10.

7 See H H Hohmann (1982), 'Economic Reform in the 1970s: Policy with no Alternative' in Alec Nove, Hans Hermann Hohmann, Getraud Seidenstecher (eds), *The East European Economies in the 1970s*, Butterworths, pp 1-16.

8 This was not only recognised by a number of Soviet and east European reformers, but equally by Gorbachev himself: 'Our country's wealth in terms of natural and manpower resources has spoilt, one may even say corrupted us. That, in fact, is chiefly the reason why it was possible for our economy to develop extensively for decades. Accustomed to giving priority to quantitative growth in production, we tried to check falling rates of growth, but did so mainly by continually increasing expenditures: we built up the fuel and energy industries and increased the use of natural resources in production. As time went on, material resources became harder to get and more expensive. On the other hand, the extensive methods of fixed capital expansion resulted in an artificial shortage of manpower. In an attempt to rectify the situation somehow, large, unjustified, i e, in fact unearned, bonuses began to be paid and all kinds of undeserved incentives introduced under the pressure of this shortage, and that led, at a later stage, to the practice of padding reports merely for gain. Parasitical attitudes were on the rise, the prestige of conscientious and high-quality labour began to diminish and a wage levelling mentality became widespread. The imbalance between the measure of work and the measure of consumption, which had become something like the linchpin of the braking mechanism, not only obstructed the growth of labour productivity, but led to the distortion of the principle of social justice. So the inertia of extensive economic development was leading to an economic deadlock and stagnation'. Mikhail Gorbachev (1988), *Perestroika*, Fontana/Collins, pp 19, 20.

9 Ramnath Narayanswamy (1988), *Gorbachev, Economic Reform and Eastern Europe*, Himalaya Publishing House, Bombay.

10 Xavier Richet (1989), *The Hungarian Model: Markets and Planning in a Socialist Economy*, Cambridge University Press.

11 Bernard Chavance (1987), *The New Course in China*, China Report, New Delhi, October-December, 1987; Maria Blejer, David Burton, Steven Dunaway and Gyorgy Szapary (1991), *China: Economic Reform and Microeconomic Management*, IMF, Washington DC, January and Ivan Szegvari (1991), 'Systemic Change and Concertibility: A Comparison of Poland, Hungary and Yugoslavia' in Laszlo Csaba (ed), *Systemic Change and Stabilisation in Eastern Europe*, Dartmouth, pp 33-43.

12 Gary H Jefferson and Peter A Petri (1990), 'From Marx to Markets', *Challenge*,

September/October, p 4.

13 Ramnath Narayanswamy (1989), 'Restructuring Socialist Ownership', *Economic and Political Weekly*, August 26, and (1990), 'Socialism, Economic Reform and Property Rights', *Economic and Political Weekly*, March 3.

14 When the waves of popular revolution began sweeping eastern Europe in 1989, they gave rise to two different aspirations both of which subsequent events have belied. The conventional view consisted in the notion that once the east European economies were liberated from the oppressive yoke of Stalinism, it was only a matter of time before these economies would be transformed into vibrant market economies. Such a misconception perhaps stemmed from the quite unfounded view that political liberalisation was all that was needed to pave the way for marketisation and privatisation, while on the left, the upheavals in central Europe generated hopes that the revolutionary movements would attempt to construct a new democratic socialist order that would avoid the excesses of both bureaucratic collectivism and market capitalism. But this was not to be: 'One year later, the ground for optimism on the left has been severely undermined. The great majority of people in eastern Europe want nothing more than to become part of the "common European home" as soon as possible. Tired of social and economic experiments, increasingly aware of the huge gap in standards of living between western and eastern Europe, they are eager to embrace the "tried and true" institutions of Western market capitalism. It is not only the old ruling communist parties and their hierarchical, bureaucratic economies that have been discredited; even much more benign forms of public enterprise are viewed with suspicion. Socialist and social democratic parties have fared poorly in elections in East Germany, Poland, Hungary and Czechoslovakia. Poland, Czechoslovakia and Hungary have elected governments committed to dismantling the old state-dominated structures and to promoting the spread of markets and the growth of private enterprise along explicitly capitalist lines'. See Thomas E Weisskopf (1991), 'Economic and Political Prospects in Eastern Europe', *Dissent*, Winter, pp 23-24.

15 Bernard Chavance (1991), 'What Kind of Transition and What Kind of Market in Eastern Europe', *Moct-Most*, No 2, Bologna, pp 10-11.

16 Wassily Leontief (1990), 'Some Soviet Lessons', *Challenge*, September-October, p 15.

17 Ramnath Narayanswamy (1991), 'Unified Germany Problems and Prospects', *Economic and Political Weekly*, April 20.

18 Laszlo Csaba (1990), 'The Bumpy Road to the Free Market in Eastern Europe', *Acta Oeconomica*, Vol 42, Nos 3 and 4, p 198.

19 Ibid.

20 Roger L Adkins (1991), 'East European Economic Reform: Are New Institutions Emerging?' *Journal of Economic Issues*, Vol XXXV, No 2, June, p 594.

21 Laszlo Csaba, *Systemic Change and Stabilisation in Eastern Europe*, op cit, p 4.