

ENGINEERS OF THE TRANSITION (INTERVENTIONIST TEMPTATIONS IN EASTERN EUROPEAN ECONOMIC THOUGHT)

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The paper focuses on current developments in the history of economic thought in Eastern Europe. In contrast to the conventional interpretation positing a neoliberal breakthrough in post-communist economics, the author emphasizes the old-new interventionist (constructivist) elements of Eastern European economic thinking. In the first part of the paper, he draws parallels between the scholarly and sociological positions of the former reformers and the present "transformers". In the second part, he provides samples of the transformers' arguments for the "engineering" of the transformation processes by the new governments.

It is again time to bid farewell to a metaphor. I am saying goodbye to the imaginary pendulum which—according to Western experts—would swing Eastern Europe from the one extreme of a command economy to the other extreme of *laissez-faire*. "Tit for tat" is how I would irreverently rephrase the logic of this thesis, if I did not suspect its inherent vision of the future—namely, that collectivism would shift to liberalism. To put this in the language of the daily newspapers: the more Stalinist the economy/economics used to be, the more Thatcherite they should become. Or to adopt Habermas' somewhat loftier style: a *nachholende Revolution*, that is, a revolution staged with the purpose of catching up with the West, is taking place in this part of Europe.

In any event, the really good news was announced by Fukuyama: the "end of history" is almost upon us. There is no reason to deny that these prognoses are dramatic, since they envisage a major turnaround—at least in theory. They forecast a neo-liberal (libertarian, conservative) breakthrough in, among other things, postcommunist economic thought.²

¹ An earlier version of this paper was presented in Budapest at a session of the Hungarian Social Science Association on December 18, 1991. It was published later by the *2000* (cf. „A jövő mérnökei”, *2000* January 1992). Thanks are due to János Gács, Mihály Laki and the editors of the *2000* for their comments.

² Cf. Jerzy Szacki: A Revival of Liberalism in Poland?, *Social Research* 1990/2; Elemér Hankiss: Eastern European Alternatives—Are There Any?, Oxford 1990; Jacques Rupnik: The Other Europe, London 1988; John K. Galbraith: The Rush to Capitalism, the *New York Review of Books* 1990/10/15; Amitai Etzioni: Eastern Europe: The Wealth of Lessons, *Challenge* July–Aug 1991; Samuel Bowles: What Market Can—and Cannot—Do?, *Challenge* July–Aug 1991; Robin Blackburn: Fin de Siècle: Socialism after the Crash, *New-Left Review* 1991/185; Peter Wiles: Die kapitalistische Siegesicherheit in Osteuropa, *Europäische Rundschau* 1991/3.

Over the past few months Western newspapers have carried headlines like "Maggie Thatcher Goes East," "Chicago Boys in Warsaw," "Champions of the Wild East in Prague" and "Young Liberals in Moscow." These headlines refer both to the economies in transition and the leading economists. Indeed, the individuals in question have been reluctant to issue a disclaimer. Leszek Balcerowicz still speaks proudly of the Polish shock therapy (whose Big Bang philosophy seems to justify the pendulum metaphor); Václav Klaus rarely misses a chance to quote from *Free to Choose* by Milton and Rose Friedman. (An associate of his, Czech Privatisation Minister Tomáš Jezek, professes to be an ardent follower of von Hayek.) Yeltsin's economic advisers wish to cross the Rubicon dividing the really existing socialism of yesterday from the capitalism of tomorrow in a matter of a few hundred days. Let us not forget Hungary, our own country: Márton Tardos, who is the head of the parliamentary group of a liberal party, now uses the seemingly ultra-liberal expression of "privatizing privatisation"; and János Kornai has recently published a pamphlet in the United States under the title *The Road to A Free Economy*, a reference to Hayek's *Road to Serfdom*. Every now and then, Harvard's "diabolical" Jeffrey Sachs shows up in their company. This "Grand Stabilizer" is touted by the national populists throughout the region as an advocate of unfettered liberalism.³

Nevertheless, it is not only the Hungarian government in Eastern Europe that boldly refuses to obey the law of the pendulum. Most of the new administrations seem to be doing their best to reject the allegation that no statist (i.e., interventionist, dirigist, recentralizing) programmes—and no economists who keep inventing such programmes—can thrive on the ruins of communism.

Those who attached their expectations to the magic force of the pendulum a year or two ago are so horrified by the recent symptoms of a new authoritarianism under post-communism that their first reaction is to hasten to readjust the short-term *political* forecasts about the triumph of democracy and the rule of law in the region. Instead of keeping track of the actual movement of the pendulum in the economy or the dominant economic discourse, they adhere to the earlier practice of describing most of the Eastern European scenarios of economic transition as ultra-liberal. At the same time, they are busy developing elaborate prognoses based on the model of "authoritarian rule-cum-free market." As has happened several times

³ Leszek Balcerowicz: Die "Unreife" der freien Marktwirtschaft in Polen, Neue Zürcher Zeitung, 1991/1/13,14; Václav Klaus: A Road to Market Economy, Prague 1991; Václav Klaus & Tomáš Jezek: Social Criticism, False Liberalism and Recent Changes in Czechoslovakia, Eastern European Politics and Societies, Winter 1991; Kornai János: The Road to a Free Economy, New York 1990; Jeffrey Sachs: What Is To Be Done, Economist 1990/1/13; D. Lipton and J. Sachs: Privatization in Eastern Europe. The Case of Poland, Brookings Papers on Economic Activity 1990/2; J. Sachs: Crossing the Valley of Tears in East European Reform, Challenge, Sept-Oct 1991; Im Niemandsland zwischen Plan und Markt, Die Zeit 1991/11/1.

in the past, the analysts now start out from Latin American and Southeast Asian examples.⁴

Let us confess that, to a certain extent, we "domestic observers" tend to accept this attitude. True, Hungarian economists who have experienced the various reform cycles of market socialism cannot be impressed by any optimistic prophecy about a rapid shift from extreme collectivism to liberalism. This is because, over a period of several decades, their chief concern was to reconcile pragmatically the moderate elements of these two world of ideas. In the end, they did not succeed in working out an original and logically coherent paradigm for the reform of real socialism—even though that was widely hoped for. Nevertheless, as the years went by, the concept of a command economy disintegrated in Hungarian economic thought. At the same time, while few experts predicted a neo-liberal breakthrough, hardly anybody expected the present proliferation of illiberal political aspirations. Consequently, it is now very difficult for former reform economists who have become disillusioned with the utopia of a "*socialist* market economy" to find even moderately liberal versions of the "*social* market economy" politically unfeasible.

Sensing signs of a new authoritarianism in Eastern Europe, we economists rapidly brace ourselves and attempt a diagnosis. Endowed with historical experience, it has not taken us long to discover the early symptoms of the emergence of a new, postcommunist party-state: we unmask the old-new bureaucratic elite and their growing clientele; we lay bare the new interventionist political ideologies—sometimes I have the impression that the patterns are all too familiar. As a rule, we avoid flirtation with any new enlightened absolutist rulers; we feel antipathy to the notion of a corporative state and are far from being enthusiastic about the idea of replacing the parliamentary system with a presidential one. However, apart from these *political* reservations, we rarely think about the illiberal *economic* temptations which Eastern European scholars also ought to resist while examining what comes after communism.

We should be especially aware of these dangers because it may well be that our "Great Transformation" is incompatible even with the "Chilean Road." From an economic point of view, the puzzle called "transition" may have *no* liberal solution, let alone a radically liberal one. The new dictatorships which appear to be emerging in our region would probably be unwilling to give a free hand to the economy (at least not to the degree that Pinochet did).⁵ Even more importantly,

⁴Oleg Rumiantsev: *Authoritarian Modernization and the Social-Democratic Alternative*, Social Research 1990/2; L. A. Gordon: *Soviet Prospects: Not Absolutely Hopeless*, Challenge May–June 1991; Ellen Comisso: *Political Coalitions, Economic Choices*, manuscript, 1991; Adam Przeworski: *Spiel mit Einsatz. Demokratisierungsprozesse in Lateinamerika, Osteuropa und anderswo*, Transit 1990/1.

⁵Alfred Stepan: *State Power and the Strength of Civil Society in the Southern Cone of Latin America*, in: P. Evans, D. Rueschmeyer, T. Skocpol (eds): *Bringing the State Back In*, Cambridge 1985; M. A. Garreton: *The Political Evolution of the Chilean Military Regime and Problems in*

the crisis-ridden state economies in Eastern Europe would, almost instinctively, appeal on a daily basis for resolute intervention by the governments in power. Even firmly established political democracies would find it difficult to resist such aggressive claims. Hence it follows that, in contrast to the ideal of democracy-cum-market and the second-best option of dictatorship-cum-market, the countries of the region might easily find themselves waking up to the depressing reality of dictatorship-cum-controlled economy.

Whence the temptation? Why am I invoking the spectre of interventionism (which Hayek refers to as "constructivist rationalism") at a time when the economic thought of Eastern Europe is witnessing an unprecedented upsurge in liberal fervour? Let me state my answer somewhat harshly: I think the rhetoric, language and programmatic trappings of this fervour—as well as some of the practical measures taken in the spirit of liberalism—make many economists of transformation believe that what they are doing is merely assisting spontaneous evolution. Consequently, whenever they do advocate something "non-spontaneous", they justify it to themselves by claiming that they are acting under the compulsion of conditions, in the service of a sublime objective, against the dictates of their own consciences and, above all, with the sole purpose of finding a provisional solution.

I wonder why we are still so impressed by spectacular symbolic contrasts, such as the setting up of the Polish stock exchange in Warsaw in a building that used to house the Central Committee of the Communist Party, or the auction of Soviet tanks in the satellite countries, or the substitution of party membership cards with chequebooks? Why do we only notice the policy of interventionism when it is coupled with shallow populist-nationalist ideologies or when, in the worst case, it introduces the machinery of political *Gleichschaltung* in the economy as well?

Reformers and "transformers"

To avoid any misunderstanding, let me state in advance some of the assumptions inherent in my train of thought:⁶

the Transition to Democracy, in: G. O'Donnell, P. C. Schmitter, L. Whitehead (eds): *Transitions from Authoritarian Rule*. Latin America, Baltimore 1986; E. A. Cardoso: *Privatization Fever in Latin America*, *Challenge* Sept–Oct 1991.

⁶For more detail, see János Mátyás Kovács: *Reform Economics: The Classification Gap*, *Daedalus*, Winter 1990; *Übergang: das grosse Experiment*, *Transit* 1990/1; *Szocialista vagy szocialis piacgazdaság?* (Socialist or Social Market Economy?) *Világosság* 1990/1; *From Reformation to Transformation. Limits to Liberalism in Hungarian Economic Thought*, in: *Rediscovery of Liberalism in Eastern Europe, Eastern European Politics and Societies*, Winter 1991.; *Compassionate Doubts about Reform Economics*, in: Kovács J. M. & Tardos Márton (eds): *Reform and Transformation in Eastern Europe. Soviet-Type Economics on the Threshold of Change*, London 1992.

(1) Below I shall use the term “transformer” (in contrast to “reformer”) to refer to those theoretical economists in Eastern Europe who—working as researchers or, more often, having been hired on a semi-permanent basis by some party or government department—write comprehensive scenarios on key aspects of the radical transformation of the Soviet-type economy. I intend to observe their scholarly and political activities from the perspective of a *historian of economic thought*. At this point, I am concerned with what they recommend, the form in which their recommendations are presented and the purpose of such recommendations. Here I do not deal with the feasibility of their proposals.

(2) I begin with the assumption that during the 1980s the dominant majority of transformers excelled as reformers (often radical ones). For a longer or a shorter period, they experimented with market simulation. In other words, they avoided challenging, simultaneously and decisively, the two main taboos of real socialism: state ownership and one-party rule. I include in this group the members of the older generation (Aleksander Bajt, János Kornai, Karel Kouba, Gavril Popov, Stanislav Shatalin, etc.) as well as numerous younger representatives of the middle-aged generation (Leszek Balcerowicz, Tamás Bauer, Vladimir Dlouhy, Yegor Gaidar, Joze Mencinger, Jerzy Osiatynski, Attila Károly Soós, etc.). I am not going to mention those few “unspoiled” young scholars who have no reformist record of any kind.

(3) Even if some of them regret it now, most of the reformers did not start out as “closet capitalists” who had to disguise their authentic liberal conviction. Liberal thought was not an asset a reform economist inherited from precommunist times; instead, it was one that he attained. He usually acquired it in addition to (and rarely instead of) his socialist commitment during the course of political bargaining over economic reform. The typical reformer took up liberal ideas almost reluctantly, deriving them from his own trial and error experiences rather than from scholarly works about, say, the renaissance of Austrian economics, the economic theory of the property rights or constitutional economics. For a long time, he had already been instinctively aware of most of the government failures, while doctrines of welfare economics about market failures still dominated his thinking.

(4) As a consequence, the reformer should not be seen as a herald of a radical liberal dream when he becomes a transformer. Even though, at times, he may act with a neophyte’s haughtiness, one can, without a German schoolmaster’s exactitude, consider his liberalism unsophisticated, somewhat distorted and eclectic. Reformers have always had a predilection for “introducing”, “building up” and organizing the market. They have always had a constructive reform programme, an expert solution, or an expedient for emergency on hand. They justified, with some truth, their constructivist and holistic attitude, as well as their Grand Designs with the explanation that in such a naturally non-spontaneous system as the Soviet-type economy the policy of “live and let live” must prove ineffective. In fact, that policy would let live those who would not let others live.

The image of the future could not be defined within the framework of reform economics; in other words, the question "where does the Third Way between capitalism and socialism lead to?" could not be answered for either political or logical reasons within the Soviet-type system. Thus, reformist liberalism found its source, pragmatically, not in an abstract but definable ideal (natural) state of the past or the future, but in the ups and downs of the reform process itself. The reform proposals, radical as they were, rarely ever used ethical considerations to praise the intrinsic "beauty" of the market, the value of individual initiative or the virtues of private property. For a long time, the reform economist had a purely technical and pragmatic attitude to the market (competition, entrepreneurship). He considered it a tool to be used to repair the malfunctioning machine of the Soviet-type economy whenever necessary.

In an ideal situation, that machine was the market itself (see the controversial reformist concept of "economic mechanism"), and it was the government's duty to control it from above. This meant switching the market on and off, and coupling its cogwheels with those of the plan almost at will. The market seemed to be suitable for planners to simulate because it was defined as a sterile institution free of the property rights. Furthermore, state ownership seemed to be politically neutral: according to widespread assumptions, it could be decentralized and rearranged into smaller-scale collectivist forms (managerial socialism, workers' self-management). Because they were dismissed as obsolete and technically not viable, concepts like free enterprise, invisible hand and nightwatch state were omitted from the reformist plan-and-market discourse. As a consequence, the principle of methodological individualism was also ignored. The state, in the reform economist's vision, remained vigilant during the day just as by night. Similarly, to use Mario Nuti's *bon mot*, the invisible hand was from time to time disciplined by "visible fists".

I am exaggerating, of course. It is well known that Eastern European reform thinking has always had some liberal mavericks (Tibor Liska, Nikolai Shmeliev, Jan Winiecki, Václav Klaus and others of their ilk), radical periods of development and pioneering country cases. Also, who would dispute the fact that the theory of reform underwent a long process of secularisation/radicalisation starting from the cautious adjustment of planning targets in the 1950s to the nearly profane demand of "reforming the reform" in the late 1980s? Nevertheless, reform ideas shed their mechanical, collectivist and interventionist features very slowly—and always within the limits of "political decency".

(5) As for reform countries in Central Europe, after the early 1970s, it was not simply the anticapitalist attitude inherited from Marxism that prevented the reform economists from giving up the attempt to reconcile "plan" and "market" to concentrate, instead, on the desirable proportions of public and private ownership. To a certain degree, the delay was due to the very nature of reformist theory: limited liberalisation by trial and error is a slow process; the market in the shadow economy was only partly justified, and workers' self-management was only partly

falsified under the old regime, etc. There were, however, significant external causes as well, which, in the long run, may have proved even more significant than the internal ones.

Here I am referring to the reformers' well-known intermediary position between scientific research and politics, opposition and government, East and West, and the numerous compromises concomitant with their role as mediators. Let me concentrate on just one of the multitude of non-scholarly roles which Eastern European reform economists have played in recent decades—that of the adviser and expert, i.e., the *social engineer*. I shall focus primarily on the way they offered their expertise in social engineering: how they identified themselves with this programmatic activity and the related search for compromises, whereby the task of answering the question “what is?” was overshadowed by active participation in planning what “ought to be.” This participation went well beyond the limits of independent advisory work (see, for example, the reform economists' shuttling between the scientific community and the government apparatus or, God forbid, the Communist Party headquarters). The foundation of this relationship was an attitude of cooperation and constructivism. Of course, the economist working as an adviser could always console himself with the paradoxical explanation that, even if he were cooperating with the party-state, he was nevertheless instrumental in dismantling the state economy. As he explained to himself, his mission was to regulate deregulation and plan the “domestication” of planning. (As opposed to the genuine dissidents, then, one could characterize the reformers as assenting dissenters.)

Before the reader accuses me of administering justice retroactively, I hasten to add that the comments above should not be taken either as criticism or a condescending pat on the shoulder. At a time fraught with the threat of witch-hunts, the chronicler should at the very least emphasize the reformers' crucial contribution to “disenchanted” the planned economy and “softening” the communist economic elite.⁷ What you have read so far is nothing more than a brief status report that serves a practical goal—namely, the demonstration of the similitude I am inclined to observe between the former reformers and today's transformers. Yet there is more here than the simple fact that for the most part we see the same faces as before. I have arrived at the real subject of my paper...

Liberalism delayed?

What does a radical reformer think when political and ideological restraints that once controlled his imagination are one by one taken off? In principle, this

⁷J. M. Kovács: Planning the Transformation? Notes about the Legacy of the Reform Economists, forthcoming in: J. M. Kovács (ed): The Ambiguous Legacy of Communism, Transaction Publishers 1993.

may act as a catalyst: his creative powers may begin to soar, taking him to ever more liberal heights. Yet, as optimistic as that may sound, that option is rather unlikely. An economist who has learnt by doing (I would say, for want of a better solution) that beyond a certain stage marketization is logically inconceivable without privatisation, will be apt to paraphrase Churchill's aphorism on democracy even after 1989: private property is the worst form of ownership except for all the others. As a result, private property may join the reformist interpretation of the market within the category of "necessary evils."

In a free world, an economist may become a freethinker. Now that the political and ideological barriers of the Soviet-type system have been lifted, there is in principle an unhindered passage to the domain of the "free" market, or at least to that of "social" market economy. Apparently, the only thing yet to be done is to conclude the train of thought that started in Eastern Europe a few decades ago; in other words, the programme of simulated marketization needs to be made both real and complete by introducing the essential components of private property and political democracy. One wonders how far the transformer will proceed in these areas. Or, thinking back on the opening metaphor, where will the pendulum stop, once it has passed the imaginary point of suspension?

In our search for an answer let us not interview ex-reformers. They would probably respond: "We may have indeed been slow in realizing that the 'emperor' whom we once served 'had no clothes on.' Nevertheless, from a strictly intellectual point of view, 1989 found us in a fairly mature state. Once (self-) censorship was abolished, only technical obstacles prevented us from asserting our liberal ideas. Consequently, there is no need to revise the original theoretical tenets of reformist thought; one needs merely to streamline them by simply removing the former taboos. Some of the economic solutions thus put forward may still be 'second-best', but they will be second-best on their own merits, not as a result of the sociological and methodological compromises deeply rooted in reform thinking."⁸

Eastern European economists have arrived at this state of relative calm without catharsis. The present mood of the transformers may be briefly characterized, with some malice, as follows: "the new democracies in our region may continue to produce half-heartedly liberal political elites (who would slow down the economic transition); yet, thank God, we are no longer obliged to invent comprehensive theories to prove that half-hearted liberalisation is the best of all possible economic programmes". In other words, there is no more need to incorporate external hindrances into the theory.

⁸ Cf. the responses of Leszek Balcerowicz, Aleksander Bajt, Włodzimierz Brus, Karel Dyba, András Hegedűs, Branko Horvat, Gennadii Lisichkin, László Szamuely and Márton Tardos given to the questionnaire of *Acta Oeconomica* (1989/3-4) on socialist market economy. See also, Włodzimierz Brus and Kazimierz Laski: *From Marx to the Market*, Oxford 1989.

Spoilsports are always booed off the stage. Unfortunately, however, one cannot overlook another reason for the lack of catharsis. What if the "brave new world" the transformer confronts beyond the barriers of the Soviet-type economy is greatly reminiscent of the old one? It may well be that neither his new sociological status, nor the actual economic processes of the transition will prompt the former reformer to readjust his ambiguous liberalism.

Advisers then and now

Strange as it may sound, in 1989 the reformers did not leave the stage of Eastern European economics as losers. Except for those who had not been able to differentiate between cooperation and collaboration with the old regime, the reform economists were not forced to leave at all. They were not compelled to withdraw to the seclusion of libraries or to start up businesses as entrepreneurs. Even before they had the chance to escape the public eye and ponder "where did we go wrong?", a considerable number of them, if not the majority, became incorporated into the new political elite.⁹ Reform economists were thereby able to bounce from the position of potential loser to that of a winner.

Some of the ex-reformers have vaulted into higher places in the political hierarchy than they had previously occupied. They accomplished this due to the following circumstances: they had a rather good relationship with the dissidents; the new parties and governments had an urgent need for experts; and, most importantly, these institutions needed precisely those who could become "*engineers of the transition*"; that is, those who could elaborate party manifestos, draw up plans for national salvation or, simply, develop proposals for day-to-day crisis prevention. Thanks to the vacuum in political management in the first months of the transition, the first generation of transformers (Bajt, Balcerowicz, Klaus, Shatalin, etc.) could propose their mammoth programmes of stabilization, deregulation and privatisation in an environment almost free of institutional opposition. They did not have to confront in earnest either the *nomenklatura*—which was collapsing—or the parliament, which had not really found its feet yet. Since then, transformers have been extremely deft in what had been called under market socialism "reform mongering". Just as they did in the past, they are buying and selling Grand Designs, experimenting with alternative models, and constructing new schemes, though it

⁹Here I have in mind scholar-politicians such as Dyba, Dlouhy, Klaus, Komarek, Kouba in Czechoslovakia; Bauer, Bod, Kádár, Matolcsy, Soós, Surányi, Tardos in Hungary; Balcerowicz, Jozefiak, Lewandowski, Osiatynski, Mujzel in Poland; Aven, Gaidar, Jasin, Petrakov, Popov, Shatalin in the former Soviet Union; or Bajt and Mencinger in the former Yugoslavia. See also, Pekka Sutela: *The Economic Views of Gorbachev's Advisers, Communist Economies and Economic Transformation 1991/1*

is true that market and private property feature higher in their economic policy packages than ever before.

Why the fuss over their old-new role—one could ask with justification—as long as the intervention devised by the transformer does not serve the preservation of the command economy, but rather the dismantling of it and the creation of a genuine (not simulated) market economy? Could this be done in any other way? Could the state economy be deregulated without the help of new state regulations?

"Sound interventionism"

Below I will do everything in my power to avoid answering these questions. My sole pursuit in this paper is to find out in what manner interventionist arguments—some of which are indeed tenable—encourage transformers who began with a liberal creed to revert to their constructivist attitude. As years go by without the liberal order being firmly established, such arguments seem to crowd out all other ones in the economic literature on postcommunist transition. I have started collecting them and stopped counting at ten.¹⁰ (They are not listed in order of importance.)

¹⁰ Cf. Janusz Beksiak & Tomasz Gruszecki & Alekszander Jedraszczyk & Jan Winiecki: The Polish Transformation, CRCE London 1990; H. Bloomestein & M. Marrese (eds): Transformation of Planned Economies: Property Rights Reform and Macroeconomic Stability, Paris 1991; Csaba László: Közép-Európai rendszerváltás és stabilizáció (Systemic Change and Stabilization in Central Europe), *Külgazdaság* 1991/9; Marek Dabrowski: A lengyel stabilizációs program (The Polish Stabilization Programme), *Külgazdaság* 1991/3; R. Dietz: Transformation: From Command to Exchange Communication, manuscript 1991; R. Dornbush & J. Edwards: The Economic Populism Paradigm, NBER Working Papers, May 1990; John Farrell: Monitoring the Great Transition, Comparative Economic Studies Summer 1991; Roman Frydman & Andrzej Rapaczynski: Evolution and Design in the East European Transition, 1991, Manuscript; Gábor R. István: Második gazdaság, modernitás, dualitás (Second Economy, Modernity and Dualism), *Közgazdasági Szemle* 1991/11; Stanislaw Gomulka: The Causes of Recession Following Stabilization, Comparative Economic Studies, Summer 1991; Irena Grosfeld: Privatization of State Enterprises in Eastern Europe. The Search for a Market Environment, Eastern European Politics and Societies Winter 1991; Tomasz Gruszecki: Privatization in Poland, Communist Economies 1991/2; Historical Precedents for Economic Change in Central Europe and the USSR, Oxford Analytica 1990; G. W. Kolodko: A lengyel hiperinfláció és stabilizáció (Hyperinflation and Stabilization in Poland), *Külgazdaság* 1991/2; Kornai János: The Road to a Free Economy...; A privatizáció elvei Kelet-Európában (The Principles of Privatisation in Eastern Europe), *Közgazdasági Szemle* 1991/11; Jiri Kosta: Ökonómische Aspekte des Systemwandels in der Tschechoslowakei, in: R. Deppe, H. Dubiel, U. Rödel (eds): Demokratischer Umbruch in Osteuropa, Frankfurt 1991; Robert Kuttner: The Dustbin of Economics, The New Republic 1991/2/25; K. Laski: Transition from Command to Market Economy in Central and Eastern Europe, manuscript 1991; Helmut Leopold: Die Politik der Privatisierung und Deregulierung. Lehren für die Wirtschaftsreformen im Sozialismus, in: Zur Transformation der Wirtschaftssystemen, Marburg 1990; Paul McCracken: Thoughts on Marketing State-Managed Economies, Economic Impact 1990/2; John M. Montias: The Sequencing

1. *Beware of survivors!* Strict government supervision is indispensable both to the assembly of parts for the new economic system and the dismantling of the components of the old one, unless our objective is to make it easier for the old elite to capitalize—literally—on their political privileges. Spontaneous evolution favours the strong—however, it was mainly under the *ancien régime* that one could accumulate strength. If privatisation is spontaneous, the result will be capitalism for the *nomenklatura* only. To assure equal chances for all, it is necessary, at least in the beginning, to discriminate against the old ruling elite. Anyway, nobody expects a transsexual man to increase the country's birth rate.

2. *Checking the lobbies.* The supervision of the transition will be ineffective unless it is coupled with the systematic dismantling of the economic institutions of the Soviet-type system and their accompanying lobbies, the breaking up of monopolies, and the disruption of the informal networks. If we deduct the state-party from the party-state, the result, unfortunately, will not be zero. Until the state economy has been fully demonopolized, a strong hand is necessary to keep the lobbies under control. The old monopolies must not be allowed to strangle, under the banner of *laissez faire*, the "young markets." A strong government must discipline the state sector before, during and after privatisation, keeping all possible budget constraints hard. Otherwise, inflation will spiral upwards, capital will leak away before it can be privatized, and stabilization will be obstructed by producers' strikes and financial chaos.

3. *Old-new socialism.* Because the state economy might come not only under liberal but also collectivistic criticism, socialist hopes, egalitarian endeavours, self-management programmes and populist illusions may reemerge in the course of the old order's demise, especially in the case of a profound economic crisis causing rapid social polarisation. To protect the liberal path of social progress, it is necessary to restrain socialist leanings that are reborn along with capitalism. Third Way type programmes can, unfortunately, be built not only on the basis of the first

of Reforms, Challenge Sept–Oct 1990; W. Nordhaus: Soviet Economic Reform: The Longest Road, Brookings Papers 1990/1; Klaus Offe: Das Dilemma der Gleichzeitigkeit. Demokratisierung und Marktwirtschaft in Osteuropa, Merkur 1991/4; Richard Portes (ed): The Path of Reform in "Central and Eastern Europe", European Economy (special issue) 1991/2; Adam Przeworski, Economic Reforms in New Democracies. The Polish Experience, manuscript 1990; Inderjit Singh: Is There Schizophrenia about Socialist Reform Theory?, Transition 1991/7; Aleksander Smolar: Durch die Wüste. Die Dilemmas des Übergangs, Transit 1990/1; Jadwiga Staniszkis: 'Political Capitalism' in Poland, Eastern European Politics and Societies Winter 1991; David Stark: Privatizációs stratégiák Közép-Kelet-Európában (Privatisation Strategies in East-Central Europe), Közgazdasági Szemle 1991/12; Szelényi Iván: A magyar polgárosodás esélyei (The Possibilities of Embourgeoisment in Hungary), Hítel 1989/16; Alternative Futures for Eastern Europe, Eastern European Politics and Societies, Spring 1990; Jan Svejnar: A Framework for the Economic Transformation of Czechoslovakia, Eastern European Economics, Winter 1990–91; Tardos Márton: A tulajdon (Ownership), Közgazdasági Szemle 1988/12; The Soviet Economic Crisis: Steps to Avert Collapse, IIASA 1991; Jan Winiecki: The Inevitability of a Fall in Output in the Early Stages of Transition to the Market: Theoretical Underpinnings, Soviet Studies 1991/4.

(state) economy but also on the more market-friendly second (shadow) economy. The reviving trade unions should be counter-balanced by the government until the employers' organisations grow strong.

4. *Horror vacui*. The death of the old is not tantamount to the birth of the new: unless we are careful in sequencing the economic measures of the transition, illiberal wizards with their self-styled recipes can easily find their way into the "no more communism—not yet capitalism" void. We must be armed with detailed plans for pulling down the old house as well as for building the new one, or both might collapse on top of us. It is in this "transitional" stage of the transition that fatal mistakes can be committed. Until the rule of law (legal state) is asserted, it is the state that represents the law. While the market is not fully in place, the state has no alternative but to assist in privatisation. Until the private property becomes widespread, who else could launch marketization if not the state? As long as the market is incapable of stabilization, and so on...

5. *Cleaning up the mess*. Transformation does not start with a *tabula rasa*: the first priority is to clear away the physical, spiritual and moral heritage of communism as quickly as possible. The real work ("unmaking the omelette", "remaking the aquarium from the fish soup") can only begin afterwards. Over the past decades, things have fallen apart, and one needs detailed instructions to put them all together again, if that is even possible. Reconstruction will probably be facilitated by innovative experimentation. It is a unique historical trick of communism that even the measures designed to eliminate it bear its distinctive characteristics.

6. *The missing agent*. In the absence of a strong middle class (entrepreneurs, civil society, etc.), the state must act as its temporary substitute. At the same time, it has to produce and train the natural agents of capitalist development. This is not the first time this will happen in this region—as demonstrated by Gerschenkron and Polányi. Once again, a bourgeois revolution has to be launched with the subsequent approval of the emerging bourgeoisie. Indeed, the first thing we are building in our new house is the loft. To use the language of systems theory: the new economic order comes into being in an *autopoietic* way; that is, it creates the preconditions of its own genesis. We are not born to be entrepreneurs...

7. *Transition laboratory*. Postcommunist transition is an unprecedented venture in the history of mankind. Similar transformations are either removed from us by centuries (early capitalism), are anything but liberal (Southeast-Asia), or tend to be unsuccessful (Latin America). Undoubtedly, there have been more recent, more successful and more liberal examples which may be instructive for Eastern European transformers (the reconversion of modern war economies, the German social market economy, privatisation in the United Kingdom, etc.). However, their success has rested on institutional conditions mostly lacking in Eastern Europe. One thing is for sure: the means we employ today should be at least as statist as those of the late 1940s and early 1950s, when the German economy was stabilized

and freed from the legacy of Nazi rule. Until the appropriate techniques of transformation are found, there is a genuine need for macro-experimentation. At the same time, market simulation no longer works: there can be no more "Monopoly game" for adults played on a "plastic Wall Street." Instead, we have to choose between feasible capitalist arrangements, possibly even combining several of these, enriching them with new ideas. The only certain element in the transition is that every now and then the transformer will be confronted with uncertain developments.

8. *Time pressure.* The liberal expedition sets out at a time of an acute economic crisis. The distance between the point of departure and even a moderately liberal stage of the transformation is so long, and the expectations of the population are so high (and their limit of tolerance so low) that the transition may easily lose its original momentum. Step-by-step modification may be neutralized, whereas across-the-board changes are technically unworkable and politically risky. Given the interdependence and inertia of—and frictions between—the tasks related to transformation, if we want to prevent the process from collapsing, we must strive for an effective breakthrough right at the beginning. Therefore, we have to guarantee the critical mass of measures at the outset, and we must be adroit in selecting and ranking the subsequent steps in order to accelerate or at least sustain the pace of change. We are witnessing a new era of Sturm und Drang and we should not be ashamed of that.

9. *Technical, logical and political dilemmas.* There are numerous tasks that need to be performed simultaneously. (In the economy: marketization, privatisation, stabilization, modernization, opening up to the West, etc; in politics: democratisation, establishing the rule of law, reforming the public administration, institutionalizing social partnership, etc; in society: embourgeoisment, distributing the social costs of the transition, creating the "Capitalist Type of Man", etc.) By contrast, the working capacity of the decision-makers/transformers is limited. Moreover, the required tasks often support and, at the same time, counteract one another (some logically, some politically), and it is extremely difficult to compare the short- and long-term advantages and disadvantages of the qualitatively different processes. Thus, without a constant and occasionally daring rearrangement of priorities, the liberal transition will become too costly and painful. Similar to the truism that "once a leg has to be amputated, it should be done at once rather than bit by bit," shock therapy should only be applied only to certain stages and spheres of the transition.

10. *Transition is intervention.* A number of transformative measures require, almost automatically, government intervention in the economy. Resolute central guidance is part and parcel of processes such as macroeconomic stabilization, sectoral restructuring, comprehensive welfare reform, and liberalisation of foreign trade. A "stabilization surgery" cannot be executed by an "invisible hand." After all, there must be someone present to regulate wages, consolidate the currency, distribute subsidies, and adjust exchange rates, taxes and rates of interest. Let us not

forget, it was the party-state and not the state as such that became discredited this past half a century in Eastern Europe. There is a widespread desire for a strong but democratic government, administered by a highly qualified bureaucracy, which is capable of making limited and mostly temporary intervention in the economy. Such types of intervention create an appropriate environment for the market, without either replacing or distorting it. The history of capitalism cannot be started afresh: the free market tends to eliminate itself; it is better to have some minor intervention today than to have a major one tomorrow; the market should be protected from itself; the mixed economy was not born by accident. Besides, what has become of the conservative revolution of the 1970s and 1980s in the West?

After the first push

The arguments above have incorporated some of the stock expressions of leading Eastern European transformers. Without evaluating the arguments, it is clear that they portray the state as a "*chief architect*" of the transition. Furthermore, the state must be prepared to act as a construction manager, dispatcher, programmer, designer, laboratory assistant, tutor and arbitrator. *Horribile dictu*, it may even serve as a security guard (but not a night watchman!) and garbage collector. As far as the transformer is concerned, he supplies the government with pieces of (literally) constructive advice, and joins this crucial construction project primarily as a building engineer.

He speaks of tasks to be executed, programmes to be drawn up and deadlines to be met, and allows little time for observation and explanation. He is active, normative and programmatic. Yet, paradoxically, the uncertainties and theoretical dilemmas of the transition, as well as the general shortage of reliable information about the real processes of change, could just as reasonably argue not for but *against* state intervention.

Evidently, most of the roles listed above could be fulfilled modestly, with wise self-restraint and on a temporary basis. They could be performed in such a way that, wherever selection is possible, the less illiberal option is chosen. At this stage, let me voice some doubt. I think I have seen this cast of characters before. True, as a result of privatisation, the scope of government intervention is bound to decrease over the long run. In the short run, however, until the public sector starts shrinking, there may even be a considerable increase in state tutelage. Hence, it follows that the familiar dilemmas of reformism concerning the political base, timing, structuring, etc., of reform moves are unlikely to disappear for good from Eastern European economic thought. On the contrary, new dilemmas will probably appear. It is sufficient to think of the mixed results of shock therapy as applied to the issue of simultaneous liberalisation (stabilization) and democratisation.

There was a time when reform economists were justified in thinking that their stabilization and liberalisation proposals fell on deaf ears because the party-state allowed too little democracy in the economy. Now as transformers, they are about to learn, to their dismay, that crisis management, marketization and privatisation can be blocked in a parliamentary system as well, even though the new Social Contracts are more permissive than the old ones. The search for compromises through experimentation will therefore continue. True, from now on, the reconciliation of private property, market and parliamentary democracy (i.e. of historically more compatible concepts than "plan" and "market" in reformist thought) will be the aim of the trials and errors. Furthermore, even the compromise solutions are likely to come closer to the liberal ideals.

Let us return to the Hayekian dilemma of "how to arrive at a spontaneous order from an extremely non-spontaneous one, through evolution." After having absorbed the above ten arguments in favour of "sound (defensive) interventionism", one should be astonished if the metaphoric pendulum were to swing to the extremes of neoclassical liberalism. One would be equally surprised, if the economists firmly opposed to social engineering represented more than a negligible minority in Eastern Europe.

It is very telling that even the most devoted advocates of spontaneity (who are also the least limited in their political influence) such as the team of transformers working with the former Czechoslovak finance minister, Václav Klaus, act with a kind of "*delayed liberalism*" when cautiously defining the stages of "laying the foundations of capitalism". They assert that (a) spontaneous market selection is unsuitable for the rapid deregulation of an overregulated state economy; (b) resolute, so-called, "negative" reform measures should be taken by the government to accelerate deconstruction; (c) from among the components of monetarism, during the first stage of the transition, stress should be laid on restrictive rigour; (d) the initial steps of marketization and privatisation have to be taken under strict government control; (e) to serve the right goal—"market economy without adjectives"—one should not even shrink from collectivist solutions (see *kupon* privatisation); (f) the state should only withdraw, gradually, after the "*first push*" has been made and when the appropriate economic and legal infrastructure for market self-regulation has already been established.¹¹

All in all, then, Friedman before Hayek. Confronted with the above arguments, innocent Western observers ask: what should we consider the appropriate infrastructure? That of the mixed economy of Sweden, Germany, the United States or Japan? Or that of South Korea or Mexico? Eastern observers, who are usually less innocent, may raise, full of anxiety, the following questions: who will decide

¹¹ Václav Klaus: A Road to Market Economy...; Das kann man nicht mehr kontrollieren, Weltwoche 1991/9; V. Klaus & T. Jezek, Social Criticism, False Liberalism...; The Evolutionary Approach, Financial Times 1989/12/13.