and getting it going. All members of the old post-communist countries must realize, that political freedom and welfare as we understand it can only be achieved under market economy conditions, but that this requires total and unconditional engagement and the full commitment of each member of society.

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JÁNOS MÁTYÁS KOVÁCS*

How can the transition to a market economy be accelerated in Eastern Europe? The question raised by the editors of *Acta Oeconomica* seems to dominate post-communist economic thought today. (*Laski* 1991; *Portes* 1991; *Wiles* 1991) I would almost say "unfortunately", because I am afraid that—however justified it may be in daily politics—the anxious desire for a rapid transition may encourage the "transformer"[1] to lose sight of a) his original goal of assisting the emergence of a *liberal* economic order; b) the *logical* dilemmas/paradoxes inherent in this goal.

Two kinds of acceleration. Below I would like to emphasize several—not expressly political—difficulties concerning the pace of economic transformation. It is clear that in the field of politics, and by politics I mean current economic policy as well, the liberal transformer cannot help but lobby for faster institutional change while criticizing the "retarders" in the new governments. These government politicians tend, with some academic backing, to introduce deregulation by new state regulations, privatization by renationalization and decentralization by recentralization. Witnessing this dialectical twist, the liberal economist must work hard to determine whether what he sees is merely a provisional slow-down or a gradual reversal of the transition process. In recognizing the clear signs of the emergence of new authoritarian (clientelist, party-state) structures, it becomes difficult for him *not* to call for an acceleration of the transformation.

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"Money is Time (On the Pace of Post-Communist Transformation)"

[1]For a distinction between the terms "reformer" and "transformer", see *Kovács* 1991.

Paradoxically, the same liberal economist must also distance himself from those of his colleagues who advocate not deceleration, but another kind of acceleration, i.e., increasing the rate of economic growth rather than the scope of economic liberalization. In challenging such suggestions, he relies on, and justly so, similar arguments to those applied in the recurrent debates about "selective industrial policy", "export-led growth", "structural modernization", etc. from the last decades of the *ancien régime*. (Ironically, his counterparts are often the same people as before.) The essence of his arguments is the following: insisting on economic growth would most probably not only lead to recession (like in so many cases in the past), but it would also give the "visible hand" and the mighty lobbies in the state sector a golden opportunity for restoring their alliance which was damaged by the collapse of communism.

A new uskorenie? Unfortunately, the twin dangers of a slow-down of liberalization and old-new expansionism prompt even the most liberal transformers to *force* institutional change in the hope that it might reduce the power of the state bureaucracy and the new authoritarian-populist parties. It would, of course, be going too far to suggest that a new kind of *uskorenie* is being preached by liberal-minded economists in this part of Europe. They know from experience how much damage the forced acceleration of economic processes (the Great Turnarounds and Leaps Forward) caused in establishing and managing the old system. "Growth rush", "taut planning" and "administrative campaign" were indispensable terms for any serious inquiry into the behaviour of economic actors in a command economy. The word "acceleration" was compromised again—some years ago by Gorbachev, and more recently by Walesa. By using the term, both of them resorted to the old tactic of blurring the distinction between long-term institutional reform and short-term political struggle with their opponents.

Yet now, when—to quote Lenin—we could really make "two steps backward" to capitalism, many economists of liberal convictions tend to direct these steps with a *radical activism* that reminds the observer of the interventionist zeal of the proponents of market socialism, not to mention the earlier non-market socialists. *Dognat' i peregnat'* (catching-up and overcoming) capitalism again?

Undoubtedly, there is a whole series of legitimate arguments in favour of some, I would say, "sound" goverment interference in the post-communist economic system. It would be futile to dispute a theory of transition based on moderate, temporary, and permissive state involvement supporting and protecting liberalization. (Kovács 1992) Any liberal economic transformation left to the *ultima ratio* of spontaneous evolution may be derailed at the very outset if it begins under extremely illiberal conditions. This is why so many economists in Eastern Europe are seeking to accelerate institutional change at the beginning of the transition with the aim of arriving, as quickly as possible, at a point of no return—a point beyond which liberalization would prove irreversible, and spontaneous market processes would predominate. Similar to the former reform economists, they assume that this is a life-and-death race between those who build up the market and those who try to prevent the deconstruction of the state.

At this juncture, let me offer a counter-factual hypothesis, and suppose for a moment that the transformer does not have to face authoritarian temptations in politics. Would he still prescribe "injections" to the economy in labour to accelerate the birth of the market? Should he not fear the harmful side-effects of supportive intervention?

Time is short. My impression is that the imminent danger of new authoritarianism only reinforces the traditional interventionist attitudes of economists in Eastern Europe. (Kovács 1992) "We are under enormous time pressure", "You cannot cross an abyss in two leaps", "Amputation should be done all at once rather than bit by bit", "If we do not hurry, we can get stuck in a no more communism—not yet capitalism' vacuum"—journalistic truisms such as these have mushroomed in the literature of post-communist transition during the last three years. Fortunately, the haste is usually explained in a more sophisticated manner, casting the menace of authoritarianism (neo-communism, populism, Balkanization, etc.) as only one of the relevant causes.

For example, in arguing for shock treatment, its proponents often refer to the technical interdependence of moves towards liberalisation, the need for a ***tabula rasa*** and a critical mass of the initial transformative measures, the inertia of the decomposition of the Soviet-type system, and the neutralization of partial changes. (*Kornai* 1990; *Lipton and Sachs* 1990) Nevertheless, "time is short"-style justifications for quick, concentrated moves are not restricted to across-the-board operations. Moreover, one hears these arguments not only in Hungary, Poland, Romania or Russia—where liberal transformers are most frightened by the liaison of the old and the new authoritarian pressures—but also in Czecho-Slovakia, where the leading economists justified the initially influential role of their government in the process of liberalization by additional political considerations. For example, they defended their ***kupon*** privatization scheme, including its collectivist elements, by emphasizing its contribution to a ***rapid*** "production" of a new entrepreneurial middle class. (*Klaus and Jezek* 1991; *Klaus* 1991)

The "beauty" of slowness. Three years ago, when the Czech transformers discussed a "negative reform" that would deconstruct the old system without "engineering" the construction of the new one, I listened to their reasoning with great sympathy. Later, when they authorized their government to give the first strong push to the transformation and promised that it would withdraw from the day-to-day management of the transition soon thereafter, I began to doubt their allegedly neoliberal credentials. I asked myself: Would the Hungarian, Polish, etc. liberals urge the "building up" of the market and the "production" of entrepreneurs if they formed the next governments in their countries? Would they fall into a now-or-never panic, or would they sit back and relax after having taken the essential steps towards a negative reform—a reform, in the wake of which markets and entrepreneurs would already be able *to create themselves* without the help of the government?

To facilitate this relaxation and self-restraint in the future, I would like to suggest the following brief reflections on the *risks* of accelerating institutional change:

(1) Let me refer first to the conventional "*Austrian*"-type arguments about the market as a "discovery process", entrepreneurship as "creative destruction", the importance of "spontaneous human action", the role of uncertainty and the danger of "social engineering". One does not have to be a blind disciple of Mises, Hayek and Schumpeter, or their neo-Austrian followers, to agree with at least *part* of their theory about the evolutionary (organic) character and the natural slowness of market transformations.[2] Similarly, if we accept at least *part* of the historical observations made by Weber, Polányi or Hirschman on the long-run accumulation of the legal, anthropological, and ethical preconditions for modern market behaviour, and the short-run vulnerability of market institutions, we will measure time not in four-year election cycles but in decades, if not centuries. Also, we will think twice before launching large-scale marketisation campaigns or privatisation drives based on Grand Designs.

Time is money, but the reverse proposition is also true: money as a principal institution of a market economy needs time to develop. The emergence of a refined exchange system of a monetized economy with its complex organisations, including all the skills, habits and attitudes of the main economic actors, may last an entire historical period.

(2) Forcing liberalization is not simply futile but may also be counter-productive; it can lead to *"empty" institutions* which only simulate secular trends in economic history. Market institutions may prove empty not only because they were either designed in an uncoordinated fashion or were not fine-tuned, but also due to the sheer fact that they *were* designed. In other words, having been introduced from above and in advance, they may lack human input (interests, routines, moral values, etc.) from below. Entrepreneurs who do not take risks, business agreements which are not observed, dormant companies which serve tax evasion, stock exchanges in which no transactions are made—one can cite numerous recent examples from Eastern Europe to show how the quick introduction of capitalism can result in its similarly quick discrediting.

If I were an arch-libertarian, I would suspect a behind-the-scenes socialist conspiracy to effect premature liberalisation. Imagine our conspirators, intent on eliciting new government interference, saying: "Let's create a dysfunctional market economy with Wild-Eastern overtones in order to demonstrate the importance of state regulations to the public". Institutional change, like any investment, has to

[2] János Kornai is one of the few economists in Eastern Europe who has most recently stressed the need for an evolutionary approach to privatisation. At the same time, however, he has not ceased to recommend quick stabilisation and marketisation policies. (Cf. Kornai 1990; 1991)

be absorbed by the economy and the society, or it will be resisted as a foreign entity. Not only is public frustration with liberal transformations at stake but rapid liberalization may also create institutions, which themselves will impede further liberal change. (This might well be the case with the new regulatory bodies monitoring deregulation, and privatisation in Eastern Europe.) To counter-balance such organisations, you will probably have to reinforce old institutions or create new ones, thus never escaping the treadmill of interventionism.

(3) Accelerating post-communist transitions presupposes intelligent scenarios of liberalisation which include a well-defined sequencing of transformation, appropriate coordination of the simultaneous tasks (shock treatment), and above all a "*tachometer*" measuring the velocity of institutional change. Who should decide when the economy should shift gears? Which country should serve as a basis for comparison? Germany, Chile or South Korea?

I think it is not only the unprecedented nature of the post-communist transition that prevents the transformer from designing adequate programmes or the proper instruments to assess the tempo of their implementation. Here I would leave aside the technical and political obstacles to writing good, or even second-best, scenarios for the transformation. I will also disregard the legacy of the old regime and the intellectual history of the scenario writers themselves. Instead, by way of conclusion, I would like to point briefly to the *logical* dilemmas/paradoxes of liberalization.[3]

The general dilemma of political democratization versus economic liberalization is unfortunately all too familiar in Eastern Europe today. We are no longer surprised when democratically elected parliaments vote down, almost instinctively, radical proposals for liberal economic change. Another dilemma, that of interventionism (if the government intervenes, it endangers the new, liberal order; if not, it cannot dismantle the old one), has already been mentioned. The dilemma of simultaneous versus sequenced change (you can call it the shock-treatment paradox), however, requires further discussion. Most surveys of the recent shock experiments in our region emphasize exclusively the old issue of gradual versus comprehensive/immediate reform. Within this context, if you opt for step-by-step modification, the non-reformed parts of the system will offset your efforts; if you attempt across-the-board change, a) you cannot realize it technically, and b) you run up against the wall of political resistance.

These dilemmas would be more than sufficient to prevent the transformers from advocating acceleration. Nevertheless, simultaneous change hides another paradox—one I would call the paradox of interdependence. This stems from the fact that in the short run the parallel tasks of the economic transition (privatisation, marketisation, stabilization, restructuring, etc.) may not only presuppose or support but also exclude or counteract each other. To cite the one example that

[3] For more detail, see Kovács 1990.

has probably most embarassed the liberal economists in Eastern Europe recently: market reforms (e.g., price liberalization) have—to put it mildly—not always assisted privatization; at the same time, private property has sometimes contributed to the perpetuation of distorted markets.

Therefore, one cannot be confident whether accelerating one of the transformation processes will not slow down another. If we consider that the counteracting effects are usually stronger in other spheres (e.g., marketization and stabilization), and that the tasks affect each other in every imaginable way, a scholar or a politician urging the acceleration of institutional change has to be very courageous. He must be prepared to select which specific transformation moves should be speeded up, and to reassure his colleagues that such an acceleration will still leave something to be accelerated in the future.

P.S.

* To avoid any misunderstanding, my sceptical approach to accelerating institutional change does not imply tolerating restoration of the old regime. The *new* obstacles to liberalization must be removed even faster than the old ones.

* Similarly, it would be a mistake to reject any careful or balanced acceleration of *certain* sub-processes of the economic transition. My argument only challenges a comprehensive demand for acceleration.

* I am aware that substituting "limited liberalization" under decaying communism for "*self-limiting liberalization*" under slowly-emerging capitalism cannot be particularly appealing to liberal-minded politicians or their economic advisers. As a Hungarian citizen, I feel sorry for them. As an analyst of their transformation scenarios, however, I am curious to see if the new Eastern European liberals will be able to reconcile their scholarly and political agendas.

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First of all it seems to me necessary to clarify what is to be understood by the term "market economy". This is because some of the professional opinion is inclined to understand it as a synonym for the idea of an "entirely unrestricted free market". Consequently, such opinion regards any formation a non-market economy in which the relations of demand and supply are subject to individual, tangible influences—regardless of whether they stem from entrepreneurial institutions (large companies, banks) or from power structures (local authorities, state or international organizations). In my opinion a market economy is—at least in its form at the end of the 20th century—a system in which the first dimension is the network of sales relations, and the second dimension is the network of oligopolistic, monopolistic and economic political effects exercised on the mesh of the first dimension. Neither of them excludes the other one: what is more, they are preconditions of each other. Beside the productive forces, the division of labour, and the social structure of today, if attempts are made to eliminate this complementary relationship, the economy ceases to be functional. In other words, what I understand by the term "market economy" is a formation which is simultaneously a selling and buying automatism imbued with conscious interventions, and a manipulation system inseparably built into the multitude of spontaneous business transactions that take place on a highly detailed level.

Thus, taken in this sense, the building up of a market economy in Central East-Europe has indeed very serious obstacles. Let me describe three of them.

1. *The organic development of the Central-East European economies has been accompanied by permanent troubles and regular interruptions.* As a result of these both the structures and mechanisms, as well as the ways of behaviour, have become

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