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The political-economic transformations

in central and eastern Europe:

A tragic neglect of civil society

Michael Williams*

and

Geert Reuten**

* Economics Group
Faculty of Commerce and Administration
Victoria University of Wellington

** Faculty of Economics
University of Amsterdam
Netherlands

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Michael Williams & Geert Reuten

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The events of 1989-92 and the flood of advice from bourgeois economists is critically examined in the light of the Hegelian-Marxist theory of the mixed economy. The, sometimes catastrophic, failures of transition are laid at the door of the neglect of civil society.

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The political-economic transformations in central and eastern Europe: a tragic neglect of civil society

Introduction

The transformation in eastern and central Europe, 'the rectifying revolution ... is meant to make possible a return to constitutional democracy and a connection with developed capitalism' (Habermas 1990:5).² A Leningrad Council Member in March 1990 sought to proceed 'from communism, through socialism, to Reaganism' (quoted in Schwartz 1991:80). By the end of 1991, the Soviet state itself had ceased to exist. '[T]he dominant tendency is clearly towards the creation of economies in which most of the means of industrial, financial and commercial activity would be privatised and come under indigenous or foreign (...) ownership and control', and this 'is strongly encouraged by Western Governments, the International Monetary Fund, the World Bank, reactionary foundations, and also private capitalist institutions; ... strengthened by an array of pro-capitalist advisers' (Miliband 1991:376).

However, 'since mid-1991 the overall situation has gradually turned into a sombre picture of deep recession, coupled with rising unemployment, high inflation, falling standards of living and spreading political tensions' (Vacic, in Panic 1991a:(vii)).³ Problems have emerged with regard to privatising large State Owned Enterprises (SOEs), and the sequencing of microeconomic, macroeconomic, financial, political, institutional and social reform (Fischer and Gelb 1991:101-4). The key difficulty has been the failure - sometimes catastrophic - of an adequate civil society and legitimate state to emerge.

Most producer and retail prices (except sometimes for basic foodstuffs, and energy and other infrastructural intermediate goods) have been freed. Foreign trade has been at least partially deregulated (Hare 1991a:199). In June 1990 the decision was taken to use world prices and, from early 1991, convertible currencies for intra-CMEA (ComEcon) trade (Fieleke 1991). Following moves at a meeting in January 1990, ComEcon was dissolved in early 1991, and its markets have now virtually collapsed (Kornai 1992:8-9; Svejnar 1991:128-9). Land laws, enabling the repossession by private landlords of

agricultural land, have been enacted in Romania and Bulgaria (February 1991), Hungary (April 1991) and Czechoslovakia (May 1991) (Brooks *et al* 1991:150).

Privatisation measures have been set in train everywhere. This is perhaps the most complex and contentious issue of economic reform, requiring prior restructuring and debt adjustments so that future viability rather than inherited liabilities determine the sale value of SOEs (McKinnon 1992:35). The scale of the task is indicated by the existence of around 45,000 SOEs in Russia, and about 8,000 in Poland (Sachs 1992:46). At the end of 1990 Hungary proposed reducing state ownership of medium to large enterprises by 50% by 1993, on the basis of a law passed in 1988, and revised in 1989 to stop the abuses of 'spontaneous privatisation' by the *nomenklatura* (party appointed economic bureaucrats) (Johnson and Kroll 1991; Sachs 1991, 1992; Hare 1990:588). Management changes, restructuring and closures are in store for remaining SOEs. The first wave of the 'better' 10% of large firms went by early 1991 (Hare 1991a). Any enterprise or potential buyer can initiate a privatisation process, to which the State Property Agency is bound to respond promptly (Hare 1990:13-14; Borensztein and Kumar 1991:13-16).

A privatization bill passed in Poland in July 1990 enabled, in 1992, mass distribution of shares of 400 of the 5,000 large and medium sized SOEs through 20 new mutual funds (Sachs 1992:45-6; Svejnar 1991:134-5)⁴. More than 500,000 small enterprises (typically retail outlets) were formed between December 1989 and September 1991, leaving about 80% of retail stores in private hands (Wellisz 1991:216). Around 40,000 new private commercial and industrial companies emerged in 1990 and 1991 (*ibid*:44). The abuses of "spontaneous" or "*nomenklatura*" privatisation have also concerned the Polish authorities (*ibid*:215-6).

In the former USSR, Kazakhstan, Russia (in July 1991) and the former Union Parliaments have all passed - and to differing degrees have started to implement - privatisation laws (Clarke 1991:15). A multitude of decrees, etc. aimed at getting the programme under way in Russia were issued in December 1991, and January and June-August 1992. In the closing months of 1992, all Russian citizens are to receive a 10,000 ruble voucher to be exchanged for shares in 6,000 SOEs due to be privatised in 1993-4 (Evstratenko 1992). Mongolia has a plan to privatise 70% of the state-run economy via coupon distribution and auction, first of 2,000 service outlets and then, in October 1992, of larger SOEs (*Reuter*).

The German reunification legislation of June 1990 set up *Treuhandanstalt* to oversee the restructuring and privatisation of east German SOEs. By late 1991 about 1900 out of 8,000⁵ firms had been sold (Collier 1991:183-5). The new regime which emerged in Czechoslovakia in January 1991 after the "Velvet Revolution" of November 1989, set in train (before its disintegration in September 1992) a three phase programme: first 100,000 small firms to be auctioned in 1991-2; then a voucher scheme for large firms; and finally the transformation of key SOEs into joint-stock companies.

Laws to enable privatisation were also passed in Romania (November 1990), with provisions for a stock exchange to be operating by September 1991, and the objective of 50% of the equity value of SOEs in private hands by 1993. By December 1990 some 100,000 (mostly very) small businesses existed. Following legislation in April 1991, 2,500 joint ventures with foreign capital participation were established. Corporatisation of large SOEs is under way, with mass voucher distribution for 30% of SOEs (by value) supposed to have culminated in their tradability in November 1991 (Ben-Ner and Montias 1991:166-7). Bulgaria's privatisation can be dated from Decree 56 implemented at the start of 1989, which enabled restructuring of SOEs, and the emergence of private sector firms. In 1989, 342 corporations and 10,784 partnerships and one person firms emerged - though many of them were denigrated as "*nomenklatura* privatisations". Consequently the programme was halted in late 1990, pending the emergence of a satisfactory legal framework. (Jackson 1991:206-7) It is now recognised 'that there will be a prolonged interim period in which the state will continue to own a considerable part of the enterprise sector' (Bruno 1992:26).

Rapid 'shock therapy' (Herr and Westphal 1991:323-6) was initially favoured both by western commentators⁶ (IMF 1990:71; Carrington 1992) and domestic policy-makers. The IMF supported 'big-bang' approach to macroeconomic stabilisation was manifest most drastically first in Poland and Yugoslavia (1989-90), and subsequently in Bulgaria, Czechoslovakia and Romania (1991). Some lone voices are now expressing scepticism about the spontaneous evolution of a liberal capitalist order consequent on the ideological shift at the top (McKinnon 1992; Litwack 1991). The foremost liberal economic guru, Hayek, has persistently argued that state legislation of a social framework for the market must patiently await the spontaneous emergence of voluntary contracts within civil society (McKinnon 1992:33): a centrally planned transition is no more likely to work than a

centrally planned economy. Conversely, the acknowledged information imperfections of even a stable capitalist economy are likely to be endemic during transition when the institutions which manage them are barely beginning to evolve (Murrell 1991:62): transition to market coordination cannot be left to free market coordination either.

Signs of a more pragmatic gradualism are now beginning to appear (e.g., Fischer and Frenkel 1992; Fischer 1991), as well as recognition that facilitation of the emergence of appropriate social institutions is indispensable (Murrell 1991; Hare 1990). Examples abound of conflicts between political and economic rationality in the transition (Fischer and Gelb 1991; Dewatripont and Roland 1992). The overwhelming dominance of the value-form economy over the polity in the western mind-set is reflected in the extraordinarily cavalier fashion with which constitutional/political aspects of transition are dealt in many commentaries. For example, the option of having 'an explicit debate on integrating the two [German] constitutions' (as opposed to the imposition of the West's constitution on the East) was summarily dismissed as 'implying economic uncertainty' ... (Siebert 1991:3).

It seems that nothing remains of the initial promise of positive developments as 'we witness the prospects for democratic socialism marginalized by capitalist and chauvinist forces and sentiments in Europe and the USSR' and 'an authoritarian capitalism rushing in to pick up the pieces' (Miliband & Panitch 1991). The bloody unravelling of history in the former Yugoslavia and elsewhere⁷ makes this question all the more pressing. We may have crossed the threshold of one dominant logic⁸ being ousted by another, but we cannot predict with confidence the kind of order which will emerge. There is no existing theory of transition from a command-administrative communist to a capitalist bourgeois society, nor do we have much specifically relevant empirical evidence (IMF 1990:70).

We offer a political-economic theory of the 'mixed economy' as a promising way of grasping the transformations, and the logic which may establish the coherence of the Newly [re-]Emerging Bourgeois Societies (NEBS).

The Mixed Economy

The issues are fundamental ones of *free will* and *necessity*: the bourgeois state is concerned with the conditions of the social existence of the contradictions of economic

agents endowed with free will. The NEBS apparently have rather different 'political public spheres' (Habermas 1990:4; Clarke 1991:20, 21-2). On the one hand are the optimistic expectations of democratic freedom and economic affluence, based on a widespread naive (if understandable) faith in the ability of the market to replace an oppressive polity (see, for example, their account of a recent visit to the USSR in Panitch and Gidin 1991; and Flaherty 1991:153-62);⁹ on the other the realities of the bourgeois 'controlled process of legitimation' (Habermas 1990:13), elusive promise of the commodity, vagaries of the labour market, and general impersonal cruelty of the market system. At the core of the new reality lies a conflict between free economic agency and individual existence itself.

The 'new political economy' underpinning neo-liberalism appears to imply a related contradiction between individualistically conceived preferences and rational social choice. Our approach sees the roots of Arrow's famous 'paradox' in the endemic conflict between individual and social choices in bourgeois society. Amongst the relevant political philosophy literature, MacIntyre (1988) sees a two-fold problem with the liberal view of the individual's relationship to society. First, individuals are 'held to possess their identity and their essential human capacities apart from ... their membership in any particular social and political order' (p.210). Secondly, the market coordination of given individual preferences with each other and with technological production possibilities is taken to be an essentially amoral process - yet some individuals (those with less 'market power') will find themselves omitted, to a greater or lesser extent, from its reciprocity of benefit (pp. 215-6). We have here, then, the basis of a *legitimation* problem: why should such individuals subject themselves to any social order (and to the state as its agent) (MacIntyre 1988:306)?¹⁰ Legitimation is undoubtedly the crucial problem in the NEBS, with their immature political public spheres and under-developed civil societies.

If '[w]ants, satisfactions, and preferences never appear in human life as merely psychological, premoral items that are neutral between moral claims' (MacIntyre 1988:76), then legitimation problems in the mixed economy derive from the systemic basis of the particular norms embedded in it. When these involve principles subordinate to preferences in the liberal manner, some social method of satisfying the latter on the basis of mutuality of benefit is required. Though markets aggregate individual preferences in a way agnostic to any particular notion of the 'public good', like democratic political aggregation, they only work when there is considerable convergence in the preference orderings of the

individuals - they do not reconcile fundamental conflict; rather they are *premised* on a stable structure of behavioural norms, supported by a mature state.

One of the most outspoken Soviet advocates of liberal capitalism had no doubt what he was against: Marx's desire to 'subject the logic of the economy to morality' (Alexander Tsypko, quoted in Schwartz 1991:76). Since the bourgeois state tries to do just that (albeit in an alienated way), the contours of fundamental social system contradiction confronting the NEBS can be already glimpsed: rationality of social choice, conceived as the aggregation of individual preferences, and democracy are incompatible; liberalisation necessarily embodies certain principles; and such principles - which may well conflict sharply with those embedded in the inherited social structures of the NEBS¹¹ - must be potentially rationally legitimatable (Habermas, eg, 1975:43-44; 1990:15-16). The (in)famous radical-liberal 'Shmelev's law', that 'everything which is economically efficient is moral' (Nikolai Shmelev, quoted in Schwartz 1991:76), expresses concisely what is going wrong in the NEBS.

We start by presenting briefly the most abstract level (society, free will and right), which is then grounded in the more concrete determinations of the contradictions of the mixed economy, with its dialectic of free economic agency and individual existence. The contradictory mixed economy is conceived as a necessary moment of the interactions between economy and polity.¹² The aim is to illuminate the universal characteristics, the particularisation of which in space and time enables the grasp of particular concrete NEBS.

The Capitalist Economy and 'Competitive Society'

At the most abstract level, (human) Being is determined by both the communal material prerequisites, and natural necessities of existence; as well as by free will and by reflection upon, and the active becoming conscious of, that Being. These are necessarily social processes, the abstract unity of which may be termed 'sociation' (Reuten & Williams 1989:39, 56).

In the bourgeois epoch, because of the 'dissociation' of units of production from units of consumption, and from each other, the social determination of *material* existence is negated. With the NEBS we have a transition from an administrative and bureaucratic mode of *association*. The value-form determined capitalist economy transcends this

negation: (a dramatically wider range of) products as well as the activity of their creation (labour) take the form of value (the concrete expression of which is money). This of necessity gives rise to a number of further contradictions and their transcendence, as well as tendencies developing from them (Reuten & Williams 1989:chs 1-5). Production becomes production for money, production for money becomes accumulation of money, and of capital, and concomitantly consumption becomes consumption of commodities. The necessary concrete manifestation of a value-form determined system is primarily that it is a *monetary* economy (one in which financial asset markets dominate commodity and labour markets), and only secondarily that it is reproduced by market mechanisms (Herr and Westphal 1991:309-10).

What dogs the capitalist economy in its cyclical development is an actual or ever-present potential demand constraint. In the case of mature command-administrative systems, the endemic constraint is on the supply side - they are 'shortage' economies (Herr and Westphal 1991:312-6), either because of the self-sustaining inefficiencies of the command-administrative system (Kornai 1980, 1981; cf Lebowitz 1991; Ericson 1991), or because of endemic over-investment from the lack of constraint on the animal spirits of enterprise managers (Szego 1991:331-33). The different monetary systems are the other side of the same coin (Mckinnon 1991:107-10). The dual (central separate from credit-creating banks) banking system allows the capitalist central bank to keep money in short supply, in defence of its store of value function. In the command-administrative system the Bank aims to provide sufficient credit and money through the integrated banking system to enable the 'real' plan to be fulfilled - money is less scarce than real resources, and wealth therefore consists of hoarded commodities.¹³ In simplified, economic terms, the pressure for reform emerges as the limit of extensive accumulation (drawing all resources into economic activity) is reached, requiring adaptation to a regime of intensive accumulation (based upon an ever-increasing productivity of labour) (Kornai 1981:108, 114-7; 1980:235; cf Lebowitz 1991:354-5; Ericson 1991:21-6).

In terms of the anonymous, apparently immutable *structure* of the capitalist economy in abstraction, individuals are the mere bearers of abstract economic relations. Whilst the (lower strata of) workers in the NEBS prior to transition were also simply the bearers of economic relations, the *nomenklatura* which controlled the production and distribution of the surplus, was determined politically and administratively. A basis exists

in the former USSR (and elsewhere in eastern Europe - although see Bihari 1991:291-6 for a contrary view with respect to Hungary) for an indigenous capitalist class. 4% of the population (11M people, with minimum average incomes of 300 rubles per month) were estimated to hold almost 70% of the massive savings. Perhaps 2 or 3% of the workforce could feasibly buy into privatized enterprises, whilst a super-rich 0.7% core control 54% of savings (Flaherty 1991:136).

The capitalist economy transcends, through the value-form and its further determinations, the negation of one abstract moment of sociation - material existence - but in doing so it 'gains momentum' in opposition to the other - free will. Though the value-form structural determination of the economy contradicts free will as well as any *concrete* right, it cannot be indifferent to *abstract* rights to property and existence. Bourgeois *competitive society* transcends this contradiction. It is the (abstract) unity of structural economic determination and free will, within which individuals exist as the fragmented unity of bearers of economic relations together with free will and abstract right. Though justice is usually seen as serving the ends of property - typically 'unmodified by the necessities of human need' (MacIntyre 1988:307) - it is in the last resort through labour-power that the right to existence is grounded, however abstractly, in competitive society: labour is the income source of last resort. It is therefore with the adequacy of that grounding that we - and the NEBS - must be concerned.¹⁴

The State and the Economy: Civil Society

The value-form determined capitalist economy is, in itself, indifferent to the existence of *particular* individuals, and is characterised by dynamic tendencies which periodically undermine the conditions of their existence. Rights of property and existence are therefore in themselves contradictory. This contradiction is transcended in the doubling of competitive society into the *state* and *civil society*¹⁵ - the reappearance of the economy given the emergence of the state.

The struggle against authoritarian rule has been characterised (*inter alia* by Václav Havel) as driven by the desire to create a civil society. Whatever civil society may have re-emerged, for example in the former USSR in the Brezhnev era, entailed an implicit 'cooptive corporatist social contract', embodying a right to work, a social wage ('whose tenacious normative supports are woven deeply into the popular political consciousness')

through which was channelled one third of earned income, an official trade union veto over economic policy, stable prices and a degree of control over the pace of work (Flaherty 1991:146-50) - all in exchange for political passivity. Social stratification ran from *nomenklatura* through the privileged *intelligentsia* (educated *apparatchiki* - party functionaries - and the new meritocratic managers) and 'core' skilled industrial workers, to insecure 'peripheral' unskilled service sector and casual workers.

The whole was regulated by a system of central planning that had long since ceased to have any claim to conscious rational human control over material reproduction, exhibiting instead its own 'laws of motion', as alienating as those of the value-form dominated capitalist economy (Cox 1991:178-81; Ericson 1991). Civil society is then inhibited as people rely on nepotism and ethnic solidarity to survive. Long before the rectifying revolutions of 1989-90 the ideology of direct participatory democracy based on working class interests was eroded by bourgeois-type notions of representative democracy and of the state as the expression of general, national interests, manifest in the defence of only negative individual liberties. Nevertheless, even this diluted ideology has been the basis of a persisting commitment to a Rawlsian redistributive social justice which is under severe neo-liberal attack in the West (Collier 1991:185-6, on distributive justice in the two parts of Germany).

The bourgeois state is grounded first in its positing of right as *law* and, secondly, in its *legitimation* by the will of subjects. The state becomes a (more) concrete expression of abstract free will. The systemic necessity for a contradictory mixed economy is developed by reference to principles/moral norms *necessarily* embedded in bourgeois society (Habermas 1973:103-30), based on abstract free will and its (bourgeois) concretisation in the rights to property and existence. Congruent with liberal claims for the market, preferences embody no necessary overarching common denominator and may conflict. So the (liberal-democratic) state is concerned with principles for regulating the implementation of preferences, and for practically evaluating their relative priority (*ibid*:342).

Different principles/moral norms, inimicable to bourgeois development, may be embedded in the NEBS (cf Clarke 1991; Litwack 1991) which the rectifying revolution finds difficult to sweep aside. A Russian intellectual is quoted as saying 'The joy of freedom of speech has given way to the cacophony of Avon ads and MTV videos.'

(*Guardian Weekly* 2/8/92). A Russian Journalist, after anti-media demonstrations by old-Communist and even older Tsarist groups, wrote: 'The democrats have come, using the rational language of the West, especially as it applies to economics. But the majority of simple people [*Narod*] have no instrument to understand them with. ... [by] a "strong hand" ... the democrats mean a legal state. But for the people on the streets the very act of force is the only ... way in which a common purpose will be achieved' (*Komsomolskaya Pravda*, September 1992).

The contradictory 'separation-in-unity' of state and civil society, characteristic of advanced bourgeois society, exists at best in embryo in the NEBS. Markets and democratic political mechanisms are immature, legal and other social institutions are in a state of flux, accepted rational norms of behaviour are fragile, separation of the state's powers is at best formal, parliamentary and judicial actors are inexperienced, and trade unions are arms of political authority, rather than expressions of workers' self-organisation in civil society. The executive is thus inadequately separated from the legislature, but weakly accountable, and so lacks legitimacy (Kornai 1992:2-3, on Hungary; Litwack 1991).

The vacuum left by inadequate social-self-organisation and state legitimation is increasingly occupied by the brutal forces of populist fragmented warring ethnic and other ascription-determined groups. No social contract can emerge in the face of civil war. The catastrophic nationalistic strife in the former Yugoslavia (and the only somewhat less bloody events elsewhere) bear tragic witness to the dependence of bourgeois state and market economy on adequate legitimation, relatively "even" economic development and an emergent civil society.¹⁶

The construction of a *Wirtschaftsordnung* (legal and social economic order) of contract and company law, centralized banking system, definition of private property rights and delineation of the state from the economy are all high on the agenda of liberal reformers (Fischer and Gelb 1991:100-1; Litwack 1991). But the separation into market economy and polity is proceeding only with great difficulty. The legitimacy of the state and the development of civil society are frequently - and sometimes catastrophically - inadequate; whilst the autonomy of economic forces develops in the most anarchistic fashion. Even the narrow economic need to diffuse private property rights, to facilitate marketization and undermine vested bureaucratic power (Winiecki 1990), is proving

difficult to achieve. Ministries and state industries have already been massively privatising their own assets whilst retaining control in the hands of the *nomenklatura* - both as owners and as state regulators (Flaherty 1991:156ff).

The events of 1991-2 are the result of attempting a radical and rapid transformation of societies in which social debate has had an (however reified) *ethical* dimension, into a system based on the separation out of public moral issues from the, otherwise amoral, market, and their abstraction into the form of right implemented (in a most attenuated form) by the state. The 'large-scale problems confronting' the NEBS are clearly not 'such that they could be resolved without a mode of perception sensitive to normative demands, without the reintroduction of moral considerations' (Habermas 1990:19).

Conflict of Right and the Legitimation of the State

As the expression of a contradiction that cannot be resolved at the level of competitive society, the bourgeois state and the economy form a separation-in-unity, predicated upon the emergence of dissociation negating sociation. In the NEBS we have a process of transition between modes of association, which raises vital questions about the legitimation of the new states. Even Germany, where the emergent civil society in the east is (since the re-unification treaties of May and August 1990) being offered a 'ready made' bourgeois state from the west, is already facing acutely the question of '*how much strain* the economic system can be made to take in directions that might benefit social needs, to which the logic of corporate investment decisions is indifferent' (Habermas 1990:18). The NEBS more generally, born through the 'rational legitimacy of appeals to the sovereignty of the people and human rights' (Habermas 1990:7-8), culminating when 'the solid ground of legitimation collapsed' (p.20; but see Clarke 1991), cannot escape the questions thrown up by this liberal basis: the nature of political authority, and of practical reasoning and justice. (Cf MacIntyre 1988:211-2; North 1990:58.)

There are at least as many losers as gainers from the process of liberalisation. All the NEBS have experienced large negative GDP growth rates in 1990-1: former USSR 13% (1991, actual) (Fischer and Frenkel 1992:39); Russia 30% (1992, estimate)(Evstratenko 1992: 2); eastern Germany 30% (1990, actual) (Siebert 1991a:39); Czechoslovakia 16% (1991, estimate), Bulgaria 23% (1991, estimate), Hungary 8% (1991, estimate), Poland 12% (1991, actual), Romania 12% (1991, estimate) (Bruno 1992:11);

and Yugoslavia 3.2% (1990, actual) (Svejnar 1991:132n). This is optimistically termed a 'J-curve' effect

A leading Soviet monetarist economist (Shmeliov) identified 24% of the labour force in 1990 - 30 million workers - as 'potentially redundant'. 15% of the Soviet population (48 million people) in 1990 lived below the (extremely low) poverty line of 75 rubles per month (Lane 1990). Average consumption is reported to be back to 1950s levels. Unemployment in eastern Germany rose to 842,000 (8%) by May 1991 (Collier 1991:179). Together with 1.9M short-time workers (Siebert 1991a:28; Collier 1991:179) this amounted to 30% of the work force, expected by *Treuhandanstalt* to rise to 40-45% by early 1992 (*ibid*). At the same time net emigration rose from 10,000 per month in May/June to 28-31,000 in July to December 1990 (Siebert 1991:15).¹⁷ In May 1991 Hungary's long-standing excess of registered vacancies over unemployed (3,711 in January 1991) was reversed. By November the deficit was 338,264, and deteriorating (Kornai 1992:9). From near-zero in January 1990, Poland's unemployment rose to 7.1% by March 1991 (Svejnar 1991:129). The contribution of uneven economic development to social and political fragmentation is exemplified in the sharply higher unemployment rate in Slovakia (11+% and rising) than in the Czech Republic (4%) in late 1991 (Bruno 1992:21).

Massive structural subsidies to firms also indicate huge inefficiencies inherited by the NEBS: for example, in 1989, 15% of GDP in Bulgaria; 19% in Czechoslovakia; and 16% in Hungary (Kornai 1992:7). A dramatic indication of the productivity disparities was revealed during a visit by a western trade unionist in November 1990 to the AZLK car plant in Moscow, which employs 17,000 direct production workers and 8,000 administrative staff to build 400 'Moscvich' cars per day. The information that a typical UK plant produced three times as many cars with one third of the workforce was 'greeted with whistles of amazement'. (Even a better organised Lada factory at Togliatti only managed 3,000 cars per day from a workforce of 136,000.) (Panitch and Gidin 1991:ii; see also Kornai 1992:9-11). On average, output per worker in the mid 1970s in the USSR, Hungary, Poland and Yugoslavia was 29.5-34.3% below that in the USA, West Germany, France, Italy, the UK, Japan and Spain (Bergson 1987; but see Murrell 1991 for a sceptical note on the extent of social ownership-induced technical and allocative inefficiency and bureaucratic dynamic inefficiency).

Legitimation problems are worsening during the (indefinite) transition period, as opportunistic (entrepreneurial?¹⁸) elements seize their chances. The initial relaxing of economic controls to encourage the emergence of markets 'has resulted in a breakdown of the distribution system with a channelling of goods into free markets and black markets, rampant gangsterism, and dramatic polarization of new rich and poor' (Hare 1991:15; Kornai 1992:17); as well as the legalisation of previously criminal activities (Mandel 1991:204; Kornai 1992:11-12) and the transition of many former officials from *nomenklatura* to capitalist (Miliband 1991:380; Ben-Ner and Montias 1991:168-9; Hare 1991:10). In the face of shortage and administered prices, the emergence of a legal, semi-legal or illegal shadow economy outside the planning system has long been endemic, based on arbitrage (including via production) between the planned and the shadow system (Herr and Westphal 1991:315-6). It seems probable that up to 25% of former Soviet GNP for years went through the 'shadow economy' (Grossman 1977, 1979). Its expansion concomitant on liberalisation is indicated by the 40% of the positive balance of Hungary's current accounts in 1991 classified as 'net unrequited transfers' - that is, unattributable increments in individuals' hard currency accounts (Kornai 1992:12).

Legitimation problems worsen as the NEBS try to accelerate capitalist accumulation, and simultaneously to meet the newly awakened aspirations of their citizens (Bihari 1991:296-8, on Hungary; Bruno 1992:32), as manifest in the former USSR in the 1989-91 miners' strikes (Clarke 1991:7-13) and many other working-class struggles (Panitch and Gidin 1991; Schwartz 1991:82-85; Mandel 1991:103-23). Relaxing of political controls has also enabled people to vent their economic and political frustrations in radical, often violent, ethnic nationalism, populism and, at the margins, fascism (see, for example, Bihari 1991:290-1). The emerging civil societies are in 'organic crisis' (Gramsci), out of which the 'hegemonic project' will by no means necessarily be democratic, let alone socialist (Cox 1991:183). The civil wars in the former Yugoslavia and the nationalistic fragmentation elsewhere are clear manifestations of under-developed civil society and state legitimation. Civil war is precisely the breakdown of civil society.

Radical liberalism would minimise the state to that barely necessary to provide the institutional context for the market. Its tragic neglect of the imperative to facilitate the emergence and ensure the reproduction of civil society has led to awfully predictable consequences: the 'uncivil' society of warring ethnic, nationalist and religious bands.

Many of the popular organisations which precipitated the crises in eastern Europe, and certain elements in the USSR in the early stages of *perestroika* (Schwartz 1991:72-5), seeking an, albeit dramatically, reformed socialism, have been pushed aside in favour of more radical programmes of liberalisation (see Goldman 1990:12-13). It was inevitable that the huge percentage of the populations of these countries are having their economic, political and social aspirations dashed. The concrete conditions of existence of the contradictions of the emergent mixed economy are revealed in the actual and potential conflicts - sometimes conflagrations - of the rectifying revolutions.

In keeping with the liberal ideology of capitalism (MacIntyre 1988:335ff), the individual's place in bourgeois economic theory is only as rational economic person, determined crucially and solely as a preference ordering. Arrow's paradox suggests that the liberal ideal of the state as the site of bargaining between individuals with autonomous preferences is confronted with the necessity for an arena for debate as to the dominant conception of human good, and its implementation. This tension is particularly poignant for the NEBS, though there seems little doubt that it will typically be 'resolved' in favour of a most radical kind of liberalism, accompanied by some kind of right-wing authoritarianism (Panitch and Gidin 1991:44; Schwartz 1991:85-8), if not populist anarchy.

The Mixed Economy Again: Welfare Policy

With the doubling of competitive society into state and civil society, the opposition between Value-form and Right in bourgeois systems is not dissolved, rather they are concretely separated as constitutive moments of a contradictory separation-in-unity. The state is separate from the economy, but must intervene in it to maintain its existence and legitimation. Even the most minimalist state maintains an institutional framework of law, money, and social infrastructure within which economic forces can operate uninhibitedly.

The problem of the NEBS is not only to create, and then sustain, this separation, evolving structures which enable enhancement of the value-efficiency of the economy whilst gaining legitimation; but also, crucially, to ensure the emergence of civil society. Western commentators emphasise the need to establish and maintain separation even during transition: for example social separate from microeconomic/structural policy is said to be appropriate for ameliorating the human costs of transition (Siebert *et al* 1991:20; Kornai 1992:10-11). But 'the problem remains of achieving the social, political and

economic reintegration of the mass of the population, in a context in which the institutions through which this had been achieved ... have been uniformly discredited' (Clarke 1991:5).

In addition to the specification of the content of *negative* Right through the framework of law, the legitimization of the bourgeois state requires a further, *positive* specification of these rights - grounded in *welfare policy* and the institutions of civil society. The distinction is manifest in that between pure bourgeois equal opportunity for all to compete for all scarce use-values (including education, health care, housing etc), on the one hand, and equal rights to concrete material and social well-being, on the other (O'Connor 1984:214-5) - formal equality of *process* confronts concrete equity of *outcome*. For many citizens of the NEBS, the transition is marked by drastically deteriorating outcomes, with no discernible improvement in the processes of daily life. A strongly pro-market western economist has pointed out that 'East Germans gained access to the highly developed social security systems of the West so that real adjustment costs could be automatically cushioned by public transfers', adding approvingly that these factors 'imply a far greater freedom to conduct first-best economic policies' (Siebert *et al* 1991:9). More moderate commentators such as Kornai (1992:14-18) implicitly acknowledge that welfare expenditure is both necessary and contradictory for - and particularly during - transition, but still emphasise its negative 'efficiency' impact.

Whilst the right to existence¹⁹ is implicated in the perceived need to manage consent during transition by provision of a minimal 'safety-net' level of welfare as unemployment increases dramatically, overwhelming emphasis is placed on hardening budget constraints and allowing incentives to emerge in labour markets. The terms upon which the West is prepared to assist the transformation of the East do not constitute some welfare/greenish-capitalism-with-a-human-face, but radical liberal consumerist capitalism with (at best) a minimal safety-net (Flaherty 1991:156-7): '... Poland ought not to imitate the present American economic model which is polluted by "welfarism", but to pattern [its] economy on real free-competition market, the kind the United States had one hundred years ago' (Kowalik 1991:262). In the event Poland's economy was put in the hands of professional, radical-liberal orientated economists, and President Lech Walesa has been characterised by his own supporters as a 'Thatcherite' (p. 268). Former Czechoslovakia's Minister of Finance and now Prime Minister of the Czech Republic, V. Klaus is a self-proclaimed Friedmanite (Brada 1991:173).

Neo-liberal reformers in the former USSR and elsewhere are concerned to deconstruct the social welfare gains of the command-administrative system (Flaherty 1991:146-50). Many former Soviet and east European neo-liberals openly espouse an authoritarian state as the only mechanism capable of managing the violent manifestations of these contradictions during the processes of transition. Already, even where civil society has not collapsed completely, anti-democratic developments abound: executive powers are increased, trade union rights are curbed, military and police powers are increased (Miliband 1991:383-4).

The liberal ethic of 'to each according to their contribution to valorisation', does not contain within it what is required for the concrete implementation of a right to existence: 'to each in accordance with their need'. The market mediated value-form determined, economy does not throw up automatic answers to questions such as: where is the poverty line? what are indispensable benefits? what are appropriate working conditions? The state's deployment of use-value criteria then threatens the immutability and *self-evidence* of the economic criterium of value, impeding the separation of state and economy, and threatening both state legitimation and the autonomy of the economy.

The state has to manage the consent of the populace, whilst maintaining the consent of the vested economic powers. Sailing between the Charybdis of social unrest (or, indeed, collapse) and the Scylla of capital flight, it faces particular sets of vested economic interests in the NEBS. First, those of the party and economic bureaucracy, who face the loss of their material privileges, and of the very structures which afforded them these privileges - *nomenklatura*. The replacement of central commands and 'suggestions' by the 'parameters' of a liberalising regime will effectively remove their economic power base (Winiacki 1990), which will be taken over by new domestic and overseas capitalists.²⁰ Much 'primitive accumulation' will have been based on corruption and organised criminal activities, and the *modus operandi* will be the ruthless protection of local monopolies (Mandel 1991:95-103; Kowalik 1991:275).

Secondly, (but not independently) labour has vested interests, and is organising in a bewildering array of traditional and innovative ways both to further and to transform these (Clarke 1991:5-15). The rights and power of workers may have been mostly a matter of rhetoric in the communist regimes, but suppressed demands and aspirations will now burst forth (Miliband 1991:381). Finally, where state legitimacy and civil society fail completely

to emerge, political/economic stratification collapses to populist fragmentation into warring groups.

IMF prognostications to the contrary notwithstanding (for example Borensztein and Kumar 1991:2) liberalisation is not going to lead in the foreseeable future to living standards comparable to those in the West for the large majority of the peoples of eastern and central Europe. The loss of job security, some control over the pace and conditions of work and in particular of 'collective consumption' arrangements seems bound to generate social unrest. In Hungary the social wage amounted to 25-30% of real wages (Bihari 1991:280). The socialist state's commitment to the right to existence, was manifest (however inadequately) in free medical services and education, universal pensions, subsidised basic foodstuffs, nominally priced state housing and so on (Kornai 1992). The citizens of east Germany are losing guaranteed creche and nursery school facilities, open university access or jobs with apprenticeships and housing; and free dental, health and optical services, as well as subsidised 'dowry' loans, culture, sport and holidays (Goldman 1990:10-11). Similarly, Soviet core workers formerly enjoyed trade union provided cinemas, concert halls, libraries, clinics, sports facilities, summer camps, shops and preventative health care (Panitch and Gidin 1991:39-41). Past management of surplus labour by under- rather than un-employment in the NEBs has meant lack of adequate social provision for the unemployed. Such provision as labour markets are liberalised is not an optional extra which can await better times - lack of it has led to collapse of past reforms (for example in Hungary and Poland - Wolf 1991:52-3). Yet even the West's *Wirtschaftsordnung*, labour market regulations and microeconomic transfers, are often considered *too* interventionist to be allowed during transition (Siebert *et al* 1991:33-5).

From Welfare to Macro- and Microeconomic Policy

Welfare policy is inseparable from *economic policy* (cf O'Connor 1984:201-212, 220-7). Even the most minimal state has to have material existence. Since it is separated in principle from the processes of material reproduction located in the economy, the state must appropriate the necessary means, notably by taxation. The new problem for the NEBS as they privatise their revenue generating activities will be to discover that fiscal balance is sensitive to the value-efficiency of the economy. The transition to a value-form, monetary economy from a 'shortage' command-administrative system requires an

appropriately sequenced (McKinnon 1991:117-21) installation of a dual banking system, the implementation of a scarce money stance, and enterprise autonomy with hard budget constraints.²¹

Problems of fiscal balance are exacerbated in the initial stages of liberalisation (McKinnon 1991:110-13). The new Hungarian regime inherited government debt equivalent to 64% of GDP (1989), falling to 56.8% in 1990 (Hare 1991a:196). Expenditure on administration alone totalled 8.8% of GDP in 1989. The budget deficit in 1991 was 4.1% of GDP (Bruno 1992:11). In the former USSR, after falling in 1990, it was back up to 9% of GNP in 1991, rising to 20% by the end of the year (Fischer and Frenkel 1992:39). After the August 1991 aborted coup, Soviet printing presses were reported to be operating 4-shift continuous working, and new 200, 500 and 1,000, and, in October 1992, 10,000 ruble notes were introduced (Carrington 1992:24). The public sector deficit in eastern Germany (excluding any capital transfer from West Germany) was expected to rise from DM77B in 1990 to DM152B in 1991 (Siebert 1991a:45). As a percentage of GDP in 1991 deficits were estimated to be 7.2% for Poland, 2.1% for Czechoslovakia, 3.7% for Bulgaria and 3.0% for Romania (Bruno 1992:11).

This expenditure will not be easy to reduce, as communist bureaucracies are replaced with at least equally expensive professional political staffs; central planning with equally costly regulation (plus transitional bodies); the political repressive apparatuses with increased demands for orthodox police and legal services as crime and civil litigation escalate (Kornai 1992:5-6).

The change to a dual-banking system leads to the need for state fiscal management through taxation and state borrowing, not financed by the central bank. Concomitant on privatisation, the state has to adjust from obtaining revenues more or less directly from SOEs (with "tax" rates of 55-100%, and profit tax revenues of around 15-20% of GDP - Bruno 1992:19), to a variety of direct and indirect taxes (McKinnon 1991:113-4). In the transition, taxation regimes may be over-determined by the need to absorb any 'liquidity overhang' (estimated at 300-600 billion rubles in the former USSR - Panitch and Gidin 1991:52; about 50% of household deposits in early 1991 - Fischer and Gelb 1991:95)²² inherited from the production inefficiency of the previous regimes. The existing complex of differential (and largely discretionary - Litwack 1991:79-83) taxes on different kinds of enterprise has clearly to be simplified, standardised or removed (Hare 1991:9). It has been

estimated that the introduction of a VAT takes at least 3 years, *even with an existing system of adequately organised enterprise accounts* (Bruno 1992:21).

Further difficulty arises from the invisibility of private sector earnings in the expanding shadow economy, and the inertia of the game which citizens have had to play with a domineering state, in the shape of massive tax evasion (Kornai 1992:12-13). The lack of any widespread strongly felt civic duty to pay taxes is yet another aspect of an inadequate civil society and but weakly legitimated state (Litwack 1991:85-8; cf McKinnon 1992:34). As previous federal structures - including the USSR and Russia - disintegrate, fiscal management is bedeviled by the refusal of individual republics to remit revenues upwards, and their propensity to keep printing money.

NEB governments' tendency to continually revert to soft budget constraints is an aspect of the difficulty of establishing separation between politics and economics which is particularly damaging to the value-efficiency of the economy (McKinnon 1991:110-3). Even formalised and codified taxation would be an attenuation of individual property right. It makes clear that the state is dependent on the economy, and cannot abdicate interest in its functioning. This imperative is further concretised in the need to enhance the frameworks of money and monetary institutions and of social infrastructure. Because there are no abstract determinants of what are the elements 'needed' (nor of what profit is 'normal'), establishing this framework again puts use-value criteria on the social agenda, and so questions the required self-evidence of their subordination to value criteria.

The process of monetary unification between the two Germanies provides a clear case of the essentially political-economic nature of the determination of the general equivalent - the material expression of the value-form - and its close link to issues of legitimacy. A parity conversion of the GDR- to the D-Mark - opposed by many economists - was motivated by the threat to legitimacy which would have otherwise emerged from the revelation of the gap between wages in the two regions of the new economy (Collier 1991:181-3). 'Economic rationality' was allowed its say in the dramatically less favourable rate of 2:1 at which eastern financial assets and liabilities (apart from small savings) were to be convertible (Siebert, *et al* 1991:6-7). Neither conversion rate can be said to have been determined to any significant extent by market forces. (A rough and restricted 'purchasing power parity' calculation suggests the GDR-mark was worth only about 23 German Pfennigs - Siebert *et al*:29; immediately prior to

reunification the black-market rate in West Berlin was said to be 10:1 - Collier 1991:180). This is a question not of a trade-off, but of managing a *contradiction* between political and economic imperatives: it has been estimated that at parity exchange only about 8.2% of eastern German firms would be viable - and indeed after only 2 months of union, industrial production in the east had collapsed to less than 50% of its 1989 level (Collier 1991:183n7).

The weakness of civil society exacerbates macroeconomic problems of inflation and budget instability, which an unlegitimated executive will be reluctant to tackle with unpopular measures (Kornai 1992:4). It has also been argued that restructuring requires massive welfare compensation payments to maintain legitimacy (leading to estimated total restructuring costs in eastern German, for example, of the order of DM1,000B - Dewatripont and Roland 1992:299). Radical and rapid liberalisation has typically left a legacy of resurgent inflation, with the threat of hyper-inflation, re-emerging balance of payments problems, and worsening fiscal balance - all of which are strongly determined by the very sluggish supply side responses to the emerging price signals and market incentives, which are in turn due in large part to the lack of attention to the required emergence of legitimate state and functioning civil society (Bruno 1992).

Command-administrative systems typically will have had limited *macroeconomic policy* instruments (or expertise), confined to changes in the level or structure of prices, in the planned output mix, and in the nominal wage fund (Herr and Westphal 1991:314). Microeconomic liberalisation effectively deprives the authorities of their traditional administrative instruments for managing macroeconomic imbalance (Wolf 1991:54-5); and prior to it standard bourgeois macroeconomic stabilisation instruments may have perverse effects (Fischer and Gelb 1991:94-6).

Hyperinflation threatens virtually any of the post rectifying revolution nations. Even after two years of severe anti-inflationary curbs, Hungary's inflation was around 35% in 1992 (Kornai 1992:10). It had reached 100% in the former USSR by 1991 (Fischer and Frenkel 1992:39). Poland had an inflation rate of 20-40% *per month* in late 1989 (falling to 249% per annum in 1990)(Bruno 1992:11). In 1991 inflation was estimated at 54% in the former Czechoslovakia, 339% in Bulgaria and 223% in Romania (Bruno 1992:11).

The transformations will lead (after the initial surge following liberalisation of prices) to the prioritizing of price-stability as a macro-objective; and unemployment (or the evolution of labour market institutions to facilitate the restriction of wage increases in line with productivity increases) as the main instrument to achieve it. This demands consent management via welfare and labour-market policies, or repression, which will exacerbate fiscal pressures (Kornai 1992:10). Its neglect will exacerbate the likelihood and ferocity of inflationary and deflationary cumulative spirals. Those countries furthest down the road of liberalisation - Hungary and former Yugoslavia - have experienced stagflation and increasing indebtedness, and excess demand continues to be the major macro problem (Szego 1991:328-9; Kornai 1981:40; Woodward 1991). In Yugoslavia, forty years of 'liberal socialism' were dominated by cumulative depressive spirals, relieved only occasionally by inflationary booms as existing debt was temporarily accommodated by a relaxation in monetary conditions - Woodward 1991:336-46.

Not only will policy makers be unused to any dichotomy between macro and *microeconomic policy*, but there may well be unequal and unintended impacts of macroeconomic policy between and within sectors of the economy. Command-administrative microeconomic coordination has largely collapsed long before any decentralised system with its necessary concomitant civil society "culture" has had time to evolve or be constructed (Sachs 1992; Svejnar 1991:132-7). Government agencies have yet to make the transition from planning to regulation of industry (Hare 1990:588). To deal with this, and to facilitate the restructuring of capital and the disciplining of labour, the market incentives for which may be under-developed, the state may feel unable to give up microeconomic policy,²³ which then threatens both to erode the (legitimacy of) the emergent entrepreneur's monopoly of resource allocation decisions, and the hardness of budgets (cf Herr and Westphal 1991:316-21).

The development of separation between economy and polity may also be impeded: microeconomic policy may well act as a conduit by which the personal relations between the *ex-nomenklatura* who have transformed themselves into entrepreneurs, and those remaining in the state bureaucracy can be maintained. Conversely, an iron-handed imposition of hard budgets will generate economic collapse. Too rapid hardening of enterprise budget constraints often motivates self-consuming asset-stripping, disinvestment and increasing indebtedness - including unpaid taxes (amounting to more than the total

budget deficit for 1992 in Hungary)(Kornai 1992:7-8; Sachs 1992:43).²⁴ To characterise this as necessary Schumpeterian 'creative destruction' (Kornai 1992:8) is, in the face of widespread concomitant bloody social collapse, much too sanguine.

Advice from the West is typically couched in terms of removing any social constraints on business decision-making not embodied in western-style company law - so that compromise options such as giving ex-state industries to communities, providing temporary support or protection to them, or allowing effective workers' councils are strictly taboo. Even schemes for spreading share-holdings widely are viewed as inhibitions to the efficiency of capital-market monitoring of newly privatised firms (Siebert *et al* 1991:19; Borensztein & Kumar 1991:1-2; 5-8; 18). Liquidity overhang provides further motivation for privatisation via share flotation, inhibiting the feasibility of the use of more equitable methods such as widespread free distribution of shares or vouchers, which could have wealth effects exacerbating the overhang. On the other hand, the size of the SOEs in comparison to the ill-developed capital markets may require some such system to tap small private savings, as well as a very gradual process of privatisation, preceded by corporatisation (Fischer and Frenkel 1992).

Summary and Conclusion

The often catastrophic manifestations of the contradictions of the mixed economy facing the Newly Emerging Bourgeois Societies have been placed in the context of the state's upholding of the right to existence. Free will and Right can have no concrete existence within the structurally determined capitalist economy. Yet they are essential moments of human Being. Their only abstract existence in competitive society is transcended in the doubling of competitive society into the state and civil society. The everyday consciousness driving the NEBS - dominated by the promises of political freedom *and* consumerist affluence - is now beginning to grasp this darker side of bourgeois systems.

The bourgeois state defines and upholds right, but still only abstractly, as law, and so is legitimated by the will of citizens. It is clear that legitimation cannot be 'bought' so cheaply from the citizens of the NEBS, many of whom may have been involved in the more or less violent overthrow of regimes, precisely motivated by those regimes' loss of legitimacy. The concrete form of the state-economy relation is vulnerable to charges of

undermining the autonomy of the economy, and/or the legitimation of the state because of the conflicts of Right - especially that of existence right and property right.

The fragile mediation of the mixed economy is especially vulnerable during transition. To the - very large - disadvantaged groups of citizens in the NEBS it appears that the state is chronically partisan as between the different interest groups which concretely ground, through the different classes of competition subject, the emerging value-form determined economy. These states will have to cope ultimately both with their legitimation in the will of citizens, *and* with its impact upon the efficiency of the market reproduction of the capitalist economy.

Although we might expect (or hope) to see the emergence of new institutional forms to manage them, the NEBS cannot escape the contradictions of the mixed-economy. Catastrophic disintegration, most prominently of Yugoslavia (one of the more developed and 'liberal' NEBS), is an exact and chilling expression of the failure of a legitimate bourgeois state and a functioning civil society to emerge. Whether evolution or revolution will ever bring about a form of social organisation whose organic unity transcends the contradiction of value and use-value in the commodity, and of the coexistence of civil society and the state in separation-in-unity, but 'does not provide for self-realization and autonomy only at the expense of solidarity and justice' (Habermas 1990:10; cf Lebowitz 1991:357-64), is perhaps utopian speculation,²⁵ especially in the face of such widespread social collapse.

Three broad alternative scenarios may be summarised: radical, and probably rapid, liberalisation with an authoritarian and/or corporatist state, which could well be too unstable to prevent a slide into populism and fascism; continuation of an authoritarian/command-administrative system with some bureaucratic reform, and a subordinate role for markets; or democratization and socialist reform involving self-management at all levels, a democratization of the central planning apparatus and decentralization (Mandel 1991:113-18). This main contender for the 'neither market nor plan' third way shares with the 'New Classical' paradigm a silence on the fundamental significance of the problems of coordination (Woodward 1991; Estrin 1991:191-3). Whether worker-managed enterprises are left to decide only 'how' to produce, or 'what' as well, it seems likely that perverse incentive structures will mitigate against sufficient investment and innovation, and that in a free market they would be unable to compete in

terms of value-efficiency with the traditional capitalist corporation with its sophisticated structures for the real subordination of labour. The question of the phased introduction of regulated markets, and their compatibility with the democratic socialist project is over-due for reexamination (see, e.g., Bardhan and Roemer 1992).

One cannot feel optimistic that a more gradual pace of transformation would have allowed some kind of democratic socialism to emerge - the transition in Hungary has been going on, periodically, for at least ten, and possibly twenty years, during which time the economy has become steadily more enmeshed in the capitalist world economy. Market-using socialist alternatives may have missed their historic window of opportunity (Bihari 1991). What is more, although Marxists in the West and in the East have been amongst the most systematic critics of 'really existing socialism', forty or seventy years of experience of authoritarian states claiming allegiance to Marxist-Leninism, socialism and communism has not endeared such notions to their people. Ultimately socialists may be forced back to the old argument that you cannot make the silk purse of communism out of the pig's ear that capitalism has made of human nature - at least not until common ownership and self-management are indeed productively superior to capitalism (Lebowitz 1991:358-64; 364-9).

A more optimistic assessment of the possibility of a 'third-way' - ranging from some form of anarcho-syndicalism through market socialism to a dependent bureaucratic capitalism - emerging in the former USSR is given by Flaherty (1991:162-5) and Buzgalin and Kolganov (1991). This more hopeful prognosis is based upon the immense socio-political and technical obstacles to the rising of a neo-liberal phoenix from the ashes of *perestroika*, together with a developed Marxist critique of capitalism (the juxtapositions of over-work and unemployment, gross disparities in opportunities, private affluence and public squalor etc., all of which have been and are being exacerbated by the 'progress' of neo-liberal reforms). Such options lack a tradition of non-communist leftist organisation as a focus (Kowalik 1991:260); Woodward 1991; cf Lebowitz 1991).

The dynamics of world capitalism have levered open more and more relatively sheltered national economies, imposing upon them increasingly radical-liberal regimes of accumulation. It is not evident that the USA and its 'new world order', nor the IMF, OECD, G7, The World Bank etc. are going to permit the emergence of any viable socialist alternative in the East, having got such alternatives on the run in the West. 'Welfare'

capitalism is being deconstructed in Sweden and Holland as well as the UK and New Zealand; in West Germany as well as the USA (Cox 1991:188-190). In the east, aid and trade are being developed primarily with those countries prepared to toe the radical-liberal line - Hungary, Poland, Czechoslovakia, Bulgaria, Romania and, of course eastern Germany. It would indeed seem that 'the short-term prospects for a socialist reconstruction of Soviet society, ..., are slim' (Schwartz 1991:67).

The most realistic estimate of what course the emergence of a bourgeois former USSR will take seems to be that of Andrei Fadin, a leading Moscow light in the private enterprise 'cooperators' movement: he hopes it might develop like South Korea, but fears it might be more like Brazil (or, for a transitional period, Pinochet's Chile), and either way it is going to be characterised by radical regional 'uneven development' (Panitch and Gidin 1991:60-3).²⁶ A similar prognosis for Hungary is discussed in Bihari 1991 (pp. 286-91). In practice the most appropriate (and feasible) model might be that of the meso-economic, state-coordinated economy of the Japanese type (Flaherty 1991:153-62) (albeit probably with a more authoritarian state to coerce where consent management is perceived as too costly). What is captured by none of these metaphors is the sheer *size* of the project, which suggests that external aid is going to make but a marginal difference to the processes of real economic development - in exchange for a much more decisive effect pushing the form of that development in the radical liberal (although by no means necessarily democratic) capitalist direction, to the extent of possible economic and then social collapse. If a social-democratic mixed economy is to act as an analogy, then the Indian rather than the Swedish model seems more plausible (Buzgalin and Kolganov 1991:228; 230-3).

This paper has presented an understanding of the nature of the logic of the capitalist mixed economy as an epochally specific mode of (as)sociation, with a view to providing a conceptual framework for thinking critically about the political economy of the 'rectifying revolutions'. Having welcomed the acts of political liberation that have precipitated the downfall of authoritarian regimes, we must hope that the alternatives to populist anarchy are not confined to "barracks socialism" or the mono-dimensional commercialism and consumerism of the bourgeois system. The conflagrations consequent on break-neck liberalisation out-running the development of civil society and legitimate state light up the eastern horizons of bourgeois Europe with a grim and lurid glow.

Notes

1. Economics & Public Policy Groups, Victoria University of Wellington (New Zealand), and Faculty of Economics, University of Amsterdam (Netherlands), respectively. The order of authors' names has no significance. The theoretical core of this collectively written paper draws on our book *Value-Form and the State* (Reuten and Williams 1989).
2. The Director of the United Nations Economic Commission for Europe, A.M. Vacic, was equally convinced that 'an open pluralist market economy, based on the Rule of Law and a democratic political system, seems to be the common denominator for the system they aim for' (in Panic 1991a: (vii)).
3. See also Chancellor Kohl of Germany in October 1992: 'We know today that economic recovery will take longer and cost more in eastern Germany than we thought.' (*Reuter*)
4. 'The privatization process is ... to be privatized' Wellisz 1991: 216.
5. This number will also *grow* as massive SOEs are restructured into smaller, saleable units.
6. A leading and vocal advocate has been Professor Jerry Sachs, of Harvard, who is now preaching the same message to the Chinese (*AFP*, September 1992). But the consensus amongst US economists is widespread: in a survey of a stratified random sample of 1,350 academic, government and business economists, the statement 'As the USSR moves toward a market economy, a rapid and total reform (i.e., "going cold turkey") would result in a better outcome than a slow transition' received 'general agreement' from 40.1%, 'agreement with provisos' from 30.4% and 'general disagreement' from 27.2%', of the 34.4% who responded (Alston *et al* 1992: 204). For those who graduated in 1981-1990, the results are even more depressing: 54.1%, 24.4% and 21.5% respectively (p. 207).
7. Yugoslavia's collapse has been dated precisely at 5 am on 25/6/91 - when the Federal Army unconstitutionally attacked Slovenia - Magas 1992: 25. Other major trouble spots include conflicts between Russia and the Ukraine, (Russian-backed) Trans-Dnestr and (Romanian-backed) Moldova, Georgia and (Russian-backed) South Ossetia as well

- as Abkhazia, Armenia and Azerbaijan (in Nagorno-Karabakh), Armenia and Russia. Throughout the region there is a rising tide of anti-semitism, anti-muslim sentiments, muslim fundamentalism and xenophobia, whilst more than 25M ethnic Russians are resident - often having been born - outside the Russian Federation.
8. 'a set of structural discontinuities that create the conditions under which the unfolding of the new logic is possible' (Herr and Westphal 1991: 307-9). For an account of the 'logic' of command-administrative systems see Ericson 1991.
 9. The liberal Soviet economist Larisa Popova wrote in the *Moscow News*: 'Many people tend to regard the market the way they regarded Communism in the past, that is, like the genie in the lantern, who grants all your wishes' (quoted in *The Times Higher Education Supplement*, London 12.7.91: 15). And Polish sociologist, J. Szczpanski: 'A considerable number of Poles will consider it natural that Mazowiecki's government will bring us all that socialism promised. Only he will do it faster, more efficiently, and in greater quantities.' (quoted in Kowalik 1991: 267). And 'the population [of Hungary] ... expects the new system to fulfil the promises made, but not kept, by the old' (Kornai 1992: 16).
 10. Cf Habermas 1975: 96: 'Because the reproduction of class societies is based on the privileged appropriation of socially produced wealth, ... [they] must resolve the problem of distributing the surplus social product inequitably yet legitimately'.
 11. See, for example, the statement by the deputy head of the international committee of the Central Committee of the CP of the former USSR, Andrei Grachev: 'There is a strong spiritual basis in this society which does not accept the excesses of capitalism. This is the traditional collectivism which goes back before 1917.' (Quoted in Panitch and Gidin 1991: 54.)
 12. The argument below is a very brief summary of the more adequate outline in Reuten and Williams 1989: 36-49; and Parts Four and Five. The same theory of the mixed economy was deployed to argue for the "necessity of welfare policy" in Williams and Reuten 1991.
 13. Only Hungary had an effective two-tier system prior to 1989.

14. The will is abstract in being universal yet consisting of determinate aims (Hegel 1821: §§4, 5 & §34-5; cf Benhabib 1984). In competitive society, free will is as yet only abstract in that it is exercised in the deployment of income sources only as determined by the economic structure (Reuten & Williams 1989: ch. 6, section 2).
15. '[T]he public's capacity to organize itself' (Kornai 1992: 4), civil society is constituted of the market economy and its associated norms of behaviour as embodied more or less explicitly in social institutions, legally or informally enforced or facilitated by a legitimate state.
16. The neglect of this imperative in Bosnia-Herzegovina has led to the unravelling of history, not merely to 1939, or 1914, but to the ancient conflicts associated with the rise and fall of the Ottoman empire 600 years ago (Magas 1992).
17. In Germany these massive dislocations at least seem to be part of a genuine restructuring of employment: 1M new jobs were created in the eastern States in 1990-91, and about one third of a million easterners now commute to jobs in the west (Collier 1991: 179).
18. A leading New Zealand capitalist recently advised young would-be entrepreneurs to go to Russia precisely to take advantage of the legal and social chaos (*The Press* (Christchurch, NZ, 5/9/92).
19. Of the citizens of civil society - in the absence of which existence is either at the whim of an authoritarian state, or a matter of force of arms and membership of one's ascribed ethnic, religious or national group.
20. Some members of the *nomenklatura* will seek to maintain and enhance their personal positions within the state and/or to gain a new lease of life as corporate capitalists (Clarke 1991; Bihari 1991 294-6).
21. Of course radical liberalisation goes along with a 'New Classical' view of the macroeconomy: post-Keynesians are less convinced of the 'hardness' of the budget constraint facing capitalist firms, because of their view on the endogeneity of money supply via the credit system (see, e.g., Szego 1991: 329-30).
22. There may be no significant monetary overhang - provided monetary balances are evaluated at true shadow prices. Even their appearance will wither away as prices rise

- along with liberalisation (Portes and Winter 1978; Osband 1989; Fischer and Frenkel 1992: 39). A tradition of fiscal conservatism, pre-dating the Communist takeover, in Czechoslovakia has resulted in a negligible overhang (Brada 1991: 171).
23. For the extensive microeconomic and related reforms seen as necessary to enable the transformation of a command-administrative into a liberal-market system, see Hare 1991.
 24. See Hardy 1992 on the interdependence of hardening of enterprise budget constraints and the provision of an adequate social safety net.
 25. At least short of the achievement of economic abundance or of the reduction of "demand" to needs that are absolute, finite and saturable (Panic 1991: 11; Clarke 1991: 17-18).
 26. It is not uninteresting that *Voprosy Filosofi*, the chief Soviet philosophical journal, has recently serialised a translation of von Hayek's *Road to Serfdom* (Schwartz 1991: 76). It is obscenely ironic that the leading US Economics journal can publish a series of articles on the liberalisation of central and eastern Europe under the heading of 'The Road Back from Serfdom' (*AER, Papers & Proceedings*, May 1992: 1-54) - tell that to those re-fighting medieval battles in the former Yugoslavia!

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