

Has 'transition' in the former state socialist countries been a success? With hindsight, would a transformation of the economy, without a change in the political system, have secured economic prosperity?

State socialism is a form of economic organisation which is set against markets and private property. It believes that priorities should be decided by 'rational' politicians, not by the 'irrational' market, and as such is dependent on economic planning. Such regimes, where there is no duality of economy and polity nor a widespread 'civil society' of non-state groups, tend to be antidemocratic and governed on a permanent basis by the sole legal party, inevitably the communist party.

When assessing whether or not transition from state socialism to capitalism has been a success there are a number of points to consider. Firstly, there were severe weaknesses in the state socialist system which meant that some kind of economic reform was inevitable. The success could be judged against the counterfactual situation of a country which had continued after 1992 along the state socialist path. Secondly there is no 'blueprint' for transition against which to judge the success of transition economies; the deep economic problems faced early in the transition may have been temporary and normal for a country undergoing such changes. Thirdly there is the issue of which yardsticks should be used to measure success; whether rapid political liberalisation compensates for economic decline or vice versa. Finally there is no single answer to whether or not the transition has been a success, as certain countries have begun to prosper while others are still suffering enormous economic problems.

The state socialist system suffered a number of structural economic problems which suggest that economic reform was essential. In the early years of communism, the governments delivered very high growth rates, and claimed that they would soon begin to outstrip capitalist economies. Even in the 1980s these rates were often quite high, at 3-4% per annum or more. However, they were never high enough to meet the expectations fostered by the politicians, and the improved level of communications from the 1970s allowed Eastern Europe to see just how far they had fallen behind the West. As trust in the system waned, different departments of the state adopted a 'sinking ship' mentality, developing their own agendas and pursuing their own objectives rather than those of the national economic plan. The lack of a

freely functioning price system made the measurement of relative scarcities and the ranking of preferences very difficult, leading to both shortages and overstocking in different sectors. The sheer volume of economic data to be processed per year (over 10 quadrillion in the USSR) made the task of efficiently combining the factors of production a near-impossible one, and there was massive wastage of energy and other factors. The shift to a capital-intensive economy from a labour-intensive one had also caused problems, as the productivity of labour did not increase at the necessary rate. The system did not secure individual satisfaction as personal expectations were never fulfilled. Finally, the absence of transparent transactions led to corruption, and due to the shortages, black markets would develop where goods could find their own price. Socialism falsely assumed that the planners would be altruistic. The only countries to have stuck with such a system are North Korea and Cuba, both of which have had massive economic difficulties in the 1990s, and it was clear that markets did need to be introduced.

The plan used in Eastern Europe and the Soviet Union was based on 'big bang' theory. This idea, promoted by the IMF and (to a lesser degree) World Bank, suggested that a sudden change in the system would be the best tactic. The West promised aid to the post-communist states conditional on them following a strict programme of reform based on the introduction of the market. This was the result of a number of theories. Firstly, Machiavelli's injury-benefit rule suggests that 'injuries' should come all at the same time, while benefits should be granted little by little - a gradualist approach might have run the political risk of reversal. Secondly, the 'honeymoon effect' of newly-elected governments suggests that reforms should be implemented when governments are strongest, at the beginning of their term. Finally it was argued that non-market polyarchy was unsustainable, as the direct control of the economy led naturally to the erosion of democratic rule. In the event, the economic effects of this 'big bang' were disastrous. Industrial production fell considerably (e.g. 32.1% in Czechoslovakia 1991) and did agricultural production (to a lesser degree). Retail prices rose considerably, sometimes reaching hyper-inflation level such as 585% in Poland in 1990. This had been tamed by 1992, but inflation was still high at around 25% per annum. Unemployment increased dramatically, to 13.8% of the Polish labour force in 1992, as rust-belt industries such as metalworking and coalmining were closed down. Inequality rose greatly during this period, with poverty in Russia rising from 2% in 1987-8 to 44% in 1993-5. In Kyrgyzstan the situation was even more severe with 86% under the poverty line. Welfare states collapsed under their own weight; the numbers of unemployed or poor people were simply too high for the

benefits systems to cope with. This was not just an economic decline but a very severe depression. By 1998 Russia's GDP had fallen to 55% of its 1989 level, while Moldova's had fallen to 30%. These declines are completely unparalleled in industrial history, dwarfing the Great Depression in the USA or the economic problems of Russia during the Second World War. Only Poland and Slovenia had recovered to their 1989 levels.

It is hard to see any kind of success in these gloomy figures. In 1996 a World Bank report studied attitudes to the different regimes in Central and Eastern Europe and in Russia. In Central and Eastern Europe, the present political regime was preferred to the past one, but the past economic regime was preferred to the present one. However, in both cases people felt that the future regimes would be best of all. In Russia, by contrast, the past political and economic regimes were preferred, and there was little optimism about the future. It appears that to the citizens of Central and Eastern Europe, increased political freedom may have partly compensated for the economic problems of 'shock therapy', while in Russia this was definitely not the case.

There seems to be some relationship between political and economic transformation in Central and Eastern Europe and the former Soviet Union, with the only clear exceptions (China and Vietnam) being found outside this region. This may partly be because the old state apparatus was unsuitable to implement the policies of economic reform. It was not a bureaucracy in the Weberian sense of a rule-observing administration, but was in fact rule-creating and often rule-evading. This creates instability and scares off foreign investors, who do not know which agency to trust when many different agencies claim authority. Selection is often hampered by favouritism (often party-political) and nepotism, formal entrance requirements are frequently ignored and a career civil service has yet to be created.

While the theoretical model of change from capitalism to socialism has existed since the 19th century, until 1989 there was no similar theory of the reverse transition. This had to be created very quickly, largely by Western advisors with limited understanding of the political or economic situation in transition economies. There was a problem in moving from a system based on a clear model to one where no such model existed. Former state socialist countries had no choice but to copy the institutional framework of the highly industrialised Western nations without reference to the setbacks those states had found on their route to success.

Minxin Pei, in 'From Reform To Revolution', outlines three processes of regime transition. The premise Pei starts from is that transition from communism is qualitatively different from transition from authoritarianism, as it involves the dual process of democratisation and marketisation. These processes could happen sequentially (one before the other) or at the same time.

The 'evolutionary authoritarian route' has been the one adopted by China and Vietnam, with economic reforms occurring prior to (as yet unrealised) political liberalisation. Reformers pursuing this route view democratisation not only as unnecessary but as an obstacle to market reform. They point to the lack of favourable conditions in their countries for instituting democratic reform. Nguyen Van Linh of Vietnam summed this up in saying "It is not our policy to hasten renovation of the political system while preparations are still inadequate...any adventurous step in this direction would certainly lead to political instability". Reforms have shared three main similarities: gradualism, an agriculture-first approach and integration into the world economy. This has resulted in remarkable GDP growth, with China averaging 8.8% between 1979 and 1990. Such high levels of economic performance have produced a 'cushion effect' that countered any erosion of political legitimacy. While political repression remains strong, the increased civil and economic liberties engendered by the market make the cost of supporting such repression much higher. There may therefore be some grounds for optimistically assuming that political reforms will also occur in future.

The 'revolutionary double breakthrough route', common in the more developed post-communist states, is when political reforms occur prior to economic reforms. The first phase had its origins in society, taking between a few weeks (in Czechoslovakia) and seven years (in Russia), while the second phase was invariably implemented immediately after the fall of the regime. The first phase leads to a curious form of government - a non-market polyarchy. Democratic processes and institutions operate in an economic framework which is incapable of sustaining democratic politics. By 1993 it was clear that shock therapy in Russia at least had failed, with enormous economic, social and political problems. Yeltsin moved quickly to a 'soft-authoritarian' approach, giving himself overwhelming political power and banning many opposition parties and newspapers.

The 'single breakthrough short cut' appears to be the most attractive option, but in practice such a transition has never occurred. There are a number of reasons for this. Firstly, reformers need to form a powerful single-purpose alliance. Those governments which survived the first phase of the double breakthrough route tended to dissolve in the second. Secondly, transition depends on the stable balance of power within alliances. Simultaneous transition would be constantly shifting resources between groups in the alliance. It also needs cooperation and compromise between those forces within the regime and those opposing it, demanding a basic consensus on the goals and pace of reform. Paradoxically, the short cut is least practical where it is most promising - the weakness of regimes such as the Gorbachev one mean the opposition have little incentive to accommodate them. Whenever communist governments in Eastern Europe tried such an approach, they were swept from power as soon as Soviet military support was withdrawn.

The prospects for the various transition economies vary widely. China and Vietnam are likely to see increasing civil and economic freedom, with the possibility of political reform in the long term. Hungary, Poland, Slovenia and the Czech Republic have seen an irreversible change towards the market economy, and it appears that new governments have survived the setbacks. Others, such as Slovakia and Estonia, show much slower reform. In Croatia, Bulgaria and Romania, among many others, democratisation is less advanced and consolidation more problematic. Stagnation and frequent reversals are likely. Finally, places such as Kazakhstan and Uzbekistan, democratic reform has been very slow, and they seem most likely to follow the authoritarian routes of China and Vietnam.

The distinction between China, which followed the evolutionary authoritarian route, and Russia, which aimed for democratic double breakthrough, could not be more apparent. China has seen rapidly increasing standards of living, increasing civic and economic freedom, and improved its status as a major world power. Russia on the other hand has seen the collapse of the Soviet empire, immense social, economic and political problems including armed conflict, anarchy and a decline in standards of living, and a fall in international standing to the status of a developing country reliant on the IMF and World Bank for assistance.

It can therefore be argued that not only is it possible that economic reform without political reform could have secured prosperity, but it seems highly likely if we assume that Russia would respond in a similar fashion to China. This assumption is fraught with

difficulties, as China began from a far less developed position than Russia, so some of the effect may simply be a 'catch-up' one. However, it seems that had Russia gone down an evolutionary authoritarian path it would not have experienced the economic disaster of the last decade.

One final question remains, as to which system is best in establishing a democratic political system based on a market economy. Historical and geographical differences between those who went down the revolutionary double breakthrough route have resulted in wide variation, with some limited successes (such as Hungary, Czech Republic, Poland) and some disastrous failures (such as Russia). The Chinese route has shown some promise in transforming a huge developing communist state via peaceful means, and is similar to the route followed by Western Europe since the Industrial Revolution and dozens of developing countries since the Second World War. Successful examples of democratisation brighten the prospects for China, especially in developed coastal areas such as Shanghai. However, the critical test of the Chinese model is whether or not its future leaders will be able to redistribute the benefits of capitalism to its poorer agricultural interior, while holding on to peripheral regions with large ethnic minorities and the potential for nationalist revolution similar to that in the USSR. This question has not yet been answered.