INTRODUCTION

A process of democratic and economic transformation commenced in the countries of East Europe, forming the communist bloc, in the late 1980s. Democracy began to take roots in these erstwhile citadels of authoritarianism, and market economy began to assert itself in these economies, which were hitherto command economies. This is a universal phenomenon in the post-Cold war phase, with almost all the developing economies, including the erstwhile communist economies, engaged in removing obstacles to "market democracy",¹ that is, a society that has both a representative democracy and a free market economy. The path they have followed has been similar, with slight local variations.

The winds of change blew over these communist regimes so suddenly and effectively that it caught the rest of the world unaware. It was at the same time indicative of the interdependence of national and international factors. The communist regimes, especially in Central and Eastern Europe, had reached a level conducive to the emergence of pluralistic policies, measured in terms of socio-economic modernization.² But possibility of their systemic transformation was prevented by a domineering Soviet Union. The appearance of Mikhail Gorbachev on

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the scene changed matters. His policies of glasnost, perestroika, and "new thinking" slowed down the progress of the communist regimes from socialism to communism, providing a new impetus to the politico-economic transition in these regimes.

The transition in the erstwhile communist economies has been both political and economic. The imperatives of economic reform would have ultimately led to political democratization, but not necessarily system transformation, albeit "gradually through incremental changes". The severity of economic problems would have required drastic economic changes leading to painful consequences for large segments of the population, for example, soaring inflation, rising unemployment, declining real income, and greater pressure toward qualitative performance. Ofsetting the disturbing effects of economic reforms would have necessitated broad-based support ensuing from enhanced civil and political rights. In other words in the long run, participation and openness could not be limited to the economic sphere alone but had to be extended to the political realm as well.

SYSTEMIC CRISIS IN COMMUNISM

Rapid and far-reaching political changes took place in the communist countries in 1989. In both their causes and manifestations the politico-economic crises in these regimes displayed remarkable similarities. For one country after another, the ruling communist party was forced to renounce its monopoly in politics and society and negotiate the transition to substantially altered political and economic structures. Although the interdependence among these developments was striking,

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from a global perspective Central and East European countries and, in 1991, the Soviet Union were among the last hold-outs in the "third wave" of democratization that had started in the middle 1970s.5

The wave of change began in southern Europe in the mid-1970s when dictatorship in Greece, Portugal and Spain relinquished power. In 1983, a three-year-long military intervention ended in Turkey. In Africa and Latin America, too, authoritarian regimes veered towards politico-economic liberalization in order to gain internal support for policies necessitated by their deepening economic crisis. By the mid-1980s, all the South American military formations except those in Chile and Paraguay had retreated to the barracks, and by 1990 they too followed suit. In the 1980s, transition began in a number of Asian countries including South Korea, Pakistan, Philippines, Taiwan, Thailand and India (1991). At the end of the decade, the economic crisis led to the collapse of communist regimes and speeding up of economic liberalization in these economies.6

The spread of polyarchy in the late 1980s was of a different nature from the democratic shift in the 1970s and 1980s. In the latter case, the events themselves were relatively independent, at least among those countries where a shift from right-

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wmg, often military-based regimes occurred.\textsuperscript{7} The goals were limited to maintenance of power and the implementation of selective policies. In the setting of communist systems, however the aim was implementation of an alternative form of political, social and economic development, that is, a stateless and classless society. The failure of this effort was evident all over the communist world. Communism collapsed as the result, of long-term processes of regional change which came to fruition in the late 1980s. In Hungary and Poland the changes were evolutionary, whereas in the rigid, conservative regimes in Bulgaria, Czechoslovakia and East Germany evolutionary momentum was completely lacking. In these countries noted for elite intransigence, changes occurred rapidly. In Poland and Hungary, by contrast, factions within the communist parties opened up channels of communication with the opposition, thus facilitating a more gradual change.\textsuperscript{8}

During the 1980s the survival skills displayed by the Solidarity movement pointed to the growing weakness of the Polish United Workers' Party. The culmination came in early 1989, when the startling outcome of the Round Table negotiations and the stunning electoral success of Solidarity removed any doubts about the erosion of trust and public rejection of the Communist Party in Poland. In Hungary, the government's decision to dismantle the border fortifications with the West, known as the "Iron Curtain", set in motion unprecedented and unexpected developments. East German citizens on vacation in Hungary took the opportunity to voice their frustration with the state of affairs in the political and economic realm in their country and decided to migrate to West Germany. The mass exodus acted as


\textsuperscript{8} Welsh and Hancock, eds., n.4, p.18.
a catalyst for popular upsurge in GDR, then in Czechoslovakia, in Bulgaria and finally in Romania.\textsuperscript{9}

Various scholars have viewed differently the phenomenon of "how seemingly stable, enduring social systems fall and collapse".\textsuperscript{10} James N. Rosenau, for example, suggests five factors that contributed to the legitimacy crisis of authoritarian regimes.\textsuperscript{11} In addition to the Gorbachev factor, he cited "the impact of technology, the consequences of new interdependence issues, the advent of authority crisis, and the greater competence of sub-groups and citizens" as major contributory factors for changes in the communist regimes and elsewhere. J.F. Brown points to six interrelated causes that reflect some of these themes in the specific setting of Eastern Europe: forty years of failure, in particular economic failure, illegitimacy of communism, societal opposition, the loss of confidence in the ability to rule and the accompanying unwillingness to apply means to force to maintain rule, improvement in East-West relations, and finally, the Soviet factor.\textsuperscript{12}

By the end of the 1960s, the political situation in Eastern Europe seemed consolidated, both domestically and internationally. Kenneth Jowitt termed this "the inclusion phase".\textsuperscript{13} In contrast to the revolutionary and consolidated phase, "the

\begin{footnotesize}
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\item \textsuperscript{9} Welsh and Hancock, eds., n.4, p.19.
\item \textsuperscript{11} James N. Rosenau, "Relocation of Authority in a Shrinking World", \textit{Comparative Politics} (New York), vol.24, 1992, pp.253-72.
\end{itemize}
\end{footnotesize}
inclusion phase" was characterized by attempts by the party elite to expand the internal boundaries of the regime's political, productive and decision-making systems, to integrate itself from them. The demands for independent political participation and political articulation were suppressed.

In the late 1970s, the doctrine of developed socialism was adopted by communist regimes, though its adaptation to national conditions, intended mainly to undergrid existing policies, took diverse manifestations. However, some common underlying elements were obvious. The doctrine stressed the growing significance of the scientific-technological revolution for a productive national economy. Continuing development and perfection of socialist democracy were particularly stressed, and it was asserted that citizen participation in states and economic affairs was on the way to becoming the most distinctive feature of a life under socialism.14 But the paradox remained: how could a political system be democratic while still guaranteeing that the party would continue to guide, if not control, the governing of society.15

The question also arose of the legitimacy of communism in modern societies. According to Rosenau, the erosion of ideology increasingly forced the communist regimes to base their right to rule on socio-economic criteria. It became commonplace to explain past compliance of the people in the region with common in terms of the delivery of certain social and economic benefits, a sort of "social contract". But once the communist regimes linked their legitimacy to the provision of material

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14 Welsh and Hancock, eds., n.4, p.21.
resources, economic and political reforms became indispensable. If these reforms did not result in visible economic development, the dominant party risked population mistrust. 16

The worsening global economic conditions combined with the inability of the command economies to reform adequately, brought their economic difficulties to a new stage in the 1980s. The need to meet rising social and economic expectations contributed to economic and political liberalization in most of the communist countries, the efforts at legitimization shifting gradually from the economic to the political sphere. 17

Various scholars have acknowledged that "failure of most of the communist regimes to establish or retain political authority, that is, to win the acknowledgement of the populations that the regimes had a right to rule" was a primary cause of the collapse of communism. 18 The upheavals in Eastern Europe in the fall of 1989 were not the "mass action of unhappy people", 19 but rather stemmed from, the problems, divisions, irresolution, or other weaknesses of the regimes. 20 Authoritarian regimes base their power on the servitude and discipline of their

20 Ibid., pp.15-6.
officials, civilian and military, "the non-deviant actors of society"\textsuperscript{21}, but an ageing leadership proved incapable of responding to new and challenging demands. In the absence of institutionalized channels for appointing leaders to meet the needs of the times, gerontocratic leadership became a market feature of socialist societies. Thus, Todor Zhivkov had been at the helm of the Bulgarian Communist Party since 1954, Janos Kadar had been in the leadership position in Hungary since 1956, Nicolae Ceausescu had led the Romanian Workers Party since 1965, Gustav Husak had became First Secretary in Czechoslovakia in 1969, and Erich Honecker had succeeded Walter Ulbricht in 1971. In 1988, they still retained their posts.\textsuperscript{22}

Among the masses, the feelings of socio-economic deprivation and disillusionment with the communist system had deepened. Professional and social mobility was low with upward channels of mobility limited to selected elite. Self-recruitment, and not competition, became a distinctive feature of society. The living standard of the general population was characterized by relatively small income differentials. In addition, the assortment of goods available lacked quality, services and infrastructure were inadequate, and the masses had limited travel possibilities. The reduction of inequalities, which enabled the ruling elite to cling to power, also undermined their power base, since efficiency, innovation and development had been paralysed. The relative high levels of quality confined to a limited few contrasted sharply with the extreme inequality in the access to and use of power. Socialism,


\textsuperscript{22} Welsh and Hancock, eds., n.4, p.25.
thus, had achieved "an equality of injustice". For the general populace, a systemic change would have been welcome.

Galvanizing this desire for change, there came Mikhail Gorbachev's reform policies and the liberalization of monopoly of information. As satellites of the Soviet Union, the communist regimes of East Europe could not avoid being intensely influenced by Gorbachev's policies of perestroika, glasnost and "new thinking", which is expanded shortly after his ascent to power in 1985. Several East European leaders, with the exception of those in Hungary and Poland, were in a dilemma. They had an obligation to praise Soviet policy initiatives unquestionably but Gorbachev's policy propositions made them uncomfortable. They still cling to the perceptions of global relations as being heavily influenced by the dichotomy between communism and capitalism. Meanwhile, the people's access to information had been opened up, which helped in disseminating Gorbachev's policies. The monopoly of information was severely undermined in Poland, and was being gradually liberalized in Hungary. In GDR, since 1973, access to the West German media had been officially sanctioned. Daily broadcasts from West Germany provided the East German people with "a window through which they could witness the revolutionary changes taking place around them". In general, the greater the people's exposure to the East, the more difficult it became to ignore their wishes. The masses compared the social and economic achievement of this country with those of the West, and not with those of other socialist political systems.


GORBACHEV’S PERESTROIKA, GLASNOST, AND "NEW THINKING"

Gorbachev called for new thinking because, he said, "the present processes must not be promoted by the old formulae. New conclusions must be drawn that reflect today’s dialectics of life". 

Emphasizing fundamental revision of Marxist-Leninist doctrine applied to politico-economic and military areas, he proposed a sweeping change in the Soviet economy, polity and society as a whole and also advocated a series of nuclear and conventional disarmament proposals. The Marxist-Leninist philosophy is based upon the material basis of existence, but ironically, the major difficulties of the Soviet Union were economic. Gorbachev told the 27th Communist Party Congress:

Difficulties began to build up in the economy in the 1970s with the rates of economic growth declining visibly. As a result, the targets for economic development set in the Communist Party programme, and even the lower targets of the 9th and 10th five year plans were not attained. Neither did we manage to carry out the Soviet programme charted for this period. A lag ensued in the material base of science and education, health, protection, cultures and everyday sciences. Though the efforts have been made of late, we have not succeeded in fully remedying the situation. ...Acceleration of the country’s socio-economic development is the key to all our problems; immediate and long term, economic and social, political and ideological, internal and external.

Gorbachev went about methodically to overcome the systemic contradictions within the Soviet Union. Ideologically, he proposed the abandonment of the Marxist concept of "dictatorship of the proletariat". Politically, he emphasized the need to abolish the monopoly of the Communist Party over the State and society; to

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25 Speech by Mikhail Gorbachev at Bonn’s TownHall, Documents and Materials (Moscow, 1989), p.16.

introduce new election procedures with secret ballot for party posts, freedom of speech and expression; and freedom of religion. In the economic field, he favoured joint ventures with foreign capital, privatization of land and restructuring of State-owned industries, etc. Through perestroika, he wanted to rejuvenate the Soviet economy through the institution of market, individual initiative, private property, infusion of foreign capital and know-how, etc. Through glasnost, he wanted to provide freedom to individuals as well as nations, especially East European countries, to choose their own destiny.

Gorbachev emphasized the need to cut down the over stretched strategic commitments of the Soviet state, and rethink security and East-West relations. He repealed the "Brezhnev Doctrine", which stated that any internal or external threat to socialism was the responsibility of all socialist countries, and not just the domestic affair of any particular state in the socialist camp. He gave up the theory of "nuclear supremacy", denouncing nuclear deterrence as an immoral threat to all countries and people.27

Gorbachev urged a restructuring of inter-state relations, arguing that international security must be viewed from the perspective where all countries were interconnected by mutual dependence, calling for mutual cooperation. Cooperation was needed not only in the areas of economics and technology but in security as well. No state could ensure its own security by unilateral efforts and military defence. All countries, therefore, needed to join in an effort to seek solutions

through political means under the slogan of common security. Peaceful coexistence would no longer mean a specific form of anti-western struggle.\textsuperscript{28}

In Gorbachev's "new thinking" all countries needed to be assured of security on the basis of a new international order where such principles of international law as non-intervention and respect of sovereign rights were universally observed. The practical implementation of "common security" had to be sought within the framework of a "system of all-encompassing security", that is, a system which included all countries and extended to all spheres of mutual interest. In his view, "it is economic cooperation that provides solid ground on which to step up all other forms of cooperation". To achieve that, he said,

"...We will go all the way in dismantling the system of management by decentralization and democratizing our economy, making it more flexible, mobile and dynamic."\textsuperscript{29}

In sum, the implication of Gorbachev's reform policies were that the international system was getting restructured and the communist regimes needed to be democratized to meet the need of the times.

\section*{TRANSITION TO MARKET ECONOMY}

The demise of communism led to a total disorientation of communist economies. Output and employment, plummeted and inflation consequently rose sharply, exposing the state enterprises to brutal market forces and foreign competition. The strain of disintegrating national economies disrupted the economic ties between members of the communist bloc, built up over the past four decades.

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\item \textsuperscript{29} \textit{Documents and Materials}, n.27, p.16.
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Reduced deliveries of fuel and raw materials from Russia were damaging enough. Worsening was the blockade of the transport system (rail, road, oil pipelines, gas conduits). The economic hardship in turn aggravated social problems, shooting up crime rates, and worsening inter-state and ethnic relations. Crisis was particularly witnessed in South Ossetian Autonomous Oblast (1990-91) and Abkhazia (1992) in Georgia; in the conflict between Armenia and Azerbaijan over Nagorno-Karabakh; the regional ethnic conflicts in the Central Asian Republics with potential spill over effects; in Moldova, in the demand of Russian-speaking and Gagauz population for an autonomous Dniester Republic and autonomous Gagauz Oblast.³⁰

Externally, the collapse of CMEA trade and the elimination of subsidies shook up the Central and East European economies. Hungary’s share of CMEA export trade fell from 43 per cent of its total export trade before the transition to a mere 8 per cent in 1991; that of Poland from 41 per cent to 4 per cent; of Czechoslovakia from 60 per cent to 9 per cent; and that of Bulgaria from 69 per cent to 16 per cent.³¹ The termination by the former USSR of its subsides on exports of energy and raw materials to these economies cost trade loss of about $3.5 billion per year, or nearly equal to half the value of their expected trade deficit for 1991.³²

In general, command economies suffered from inherent systemic defects. These were institutional rigidities, bureaucratic controls, and the politico-ideological


objective of establishing the superiority of the socialist system over the capitalist system. The State monopolies in production and distribution sectors, which were characteristic of such economies, were operating against the interest of society at large. After recording some progress initially, most of these economies suffered from decline in growth rates, lagging technology, rising cost of production, imbalances in demand and supply, structural imbalance, excessive defence expenditure and growing inefficiency, which cumulatively resulted in a widening gap in standard of living with the developed capitalist countries.

Reforms in the command economies were carried out in the wake of the political revolution since 1989. The Stalinist socialist ideology was discarded in favour of a comprehensive economic reform programme. The whole effort was directed at creating conditions for integration with the world economy. Privatization of State properties, decentralization of decision-making in enterprises, removal of centralized governmental planning and restrictions in areas relating to production, distribution, pricing, removal of State control over foreign trade and exchange rates, elimination of subsidies, financial sector reforms, etc. formed part of the package.33 In general, the government’s role in economic development and management was curtailed in the interest of improving economic efficiency. Nevertheless, State-regulated economic transition was favoured in order to stabilize the national economy and to continue on-going reform in a controlled fashion.34

In the initial stages, the emphasis was on stabilizing the economy, with fiscal restraints and currency devaluation taking the leading role. Then the efforts shifted


to structural adjustments encompassing various micro-economic institutional reforms in order to remove inefficiencies and to ensure an adequate rate of growth.\textsuperscript{35} This is often called the stabilization-cum-structural adjustment package of the IMF and the World Bank. The stabilization exercise includes fiscal and monetary austerity aimed at restricting export as well as imports; other relative price shifts, such as changes in the agricultural terms of trade and reduction in the real wages; and income redistribution (typically unequalizing or regressive) in support of all the above. The structural adjustment involves the establishment and strengthening of market mechanism and institutions, that is, marketization of economies through reliance on market signals. In other words, it seeks structural reforms built around deregulation, import liberalization, marketization, and privatization of the national economy.\textsuperscript{36} Amongst these, the privatization programme was accorded the highest priority.

Price liberalization commenced with partial price liberalization. In the Baltic States (Estonia, Latvia and Lithuania), higher prices were maintained at first to protect local markets from the onslaught of buyers from the outside world.\textsuperscript{37} In former GDR, only citizens and authorized foreigners were allowed to buy a whole range of heavily subsidized and cheap goods and services, including children’s clothing, car parts, cameras, etc. Even the West Germans were forbidden to place


bulk orders for services, such as dry cleaning, shoe repair, and tailoring. Many key prices continued to be administered: bread, milk products, sausage, rent, medicines in Belarus; land, natural resources, electricity, heating in Estonia; household energy, municipal services in Latvia etc.

Foreign trade was also liberalized as part of structural adjustment. Import quotas were replaced with tariffs, and subsequently tariffs and export subsidies were reduced. External capital account was also liberalized to facilitate cross-border financial flows. In addition, home financial markets and labour markets were liberalized in order to equalize asset rates of return. In Latvia, for example, quotas were abolished except for a few export items and system of tariff was introduced for most industrial products but not for new materials. In Estonia, import tariffs were levied only on a few items considered luxuries, such as furs, cars, motor boats, etc. Agricultural products were not given any import protection. In Lithuania, administrative quotas and licensing requirements were abolished and replaced with tariffs. In Russia, the domestic trade was liberalized and the citizens were allowed to trade anywhere in whatever they wished, except for some specifically prohibited items. The trade policy reforms in the successor states of the former Soviet Union have been facing greater obstacles than other Central and East European countries, for reasons such as: the rudimentary character of market-driven institution-building - in those countries, the non-enforceability of major pillars of trade policy


40 Lainela, n.37, p.179.

reforms, and the pervasive rent-seeking behaviour using discretionary and discriminatory quantitative restrictions as a source of generating income.\textsuperscript{42}

In the financial sector, these republics abandoned the rouble zone and introduced their independent currencies. Armenia, with its weak and devastated economy, faced the biggest hurdle in this endeavour, with its citizens receiving the new currency lukewarmly.\textsuperscript{43} A banking sector reform was also introduced in most of these countries. In Ukraine, a two-tiered national banking system, based on the German model was created. In Kirgizia, the Central Bank was established as an autonomous institution exercising overall monetary control and supervision of the banking system. Kazakhstan, Uzbekistan, Tajikistan and Turkmenistan also witnessed similar developments. Their banking sector now comprised of, besides a Central Bank, the saving banks, the bank for foreign trade affairs, and commercial banks. The objectives of the banking sector were to stabilize national finance, to fight inflation, to improve regulation to develop free enterprises, and social protection of the poor.\textsuperscript{44} While the independence and statutes of the Central Bank in Poland would be comparable with western central banks,\textsuperscript{45} the Romanian monetary reforms have failed to find a consistent reform course due to political instability. The vicious spiral whereby the State banks finance the State-owned enterprises which


\textsuperscript{43} Armenia sets its exchange rate against one rouble as 100:1, but roubles were exchanged for \textit{drums} at 84:1. B. Plyshevskii, n.34, p.57.

\textsuperscript{44} A.Z. Khan, "Economic Implication of the Disintegration of the Soviet Union on the Situation in Central Asia", \textit{Strategic Studies} (Islamabad: The Institute of Strategic Studies, 1994), vol.16, no.3, pp.97-111.

\textsuperscript{45} Klaus Schrodev, "Banking Reform in East Central Europe", \textit{Intereconomics} (Hamburg), vol.30, no.5, July/August 1995, p.196.
adds new bad assets in the process, still persists in that country. In contrast, the
Czech and Slovak banking markets have undergone rapid development and registered
60 and 30 separate banks respectively. The semi-State banks there dominate the
picture as they lead the market and are exceeding their self-imposed targets of a 30
per cent market share on both loans and deposits. Hungary could be counted among
countries with improved financial discipline, greater security and growing
competition. Every second commercial bank there includes foreign shareholders,
which gives Hungary the highest foreign presence of all the former communist
countries.46

The former communist countries have also recognized the potential of foreign
direct investment (FDI) in speeding up or significantly easing their process of
transition to a market economy. The 45 years of alienation from the world economy
have left a deep gap between the post-communist countries and the industrialized
world. The transfer of modern technology and managerial model via FDI is an
important objective for those countries. Others include growth of output, benefits of
balance of payments, and increased market competition to make domestic monopolies
more effective.47

The privatization of State assets, that is, transferring ownership from the State
to individuals in order to eliminate systemic inefficiencies, was another important
component of the systemic transformation in the command economies. One method
adopted was spontaneous privatization, whereby the managers and workers of State-
owned enterprises transformed them or a part of them into privately owned

46 Gyorgy Osaki, "Recent Improvements in Hungarian Banking", Institute of

47 Arthur Dmochowski, "Foreign Direct Investment in Central Europe",
Intereconomics (Hamburg), vol.30, no.6, November/December 1995, p.305.
businesses. Hungary and Poland encouraged this mode, especially in the case of industrial enterprises and the retail trade and services.\(^{48}\) With this kind of privatization, in the early 1980s the locus of decision-making was substantially decentralized to the level of the firm, the property rights to the firm's assets being vaguely vested in the hands of the Workers' Councils and the Trade Unions.\(^{49}\)

*Employee management buy-out* was a method in Hungary, Poland and Lithuania. In Hungary, the process was regulated and managed by the State Property Agency. In Poland, a process termed "privatization through liquidation" was adopted. It involved the dissolution of the State-owned enterprises and subsequent leasing or instalment of small and medium-sized manufacturing and distribution companies. In Lithuania, this method was also adopted for the sale of small and medium-sized industries.

Another method of privatization was *individual asset sales*, commonly employed in the Western economies, which was adopted by Poland and former GDR. In this method, the enterprises are sold directly to private investors after hard bargaining. As an intermediate step, the enterprises were usually converted into joint-stock company with the state treasury holding the entire stock. A board of supervisors would be appointed by the States to oversee the management of the enterprises.

*Mass privatisation* was another method, adopted by all the communist regimes except Hungary, and former GDR, in which shares in a large number of businesses

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were offered to the general public.\textsuperscript{50} Vouchers were distributed to the public, which were redeemable as shares in state-owned enterprises through some form of auction. The objectives were: to involve the general public in the process of economic transformation; to generate distributive equity; and to strengthen market forces and competition in the economy.\textsuperscript{51} In Czech and Slovak Republics, both the State-owned enterprises and competitive bidders for them were supposed to prepare their own privatization proposals guided by the their Finance Minister and reviewed by the Ministries of Privatization. The proposal had to contain a scheme for voucher distribution ranging from 20 per cent to 97 per cent of the shares to be allocated.\textsuperscript{52} In Poland, the voucher holders were required to convert their vouchers into financial holdings in investment management funds which in turn would own an interest in and manage a portfolio of State-owned enterprises. In Ukraine, about 20,000 small firms, 8,000 medium and large-scale firms and 14,600 unfinished construction projects were privatized through the auction of vouchers. In Lithuania, vouchers were distributed to all citizens, which were used in buying houses, and shares in companies. In Russia, the process of "voucherization" was accompanied by the formation of about 550 check investment funds, which collected about one-sixth of all the privatization vouchers. Out of an estimated 14,000 State enterprises, 11,000 had completed the process of distribution of vouchers. Private organizations either purchased vouchers on the market or signed agreement with owners of vouchers to


\textsuperscript{52} 3 per cent of the shares was reserved in all cases for the Restitution Fund.
invest them in enterprises or in some other form of property. In Georgia, voucher privatization was seen as a manifestation of the principles of social justice.\(^{53}\)

Privatization was initiated with *small-scale privatization*, creating the climate for market economy. Retail shops, commercial establishments wholesaler dealerships, etc. were given up to private ownership in order to meet pent-up demand for consumer goods and services. This move demonstrated that privatization and a market economy could improve the quality of life materially. It also provided significant employment opportunities, as the retail and service sectors expanded, absorbing the lay-offs in large State-owned enterprises.\(^{54}\)

About 70 percent of 5 stores, small shops, restaurants, cafes, repair shops and other consumer service enterprises in Russia, which had been under the control of city governments, were privatized.\(^{55}\) In the Baltic states, about 80 to 90 percent of small-scale state-owned companies were sold to the management and employees.

Privatization of large enterprises proceeded much more slowly than the privatization of the small-scale sector. In Russia, the preferred method is commercial context" in which bidders had to submit proposals with a commitment to adhere to certain conditions, for example, not to change the profile of activities of the enterprises. Buyers were, however, not easily forthcoming to buy up these enterprises.


\(^{54}\) Liberman and Mejstrila, n.51, p.566.

\(^{55}\) Slider, n.41, pp.36-8.
AN ASSESSMENT

At the time when communism was discarded as a political and economic philosophy in the countries of Eastern Europe, every one of them had pervasively regulated domestic consumer markets which were almost entirely isolated from world markets. When they decided to take to market economy, price liberalization was among the first steps they took to accompany trade policy reform.\(^56\) Simultaneous implementation of stabilization measures and trade policy reforms was also intended to signal the credibility and commitment of governments to enforce strong reform measures. From the view of plain economics, price liberalization is the shortest route to expose enterprises to world market prices and to take account of the depreciation of the real capital stock in import-competing industries.\(^57\) Success of different degrees was achieved in the various aspects of market reform programme, such as, improving price stability and severing export trade from the traditional and economically irrational CMEA structures. The centralized mono-bank system was abolished and two-tiered banking system introduced. The establishment of stock exchange was another landmark measure. The state banks and industrial enterprises also commenced the issue of a wide range of securities in order to obtain long-term risk capital. For the first time, investors have a realistic choice of investments, unlike the state-owned savings banks of earlier years which offered only modest interest rates. In sum, the governments moved a long way toward austerity under the


\(^{57}\) Langhammer, n.42, p.77.
combined influence of external disequilibrium, pressure from Western aid donors, and ideological commitment to rapid liberalization.\(^{58}\)

The speed of achievement of economic reform, however, has varied, the slow down mainly being on account of economic stagnation and considerable political opposition to reforms. In Ukraine, the privatization process was halted after the initial steps, the focus changing to control of inflation, attending to energy shortage, and on account of political instability after the government resigned.\(^{59}\) In Hungary, the political squabbling around privatization led to the forced resignation of the Government Commissioner for Privatization in January 1995. On 1 March 1995, a ministerial post was created to guide the privatization machinery. The hard core of the economy was still state-owned and pressure to denationalize was mounting.\(^{60}\)

In many formerly communist countries, the regulatory framework was not conducive to foreign investment. Ambiguity over property rights further deterred the economic transition (for example, the restitution law in Czech and Slovak Republics, Poland, Hungary, Russia, etc.). The public sector continued to dominate the economy in some of these countries. Regional conflicts such as those in Armenia and Azerbaijan, Georgia, Russia, Moldova, Central Asian Republics, etc. and criminal uprising were other stumbling-blocks. In Georgia, for example, there were full-scale

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military operations in Abkhazeti (1992-93), and a serious upsurge in criminal behaviour. Prisoners had been amnestied in winter 1992. These elements, plus the subsequent arming of a large section of the population in the civil war led to an upsurge in criminality.61

Overall, however, the former communist regimes have crossed the initial learning curve. The social and political environment also is conducive to economic transition. The primary requirements for economic reforms are macro-economic and facilitating policies and public enterprises reform. It remains a precondition, of course, that the political structures in these countries survive the realignments of sectoral interests.

GLOBALIZATION OF ECONOMY: EMERGING TREND

The concept of globalization in the contemporary world order has assumed new connotations primarily because of the changed international balance of forces. The cessation of the confrontation between the ideologies and the systems at the end of the 1980s, with the final disintegration of the Soviet Union, has been viewed as the triumph of global capitalism and liberalism. Terming it as ‘end of history’, Francis Fukuyama says:62

What we may be witnessing is not just the end of Cold War, or the passing of a particular period of post-war history, but the end of history as such. That is, the end point of mankind’s ideological evolution and the universalization of western liberal democracy as the final form of human government.


Not everyone agrees with this perception. In the view of some, this cessation has launched new conflicts. As Joseph S. Nye Jr. argues,

There is no single competition to liberal capitalism as over-reaching ideology. Rather than the end of history, the post cold war is witnessing a return of history in the diversity of sources of international conflicts... 63

One source of conflict is that the globalization of democracy as a more legitimate representative form of government has not been accompanied by genuine efforts to tackle the problems of democracy. The demise of the communist system has made the advocates of market and Western model of democracy euphoric. They have not looked critically at the process of political and economic liberalization in the peripheries. Both economy and politics being narrowly defined in the existing discourse of democracy, it has become just a formal political arrangement, with its most important function to ensure regular supposedly legitimate reproduction of the existing system. Factors considered extraneous to the theory and practice of democracy, such as economic inequality between citizens, which plays a dominant role in the very process of politics; the deprivation of actors; the immorality of the professionals who constitute an unquestioned elite in the management of social system; etc. have not been given systematic consideration in the agenda of democratization. At the moment, democracy is being portrayed as a natural ally of market economy. Markets are being promoted as holding the panacea to all human ills, but their advocates, in their zealous drive to make government market-friendly, forget the challenge of making markets ‘people friendly’. 64

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view, our current version of market institutions jeopardizes freedom on both a large and small scale, and even lacks articulation of an "alternative institutional definition of market".65

As a result, "the universalization of western liberal democracy as the final form of human government" has failed to take a final shape. The return of communism in Eastern Europe and the republics of erstwhile Soviet Union is indicative of democracy not being a panacea. To illustrate, Ukraine provides an extreme example where orthodox/original communists have come to power in successive elections after breaking away from the former Soviet Union. The Ukrainian Communist party and its allies have won 118 seats in April 1994 as against the reformists who won a mere 35 seats. In Poland, the groupings of former communists, the Democratic Left Alliance (SLD) and the Polish Peasant Party (PSL) have won 173 seats and 128 seats out of 400 seats, respectively in September 1994. In Hungary, the Hungarian Socialist Party (MSZP) along with the Liberal Alliance of Free Democrats won 209 seats out of 386 seats in May 1994. In Russia, the Communist Party of Russian Federation (CPRF) has gained leading position in the elections to the Duma held in December 1995.66 The communism that is making its reappearance has toned down vehement opposition to capitalism and has become more accommodative. Almost all the ardent advocates of communism have more or less accepted the communist, socialist, and social democratic traditions of the working class movement; they have repudiated the dictatorship of the proletariat, that


is, both the Stalinist and Leninist version of state socialism. They have accepted a constitutional democratic state, political pluralism and market economy with social welfare policies and mixed ownership operating under parliamentary control.

The "universalization of western liberal democracy" may not have come, but global capitalism as the only system which can create wealth and has the capacity to innovate has been rather universally accepted. It is also argued that competition between communism and capitalism has given place to economic competition between two forms of capitalism, that is, individualistic capitalism and communitarian capitalism. In the view of George C. Lodge,

The individualization, Anglo-Saxon, British-American form of capitalism is going to face off against the communitarian German and Japanese variant of capitalism. The "I" of America or the United Kingdom versus "Das Volk" and Japan Inc.67

Individualistic capitalism is individual-oriented, profit-maximizing. Its main features are large wage differentials, individual responsibility for skills, easy-to-fire-easy-to-quit, hostile mergers and take-overs. It believes in consumer economics. The firms are expected to maximize profit and customer and employee relations are merely a means of achieving higher profits for the shareholders. Wages are pulled down to increase profits. Workers in this system can leave employers for higher wages. Social welfare programmes are a 'regrettable' necessity. In an ideal Anglo-Saxon market economy, social welfare policies would not be necessary.68

In contrast, communitarian capitalism includes business groups, social responsibility for skills, team work, firm loyalty, growth promoting industries and government strategies. Here, the business firms play a game best termed as "strategic

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68 Ibid.
conquests". In this system employees in an outfit are seen as number one, customers as number two and shareholders a distant number three. Profits can be sacrificed to maintain wages and employment. Business groups such as Deutsche Bank Group or Mitsui Group are expected to have a collective strategy in which companies are financially interlocked and work together to strengthen each other’s activities. For example, the Deutsche Bank directly owns 10 per cent or more of the shares in 70 companies. The bank protects its companies from takeover risks, as it did when some Arabs wanted to buy Mercedes Benz a few years ago. In addition, the government has a role to play in economic growth, and social welfare is part of the market economy. In Germany, for example, State-owned enterprises have large shares in most industries. Communitarian capitalism also believes in building industries through government support.69

A further question which emerged with the globalization of economy relates to the hegemonic power which built rules and regulations to govern the world economy. According to Wallerstein, Netherlands (1620-72), Great Britain (1815-73) and the USA (1945-67) played this role. At the moment, the three main contenders are the USA, Japan and Germany. The USA is still a powerful contender to this position although there is sceptism about its success for the following reasons:70 (a) The USA’s share in the world income has declined from around 50 per cent in the 1950s to 24-26 per cent in the 1980s. (b) It is no longer a leading exporter, having lost its position to Japan and Germany (c) Productivity growth in the USA has declined while it has remained high in the other core states (d) The USA has lost


70 Ibid.
its edge in technology intensive production and exports (e) Its potential influence has declined markedly in international fora and in situations of regional conflicts. (f) The support for the USA in the UN has declined steadily over the years. For instance, in the 1980s the USA was in a permanent minority. It has now only 18.5 percentage votes (g) It is economically vulnerable to other pressures because it has massive budget and balance-of-payments deficits which are being financed by foreign capital supplies, primarily by Japan, Germany and the UK. In 1985, the USA emerged as a net debtor nation for the first time since World War I. The Joint Economic Committee of the US Congress states that "no country has ever managed to be a great power and a great debtor at the same time".

Japan, on the other hand has emerged as a strong and growing economy. It has a massive export surplus and has taken the lead as a major exporter of capital. It is also steadily acquiring the lead in some high-tech industries. On the negative side, Japan has depended on the USA and its bilateral relationship with it, in the entire period of its post-war reconstruction, even for its international commitment. A leadership role which expects Japan to exercise its covert and overt power on the other states, would require that Japan develops a separate set of rules, principles and institutions or make attempts to take over the existing institutions. But awareness of this possibility lacks among the Japanese, and Japan a nation has done almost nothing to prepare for such an eventuality. It is also difficult to foresee the West accepting the leadership of Japan willingly, due to past history and cultural and racial differences.71

In the case of Germany, unification has further strengthened its potential to be the world leader since it will have a substantial population, advanced technology with continued efforts in basic research and capacity for higher productivity and growth. But there are various factors which negate this possibility: its individual national role has to be within the framework of the EEC; as a member of NATO, it will not have a free hand in the near future; its commitment to reconstruct the newly united country; etc. Nevertheless, a strong Unified Germany has been considered by some an eligible candidate for the hegemonic state. In history, Germany's role has been confined to Europe. To extend its influence globally it needs more time, resources and experience.

The alternative is to coordinate the world economy by all the three - the USA, Japan, and Germany. But to bring about this coordination, an important country has to exercise its structural power. The only country which can claim this status is the USA despite its massive problems. As Susan Strange has argued,

... The United States Government and the corporations depending upon it have not in fact lost structural power in and over the system. They may have changed their minds about how to use it, but they have not lost it.72

Ironically, the globalization of capitalism has been followed by major problems to capitalism itself. The leading capitalist countries are experiencing the greatest ever recession in the post-war period. The G-7 in the 18th Annual summit

meeting recognized, though reluctantly, structural unemployment as a major problem that has confronted these economies.\textsuperscript{73} As an OECD projection says,

Even before economic activity slowed down in the second half of 1990s, the average unemployment rate was a full percentage point above its 1979 level. The rise in the joblessness from cycle to cycle has been more pronounced in the countries of European Community which have also experienced a growing incidence of long-term unemployment.\textsuperscript{74}

As the Secretary General of OECD, Jean Claude Paye, has observed in one of his interviews,

.... we have been witnessing a new characteristic of unemployment, in particular in the slow-down in the last two years. First, the rate of job destruction has tended to increase. Is it due to technological progress or fierce international competition? Second, unemployment is hitting hard those categories like white collar workers and management, which used to be sheltered in the past. Third, a growing number of people of working age give up after being employed for a couple of years. Thus, not only unemployment, but also non-employment is creeping up in many OCED countries.\textsuperscript{75}

Other factors which have the potential of deepening the crisis in capitalism include: (a) the reduction in consumer demand which has made this problem a major item of the policy agenda in the leading capitalist countries. (b) The persistent imbalances in international payments of developed countries have been a major irritant to them. The USA maintains that the liberal access to its market has been the major support to Japan and other countries which are enjoying favourable trade

\textsuperscript{73} G-7, 18th Meeting, "Trade Pact by Year-End", \textit{Economic Times} (New Delhi), 9 July 1992.

\textsuperscript{74} The OECD Economic Outlook", \textit{The OECD Observer}, January-March 1992, p.6.

\textsuperscript{75} "The Tuesday Interview/Jean Cluade Paye", \textit{The Economic Times} (New Delhi), 4 August 1992, p.4.
surpluses with the USA. It is of the view that the post-war liberal international trading environment created by its initiative has given additional strength to these countries to exploit the international markets for their benefit. It argues that instead of playing the rule of the game Japan and other countries have built hidden and explicit barrier to entry to US products (c) The volatility of movements in international finance, exchange rates and interest rates. There have been acute areas of confrontation among developed countries, for example, between the USA and EEC over agriculture and oilseed subsidy. (d) A sizeable world trade has come under protectionism and the growth of volume of trade has slowed down. 76

A significant feature that has emerged with the globalization of economy is the growth of regionalism. It is argued that it is difficult to deal with multilateralism. But it is also feared that "regionalism may carry greater risks of becoming a substitute for rather than a complement to, multilateralism". 77 In the view of some, regionalism may be a healthy development. In the view of Lawrence Summers,

... which process has a better chance of leading to agreement: 153 nations negotiating, each of which had to sign a treaty, or 3 major groups of nations negotiating who have to come to agreement with some others who are under strong pressures to follow. 78

In the context of developing countries, the crisis is more deep, compared to developed countries. They have experienced unprecedented decline in price and volume of their exports excluding petroleum. They have accumulated more than $1


trillion international debt. They are experiencing a reverse transfer of resources in order to service their debts. In addition, the economic aid and other assistance to them, be it bilateral or multilateral, has been subjected to various conditions. These include economic as well as non-economic factors, such as human rights, press freedom, defence expenditure, etc. Their collective bargaining spirit has collapsed. Instead of cooperation, they are clearly divided on account of their differing expectations from international cooperation. In fact, there has emerged a selective coalition and partnership of developing countries with developed countries. Moreover almost all of them have come under the structural adjustment programmes of the IMF and the World Bank. They have liberalized their economies under these programme and have opened their economies for more trade and investment. In fact, while developed countries have been restraining imports from developing countries by various measures, the developing countries have increasingly been under pressure by the IMF, the World Bank and the bilateral donors to open their economies for trade and investment.\footnote{Sumitra Chisti, \textit{Restructuring of International Economic Relations} (New Delhi: Concept, 1991), p.18.}