Market Reforms and Democratization: The Dilemmas of Eastern Europe and the Soviet Union

PHIL RYAN

Eastern Europe and the Soviet Union are living through one of those "interregnums" of which Gramsci speaks. The "old is dying," but the shape of the "new" which is to be born remains unclear. North American media and politicians fasten attention on the Eastern European reformers who seek to develop market systems. But these ideologues of capitalist market societies ironically show little grasp of what it means to create a market society. They seem to believe that market systems, like the goddess Athena, will spring forth fully grown, helped along by some Western aid and 'entrepreneurial know-how'.

This paper will examine the relation between democratization and market-oriented reforms in state socialist systems. It is divided into six sections, the first of which examines the general case for market reform. This is followed by an analysis of the case made by some reformers that market-oriented reforms in Eastern Europe and the USSR in recent decades failed owing to a lack of democracy. The third section of the paper, however, will draw upon the development of English market society to argue that market reforms are difficult to undertake under democratic conditions. The following sections outline some of the unpopular aspects of market reform today and examine the ideological reconstruction undertaken by some reformers in order to consolidate support for the market. Finally, I argue that the uneasy relation between market reforms and democratization suggests that post-state-socialist regimes will be able to develop market economies either in the context of highly 'formalized' democracies in which issues of significance to popular classes are kept off the political agenda, or through bleaker political alternatives, such as market authoritarianism.

It is risky today to try to write scenarios for Eastern Europe and the Soviet Union. History is moving much faster than editorial committees and journal printing presses, and by the time this article is printed, new scenarios will probably have revealed themselves. Nevertheless, there is a need for reflection on the paths which will likely be open to state-socialist regimes and their successors.

The case for market reform The term 'market reform' covers a broad range of reforms to the classic state socialist economy. In general, the term suggests an increase in autonomy for state enterprises and/or the development of forms of non-state property, as well as price-reform which gives the forces of supply and demand a greater role in determining prices, or at least seeks to "simulate" equilibrium market prices. Market reformers range from Abel Aganbegyan, who has been promoting reforms in order to renew socialism in the USSR, to Hungary's Janos Kornai, who in the 1980s abandoned hope for "market socialism," and called for a market economy *tout court.*

In general the arguments of the market reformers might be summarized as follows:

1. state socialist regimes must reform their economies;
2. such reforms must be "systemic', not merely limited to policy adjustments;
3. market reforms are the only available alternative.

With respect to the first point about the necessity of economic change, market reformers point to a number of problems within the state socialist system. Among those they specify are: the generalized production of obsolete and/or low quality goods,[1] the absurd forms of behaviour generated within the administered economy,[2] the chronic shortage economy[3] (in particular the waste of inputs and of natural resources), the short time horizon of the economy, leading for example to environmental degradation, and the inability of the administered economy to adapt to changing international conditions.[4]

Market reformers have also insisted that change must be systemic. For example, while it may *appear* that many of the problems simply reflect the need to reorient investment towards the consumer goods sector, reformers would reject this contention. They maintain that control over the rate of investment by central decision-makers is quite weak, and therefore over- or under-investment in various sectors of the economy is a "systemic" feature which cannot be modified without broader changes.

Finally, reformers have insisted that systemic reform *must* be market reform. Experience, they argue, has revealed the failure of "planned" economies: the inability to control investment, the "arrythmia" demonstrated by such economies, and the lack of significant statistical correlation between the plan's growth targets and actual results suggest that the planning process may be little more than a time-consuming ritual.[5] The system, therefore, is not "planned," but "administered," and this administration does not work. Central planning bodies simply cannot acquire and process the information needed to administer in a coherent fashion. This information problem is exacerbated by the attempts of enterprise administrators to conceal their real capacity from the centre, in order to win for themselves "easy" plan targets. A complex "game" is played between the centre and the enterprise, in which the former multiplies quantitative targets *ad infinitum*, in order to increase control over enterprises, while enterprise administrators invent a variety of tactics to elude that control. These arguments are, by now, well known.

Thus, reformers invoke the "human factor." Reform can only work if people who have been the product of the administered economy respond to changes in the ways that have been anticipated. Even if one could develop a more rational system of administration, people have been conditioned by decades of playing at evading and outsmarting authority. In these circumstances, reformers conclude, more effective means of coercion are necessary; in this case the "economic coercion" of the market must replace the "legal coercion" of the administered economy.[6]

With market reforms the chronic struggle between state firms and central authorities can be replaced by a harmony between the interests of "society" and those of the firm. Market prices will reveal the degree of scarcity of various products and inputs, relative to society's needs.[7] The newly-autonomous firm will respond to these price signals, producing those goods in greatest demand, and economizing on scarce inputs.

These arguments are persuasive, but they do not constitute "proof" of the need for market reform. Opponents of such reform can point to the notorious instability of market systems, arguing that there is no reason to believe that "socialist" markets would be exempt from this instability. They can also point to the strong historical performance of the state socialist economies: even that most capitalist of institutions, the World Bank, assigns the developed state socialist economies an annual growth rate of 4.2% between 1960 and 1980, ahead of the 3.6% rate of the developed market economies.[8]

Many market reformers do acknowledge the historically high growth rates of the state socialist economies. They argue that the administered economy was appropriate for a period of "extensive" development based on ever-increasing use of material and human resources, but that it is inappropriate for purposes of "intensive" development which is required once supplies of resources tighten up. This situation, reformers argue, was particular to some Eastern European economies in the 1960s, and has now been generalized to the COMECON economies as a whole, because the Soviet Union, traditionally the raw material supplier of last resort, is confronting a sharp and terminal "upward kink" in its natural resource supply curve.[9]

Yet this debate appears inconclusive at both a theoretical and practical level. The market reformers have presented a thoroughgoing critique of traditional state socialist economies, exposing irrationalities so profound that they call into question the fundamental Marxist hope that the economy can be regulated *ex ante*. On the other hand, one must ask what vision of the market informs the arguments of the market socialists. Is it the perfect market of the neoclassical textbooks, in which adjustments are instantaneous, and workers fired in one sector can immediately find work in another? Or is it the "actually existing" market, which does possess some of the virtues attributed to it, but which also displays serious irrationalities?

At the level of practice, the question is also muddled. In their evaluation of Hungary's 1968 reforms, the longest-lasting market experiment in the Soviet bloc, Brus and Laski point out that economic growth in post-reform Hungary differed little from that of other Eastern European countries.[10] The performance of private agriculture was better than in neighbouring countries, and the country enjoyed "a much better equilibrated market than elsewhere in Eastern Europe."[11] On the other hand, inflation was also higher than elsewhere, and income differentials widened throughout the reform period.[12] In addition, there is some ambiguity about what kind of achievement a "better equilibrated market" actually represents. The fact that Hungarians no longer line up to buy meat does not necessarily mean that they eat better: it simply means that prices, rather than queues, are being used to separate those who get to buy meat from those who do not.

In any event, by 1990 this debate was superseded to a large extent by political events. While reformers and conservatives disputed the need for changes, large numbers of East Europeans stormed the palace gates, demanding, not the reform of state socialism, but its abolition. The hopes currently placed in capitalism are in large degree a product of the failure of state socialism to reform itself over the past two decades. That failure can generate conflicting explanations. Did market reforms not go "far enough"? Was the whole idea of market socialism an absurd attempt to combine incompatible forms of economic regulation? One explanation that is of particular interest for the analysis of markets and democracy is the view that the lack of democracy led to the failure of market-oriented reforms in Eastern Europe and the USSR. To this argument we now turn.

Does market reform require democratization? In the 1950s and 1960s, theorists such as Lange, Kalecki, Liberman and Brus presented more or less developed blueprints for decentralizing reforms. Absent from the work of these "naive reformers," however, was consideration of the political preconditions and implications of market-oriented reform.[13] For them, the market "was not understood as a sociological and political category but only as an economic one."[14] It may be, of course, that it was precisely politics that kept them from talking about politics. As Selucky notes, many reformers believed that economic reform would somehow automatically generate political changes. But in order to "sell" market reform to state decision-makers, they perhaps thought it wisest not to discuss the matter.[15]

As reformers of the 1980s examined the failings of earlier reform processes, they were less concerned with the possible political *consequences* of reform than with reform's political *preconditions*. Many reformers came to believe that market-oriented reforms could not occur in the absence of some move toward democratization.[16] First of all, there appeared to be no other way to break the power of "vested interests," who were opposed to reform for a variety of reasons. This question is now being given much attention by Soviet observers, and by Soviet reformers themselves. Incredible as it might seem, Hewett suggests that it is only recently that Soviet reformers were freed of the illusion that the bureaucracy would "in good faith, design and implement [reform] decrees conforming to the wishes of the party."[17] It is widely argued that Gorbachev shifted his focus to political reform after his first attempts at economic reform had been blocked, in the hope that greater political openness would allow ordinary Soviet citizens to exert pressure upon the opponents of reform.[18] Thus, glasnost was essential to break the political obstacles to perestroika. This strategy assumes, of course, that the "ordinary" Soviet citizen is in favour of reform. If not, then the relation between democratization and economic reform will be much more ambiguous. We return to this below.

One expression of the resistance of "vested interests" to reform was continued bureaucratic intervention in the affairs of supposedly autonomous state enterprises. Kornai argues that the Hungarian market reforms led to a situation of "dual dependence" in which enterprises were regulated both by the market *and* by the bureaucracy. Firms continued to be subject to bureaucratic micro-management. On top of this, bureaucratic interventions were inconsistent, resulting in a situation in which the firm, "confused by a hundred strings, starts to twitch," negating rational control altogether.[19]

The lack of democratization, it was argued, meant that the political basis of dual dependence remained intact. Reforms such as those undertaken in Hungary left the right "to appoint and discharge [the enterprise's] director and deputy directors" in the hands of the central bureaucracy.[20] While state appointment of managers in itself need not necessarily undermine enterprise autonomy, it will likely have this effect in a party-state situation in which managers are *personally* obligated to their party superiors.[21] In such a situation, the manager will have to choose between responding to market signals, which will increase the firm's profit (and hence the manager's own bonuses), or responding to bureaucratic pressures, which may further the manager's own career.

A shift to worker election of management, without any change in the party-state system, will not appreciably improve the situation, so long as the electoral process is subject to the typical pressures of the party-state. Such a policy can easily lead to a localist fragmentation of bureaucratic control of the enterprise: thus, Aslund notes that local party officials were able to control most of the processes of nomination and election of the 36,000 managers elected in the USSR up to the end of 1987.[22] One can argue that some degree of political reform of state socialist systems, involving at least the creation of an arm's length relationship between the state bureaucracy and political parties, is necessary to guarantee real and effective enterprise autonomy.

It has also been argued that political reform is essential if state managers and private entrepreneurs are to react to the opportunities provided to them by market reforms in a responsible fashion, with an eye to long-term development. Thus, Selucky notes that Czech managers were hesitant to take advantage of their new-found autonomy in the mid-1960s because they feared prosecution should the political climate change. It is difficult to take a long view of things in a situation in which reform is sustained "merely by the benevolence of those in power."[23] The same argument will apply to small private entrepreneurs, who may show little concern for developing "good-will," if they doubt whether they will be around to reap the benefits.[24] Nor will they show much interest in a growth strategy, if they do not believe they will be able to grow very far. Victor Nee reports that, in China, "[l]ocal cadres warned villagers not to stick their necks out lest they get their heads blown off."[25]

Thus, one could argue that democratization would give both state managers and private entrepreneurs more faith in their long-term prospects, as they would no longer fear a roll-back of market reforms when the mood of the party changed. This argument is certainly strengthened by recent events in China, considered by many the show-case of market reforms until June 4 1989. It is now reported that the government has decided that,

> The country's consumer boom will end, the free market half of the economy will be brought under control and the decentralization policies initialised since 1984 will be reversed.[26]

Democratization has been a precondition for market reforms: (1) to break the opposition to such reforms; (2) to guarantee real enterprise autonomy; and (3) to create a stable environment for state and private entrepreneurs. Could one conclude, therefore, that the failure of market reforms in state socialist regimes owed to the unwillingness of those regimes to undertake political reform? If the analysis could stop here, the matter would be quite simple. But there are, unfortunately, equally good arguments why market reforms *cannot* move ahead in the presence of significant democratization.

Is market reform incompatible with democratization? While market reformers have offered an incisive analysis of state socialist economies, they are on shakier ground when they speculate about the effects of democratization upon market reform. The underlying assumption is that the "people" will support market reforms over the opposition of "vested interests," protect enterprise autonomy from "political interference," and offer long-run guarantees to state managers and private entrepreneurs. The coming of democracy allows the "people" the opportunity to express this support. Does the evidence of history uphold these assumptions?

The evolution of market society in England offers little comfort for those who believe in the compatibility of marketization and democratization. As Karl Polanyi notes, the disenfranchisement of the poor in 19th century England was essential for the imposition of a labour market: "people were granted rights only when the awful adjustment had been made."[27] When they did gain political rights, the English working-class used them to limit the effects of the market, engaging in just the sort of "political interference" that today's market reformers hope to eliminate.[28] As Macpherson noted, "[t]he more extensive the political freedom, the less extensive the economic freedom became."[29]

For market reformers, this is not a heartening precedent, especially since England enjoyed certain advantages not currently available to Eastern European economies, such as leadership in the world market, and colonies which could siphon off much of the population rendered surplus by technological progress.[30]

The problem of marketization is obscured by purely economic definitions of the market, and by viewing it merely as a *negation*, that is, as a mere absence of government intervention. This *laissez-faire* belief in the naturalness, efficacy and spontaneity of markets may be one of the most dangerous illusions for market reformers.

Let us begin with a simple micro-economic definition of a market:

> A market, according to the masters, is the area within which the price of a commodity tends to uniformity, allowance being made for transportation costs.[31]

Now the development, not of a single 'market', but of an economy-wide *system* of markets, is not a spontaneous thing. It presumes price flexibility, which means that governments cannot merely allow prices to "find their level," but that they take positive action to establish economy-wide information flows and a transportation infrastructure.

There is yet more to the market than this: the neoclassical case for the market presumes "rational" behaviour, which for the neoclassical theorist means behaviour stripped of interpersonal considerations. The market, as Weber put it, is "an abomination to every system of fraternal ethics."[32] By way of example, if the price of grain is substantially higher in another village, market rationality requires that Peter take his grain there, even if his neighbour Paul is starving. This willingness to ship products to wherever they will earn their highest return, essential to "market rationality," provoked protests and "export riots" in 18th century England. As E.P. Thompson notes,

> The economy of the poor was still local and regional, derivative from a subsistence-economy. Corn should be consumed in the region in which it was grown, especially in times of scarcity. Profound feeling was aroused, and over several centuries, by export in times of dearth.[33]

It is precisely for this reason that Weber considered the "protestant ethic" essential for the rise of capitalism: "only an unusually strong character" could avoid "both moral and economic shipwreck" in the face of the hostility generated by the new economic rationality.[34]

In general, Thompson argues, those practices most consistent with market rationality led to political disturbances through violating the "moral economy of the poor," understood as "a consistent traditional view of social norms and obligations, of the proper economic functions of several parties within the community."[35] Protests against the logic of the market, often dismissed by historians as mere "rebellions of the belly," in fact reflected a centuries-old sense of economic rights.

To counter this "moral economy," a new ethic was needed to give the rising bourgeoisie "faith in its own *mission* to control and organize society."[36] Thus, the development of market societies required a parallel revision of interpersonal ethics, a revision that in Western Europe took centuries to complete:[37]

> compassion was removed from the hearts, and a stoic determination to renounce human solidarity in the name of the greatest happiness of the greatest number gained the dignity of secular religion.[38]

Market development thus requires an ongoing process of "legitimation." But, as Gramsci noted, hegemony must also be "protected by the armour of coercion."[39] The triumph of market rationality and the subordination of the previous "moral economy" to that logic could not have succeeded without coercion. A capitalist ideologue would argue that this coercion developed merely to protect property rights, to protect the "industrious and rational" from the "quarrelsome and covetous," to use Locke's terms.[40]

But this argument ignores the fact that the development of market rights required the destruction of long-standing economic or subsistence rights. For the sense of economic rights that supported the "moral economy of the poor" was not an invention of the poor themselves. As Thompson notes, "[t]hese notions of rights... carried for a long time the church's imprimatur."[41] For example, in the 13th century Thomas Aquinas held that the right to survival indeed took precedence over property rights:

> [I]f the need be so manifest and urgent, that the present need must be remedied by whatever means at hand (for instance when a person is in some imminent danger, and there is no other possible remedy), then it is lawful for a man to succour his

> own need by means of another's property, by taking it either openly or secretly: nor is this properly speaking theft or robbery.[42]

Thus, the coercion that attended the formation of the English market did not merely protect rights: rather, it promoted certain new rights and extinguished certain old ones.

The costs of marketization today Historically, the development of market economies has created "an avalanche of social dislocation."[43] There is, unfortunately, no reason to believe that the state socialist regimes now in the process of transformation will be spared this. On the contrary, there are significant indications that market reforms will prove very painful for the majority of citizens in those regimes. There is thus reason to believe that democratization will lead to mobilization *against* the reforms. Such mobilization could focus on the problems of price reform, unemployment, and of social "re-stratification."

Price reform. The Soviet reform process initially sought to advance along the path of greater enterprise autonomy *before* reforming the price system.[44] Such a strategy, however, contained a built-in and paradoxical invitation for the renewal of bureaucratic interference. If enterprises are given autonomy in the absence of price reform, they will still have to make decisions on the basis of prices that do not reflect the "true scarcity" of both inputs and final products. This will lead, for example, to wastage of scarce raw materials. This, and the absence of market clearing, did in fact prompt authorities to intervene, thus reducing the effective autonomy of enterprises. Previous decentralizing reforms have been hurt by precisely this problem.[45]

But there is a large political obstacle to price reform, as the population widely believes it will lower real earnings.[46] As Aslund notes on this issue, much of the public "perceived the reformist economists as anti-consumerists, intent on jeopardising the few achievements of socialism."[47]

Reformers have betrayed great confusion on this point, grasping at magical solutions. Aganbegyan called for prices to be raised to a market-clearing level, but insisted that "the population must be fully compensated for such large increases in retail prices."[48] But this would necessarily drive the market-clearing price level ever higher, creating an inflationary spiral that would undermine all aspects of economic calculation.

In Poland Lech Walesa warned that,

> If someone fools around with prices they do so at the expense of this government. I warn that if there are more price rises we will not be able to keep people working normally.

Yet Walesa also proposed that,

> We should take from this state at least 80% of what it has: land, factories, houses... Foreign capital will manage this property for a time, until the day when Poles will have become rich enough to repurchase these goods.[49]

These statements tell us much about the internal contradictions of the reformers. On the one hand, Walesa sounds like a good pupil of the International Monetary Fund, offering to sell his country to the highest bidder. On the other hand, he portrays himself as a populist opponent of the sorts of price adjustments necessary for market reforms.

Unemployment. The inevitability of unemployment under market reforms, be it "frictional" or long-term, arises from bankruptcies that must result from exposing state firms to the "discipline" of the market, and from the hoped-for increase in the productivity of labour. In early 1989 there were media reports that China could have 200 million unemployed workers by the end of the century. Estimates of eventual Soviet unemployment run to 60 million workers.[50] Estimates such as these, of potential unemployment, tend to vary according to beliefs about where the reformed economies will be able to situate themselves within the international economy. It is probable that Eastern Europeans delude themselves somewhat in this respect, as do Canadians. Wolnicki argues that Poland today is for all practical purposes a Third-World economy, and the same could be said for most of the region.[51]

This may be the most politically dangerous aspect of market reforms, as many observers feel that the central pillar of the "moral economy" of workers in state socialist societies has been the right to employment.[52] It is reported that 85% of Soviet workers are opposed to lay-offs.[53] Given the probable scale of unemployment, it is unlikely that workers will be impressed by the promise of reformers that those laid off will "have no difficulty" in finding new work.[54]

Re-stratification Walter Conner argues that a significant obstacle to market reforms in the Soviet Union is not so much the risk of social inequality, since that already exists, but the prospect of "a re-sorting of large groups in the income hierarchy, transforming a fairly fixed Soviet social architecture."[55] Even if the reform process is a "positive-sum" game, a risk-averse citizenry may unite against reforms. And there are substantial indications that the mechanisms of the administered economy have created strong tendencies towards risk aversion.

Negative sentiment with regard to market re-stratification has thus far surfaced most obviously in reactions against the small private and cooperative sectors in various countries. These negative reactions are exacerbated by the fact, mentioned above, that the lack of long-term political guarantees has led non-state producers to demonstrate a short-term attitude towards their business, and have thus not presented "petty capitalism" in the best light.

Part of the political problem with market re-stratification is that much of it will appear to happen on the basis of "luck," good and bad: workers will lose their jobs through no fault of their own when their factories close; petty entrepreneurs will enjoy windfall profits by being "in the right place at the right time," in an unstable economic situation. It would appear that "luck" must be allowed to play its part if market reforms are to succeed. One of the Hungarian reformers of 1968 made the point that reforms must change the boundary between that which is "exogenous" to the enterprise and that which is within its control.[56] Thus, whereas in the past managers might avoid "blame" if their firms lost money because the price of inputs rose during the year, with market reforms they must learn to adapt to whatever changes take place in the firm's environment.

A firm in the reformed economy must be allowed to sink for reasons quite beyond its control: it is only through this "sink or swim" policy that one can find out which factors *are* truly beyond the control of the individual enterprise. There is therefore good reason to believe that market reforms may run into significant opposition, not merely from powerful vested interests, but from the citizenry at large. Hence, it is quite possible that democratization, which from one perspective appears so necessary to the success of market reforms, will make those same reforms unfeasible.

The reformers at times betray some impatience. The social actors they have called onto the political stage in order to buttress their reform project are refusing to follow the script. Thus, Aganbegyan comments that,

> Froth forms from time to time on the surface of the stream of new initiatives. There are cases where people want to use glasnost and democracy for personal ends...[57]

For all Aganbegyan's liberalism, this statement echoes the old Stalinist view that "personal" interests are sullied. It also echoes, however, those IMF and World Bank officials who consider all opponents of their economic reform policies to be "vested interests" protecting unfair advantages. We will return to this question below.

The last two sections have raised the question of whether democratization is likely to conflict with marketization. Can the democratization process be controlled in such a way that those whose interests are threatened by the market are unable to disrupt the marketization process? We will examine this question below, after examining the ideological reconstruction currently being promoted by market reformers.

The task of ideological reconstruction In discussing the current conflict between marketization and democratization in Eastern Europe and the Soviet Union, this paper drew upon the analysis of Karl Polanyi and others of the emergence of the self-regulating market and its inherent contradictions in England. A further lesson can be drawn from that analysis. The consolidation of new dominant groups will require an ideological reconstruction that both legitimizes the "mission" of those groups and attacks the existing "moral economy." A major example of this work of ideological reconstruction is Janos Kornai's latest book, *The Road to a Free Economy*.[58] As noted previously, Kornai, once a proponent of market socialism, now calls for a thoroughgoing marketization of the Hungarian economy.[59]

As did his English predecessors, Kornai promotes new ethical concepts and attacks old ones. He repeatedly presents market freedom as a "basic human right."[60] At the same time, Kornai attacks existing values which can be said to constitute the "moral economy" of Hungarian workers. People oppose the "self-evident" fact that some "have the right to earn more than others" because, Kornai writes, they are "under the spell of their former indoctrination in extreme egalitarian values."[61] Apart from indoctrination, egalitarian sentiment is also the product of "sheer envy or populist demagoguery."[62]

The view that "the only ethically acceptable form of income is that earned by labour," says Kornai, is a "prejudiced attitude."[63] As did Locke before him, Kornai seeks to remove the "labour limitation" from the right to wealth.[64]

In a comment that recalls E.P. Thompson's examination of 18th century protests against profiteering, Kornai complains that:

> Another widely held judgment considers all those as dishonest who take advantage of shortages in order to make a profit. As if it were not the only sensible reaction by any seller to raise the selling price in the face of shortages! Price is not a moral but an economic category.[65]

Thus, Kornai seeks to reproduce the early capitalist attack on medieval values, an attack that lodged economic activity and morality in "separate compartments."[66]

It is striking that both the early and the current attacks on the anti-market moral economy allege that traditional anti-market values hurt the morals and industry of the labouring classes. Thus, in the late 18th century William Townsend railed against the Poor Laws which in theory guaranteed a minimum level of existence to all members of English society:

> Hunger will tame the fiercest animals, it will teach decency and civility, obedience and subjection, to the most perverse. In general it is only hunger which can spur and goad [the poor] on to labour; yet our laws have said they shall never hunger.[67]

Analogously, market reformers Shmelev and Popov attack the "levelling" in Soviet society which allegedly "suppresses any incentive to work, causes shake-ups, lack of discipline, and a parasitic certainty of a guaranteed income that does not depend on one's actual contribution to the job."[68] The full-employment policies of state socialist regimes also come under attack as a cause of "laziness, drunkenness, and irresponsibility."[69] The threat of unemployment, argues Vasilii Seliunin, ensures that "sweat is extracted from those who have to work."[70] These arguments against full-employment sound much like those which Michael Kalecki in 1942 correctly predicted would arise in post-War capitalism.[71]

But as was the case in nineteenth-century England, the new market in Eastern Europe and the USSR will have to be protected not merely by ideology but also by the "armour of coercion." This raises the question of possible scenarios for post-state socialist regimes. Is the coercion necessary to protect nascent market economies compatible with democratization?

Possible Scenarios We can conceptualize the path to market reform as having two steps, the first of which is already well advanced in Eastern Europe:

1. Political upheaval will shatter the state socialist party-state, thus destroying the obstacles to market reform;
2. After the ground has been cleared, a political consolidation will occur in which the nascent democracies are increasingly 'formalized', through which process the political representation of anti-market forces will be contained.

By 'formalized' democracies, we mean democracies stripped of much of their "real" content: the political groups who compete for votes in Schumpeter's model will converge on certain key issues, and mechanisms will be developed to marginalize groups who do not share that consensus.

Thus, if these two steps are managed successfully, we are likely to see a market that is somewhat less pristine than the ideal type presented in this paper, and a liberal democracy that lets ordinary citizens go about their personal lives, free from the controls of the state socialist era, but bereft as well of the capacity significantly to influence political events. One can discern an attraction to this outcome in Jacek Kuron's 1981 statement that, "Solidarity had erred in assuming people really wanted to govern."[72]

This image of a 'formalized' democracy is not novel: it bears a strong relation to Almond and Verba's "civic culture," which "keeps politics, as it were, in its place."[73] This "moderation" of democracy requires, not that the important political issues emerging from the marketization process be solved, but that they be robbed of political salience. This process could be helped along by such measures as the privatization of the mass media proposed by the Hungarian Patriotic People's Front reformers.[74] This would mean that opponents of the new economic system would find their access to the means of public communication restricted.

There is of course no guarantee that the second step of this process can be managed. If it is not, then a number of outcomes are possible. One is a Pinochet-style market authoritarianism. The language of market reformers reveals some attraction to this option. Even while supporting glasnost, Aganbegyan approvingly cites Lenin on the need for "unquestioning obedience."[75] Kornai, despite his declared opposition to market authoritarianism, calls for "strong government" and for the imposition of wage discipline with "an iron hand."[76] He hopes that the government's strength will lie "in the support of the people," but if this support is not forthcoming, there is little doubt that those with fewer democratic scruples than Kornai will find in his work a strong rationale for authoritarianism.

One can easily imagine an authoritarian government drawing upon Kornai's criticisms of those who are motivated by "sheer envy" or egalitarian "indoctrination," in order to justify an attack on those opposing the negative effects of marketization. Similarly, the attack on so-called "vested interests" can justify an anti-democratic option. Note that the World Bank includes trade unions among the "vested interests" opposing *its* market reforms.[77] The conviction that the market is the only rational form of economic organization, and that any opposition to the market is ill-conceived and irresponsible, opens up the possibility of repressing whatever "vested interests" present resistance to it, even if those vested interests represent the bulk of the population.

Of course, the political marginalization of issues emerging from the marketization process could also occur through less pleasant means than those used in Almond and Verba's idealized civic cultures. Some form of "electoral fascism" could do the trick, in that anti-Semitism and campaigns against other national minorities could serve to keep market-related questions off the political agenda. Reports that some of Lech Walesa's supporters campaigned against Tadeusz Mazowiecki in the November 1990 Polish election by claiming that Mazowiecki is Jewish are significant in this regard.

Finally, developments in Eastern Europe in the near future may bear some similarity to the political stalemate that has marked much of post-war Argentina's history. That is, the ability of popular sectors to block a 'formalization' of democracy, to keep their specific interests on the political agenda, could block any coherent transition to a market economy.

What, finally, of the Soviet case? Here, unlike Eastern Europe, the first of our two steps may not materialize. The basic dilemma outlined in this paper will thus obtain with full force. It is perhaps an awareness of this dilemma that gives such ambiguity to Gorbachev's project of glasnost, which represents a risky gambit: the masses must be called onto the political stage in order to help exert pressure on certain parts of the Soviet elite, yet they must be willing meekly to abandon the stage without challenging the party-state.

There is no reason why this gambit should create the political conditions for market reform, and it is thus unlikely that any reforms implemented by Gorbachev will resolve the problems identified by market reformers. Gorbachev's project, then, could well result either in the collapse of the party-state or in a prolonged "muddling through" without systemic economic reform.

Conclusion Perhaps to increase German sales of a book about the British economy, Marx prefaced the first German edition of *Capital* with the comment that "[t]he country that is more developed industrially only shows, to the less developed, the image of its own future." In seeking to understand the possible trajectory of Eastern Europe and the Soviet Union, where do we turn for an "image of its own future"? Is the current transformation of such magnitude and speed that history offers no lessons?

I have suggested that one source of insight is the English experience of market development. But the fact that Eastern European societies will probably replicate the turmoil of that earlier development does not mean that they will reap the same benefits. The next decade may show that the Latin American experience of market-oriented reforms offers more lessons for Eastern Europe than any Western European experience. While the post-state-socialist regimes are pursuing market reforms from a different starting-point than that of Latin American societies, both the technological level and the external debt situation of the East European nations indicate that they will occupy a location in the world capitalist order closer to that of Latin America than that of Western Europe.

Whether one looks to the Western European past or to the Latin American present for insights into Eastern Europe's future, it is clear that one must reject the facile notion, cherished by many Western ideologues, that markets and democracy go hand in hand. Perhaps Western governments planning to send delegations of experts in "entrepreneurial development" to Eastern Europe, should include in those delegations some Brazilians still unemployed despite that country's "economic miracle," some victims of Argentina's economic decline, and some survivors of Pinochet's concentration camps, for they may well be able to tell Eastern Europe much more about the "image of its own future" than a team of business consultants.

Notes

I would like to thank Radoslav Selucky and Manfred Bienefeld for their ongoing support, and Frances Abele, Michael Lebowitz, and Marguerite Mendell for their helpful comments on earlier drafts.

1. Ed Hewett, *Reforming the Soviet Economy* (Washington: The Brookings Institution, 1988) p. 80.
2. Nikolai Shmelev and Vladimir Popov, *The Turning Point: Revitalizing the Soviet Economy* trans. Michele A. Berdy (New York: Doubleday, 1989). Shmelev and Popov provide a wide catalogue of pathologies: farmers who sacrifice their best breeding cattle in order to meet the plan for beef output; perfectly good zinc being turned into scrap metal to meet the plan's target for scrap; etc.
3. Janos Kornai, *Pressure and Suction on the Market* (Bloomington: International Development Research Center, 1971).
4. Tamas Bauer, "From Cycles to Crisis?" *Eastern European Economics* 27/1 (1988) pp. 5-44.
5. Shmelev and Popov, *The Turning Point* p. 91.
6. István Friss (ed.), *Reform of the Economic Mechanism in Hungary* trans. Gyorgy Hajdu and Jenó Rácz (Budapest: Akademiai Kiadó, 1969) p. 128.
7. Obviously "society" and "society's needs" is used here in a neoclassical sense, to mean society as mediated through effective demand in the market.
8. World Bank, *World Development Report: 1982* (Washington: The World Bank, 1982).
9. Abel Aganbegyan, *The Challenge: Economics of Perestroika* trans. Pauline M. Tiffen (London: Hutchinson, 1988).
10. Wlodzimierz Brus and Kazimierz Laski, *From Marx to the Market: Socialism in Search of an Economic System* (Oxford: Clarendon Press, 1989) p. 65.
11. *Ibid.*
12. *Ibid.* p. 66.
13. The term "naive reformer" is from Janos Kornai, "The Hungarian Reform Process: Visions, Hopes and Reality," in Victor Nee and David Stark (ed.) *Remaking the Economic Institutions of Socialism: China and Eastern Europe* (Stanford: Stanford University Press, 1989). Kornai includes himself in the category.
14. Radoslav Selucky, *Economic Reforms in Eastern Europe* (New York: Praeger, 1972) p. 162.
15. *Ibid.* p. 88.
16. For purposes of the argument, we will use Schumpeter's definition of democracy: a system in which leadership of the polity is decided "by means of a competitive struggle for the people's vote." Joseph Schumpeter, *Capitalism, Socialism and Democracy* 3rd ed. (New York: Harper Torchbooks, 1976) p. 269.

17. Hewett, *Reforming the Soviet Economy* p. 276.
18. Anders Aslund, *Gorbachev's Struggle for Economic Reform* (London: Pinter Publishers, 1989).
19. Kornai, "The Hungarian Reform Process," p. 88.
20. Friss, *Reform of the Economic Mechanism in Hungary* p. 17.
21. Selucky, *Economic Reforms in Eastern Europe* p. 145.
22. Aslund, (*Gorbachev's Struggle for Economic Reform*) gives an interesting list of Soviet leaders who do not support Gorbachev's economic reforms, but who support the election of managers, for reasons that have nothing to do with market reform: Ryshkov believes it will strengthen one-person management; Zaikov and the conservative Shcherbitski support it as a means of increasing local party control of the enterprise.
23. Selucky, *Economic Reforms in Eastern Europe* pp. 89f.
24. Janos Kornai, "The Affinity Between Ownership and Coordination Mechanisms." (Unpublished manuscript, 1989); Tamás Bauer, "The Unclearing Market," in Jon Elster and Karl Ove Moene (eds.) *Alternatives to Capitalism* (Cambridge: Cambridge University Press, 1989).
25. Victor Nee, "Peasant Entrepreneurship and the Politics of Regulation in China," in Nee and Stark (eds.), *Remaking the Economic Institutions of Socialism* p. 182.
26. Jasper Becker, "Deng bows out as China turns full circle," *Manchester Guardian Weekly* November 19, 1989.
27. Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1957) p. 226.
28. The relation between extended political rights and increased restrictions on the market system appeared most clearly in the wake of the 1867 electoral reform, which has been called "the death-warrant of laisser-faire." Robert Ensor, *England: 1870-1914* (Oxford: Clarendon Press, 1936) p. 36. The reform doubled the number of voters in England and Wales, and created working-class majorities in many urban areas, though the franchise still only extended to 40% of the adult male population. E.L. Woodward, *The Age of Reform: 1815-1870* (Oxford: Clarendon Press, 1946).

    Henceforth, both the Liberals and the Conservatives would promise social reforms in their electoral campaigns, reforms that would gradually attenuate the self-regulating market. The 1870s saw laws regulating housing, the sale of food and drugs, and public health. Perhaps the most important modification of the market system was the full legal standing given to trade unions by laws passed in 1871 and 1875. Prior to the passage of these laws, little legal protection was afforded to the unions nor to collective bargaining. An 1860s judicial ruling that unions could not protect their accumulated assets because they engaged in "restraint of trade," led union leaders to stress the extension of the franchise as the best means of protecting union rights (Woodward, p. 177). Once the franchise had been extended, *The Economist* bemoaned the fact that unions, though "radically vicious," could not be "put down." Cited in W.H.B. Court, *British Economic History: 1870-1914* (Cambridge: Cambridge University Press, 1965) pp. 327-328.

29. C.B. Macpherson, "Elegant Tombstones: A Note on Friedman's Freedom," *Canadian Journal of Political Science* 1, p. 99.
30. While Marx was correct in arguing that capitalism required a reserve army of labour, it is also true that *too large* an "army" could have undone English capitalism. Thus did Cecil Rhodes declare that to forestall political unrest, "we colonial statesmen must acquire new lands to settle the surplus population... If you want to avoid civil war, you must become imperialists." Cited by V.I. Lenin, "Imperialism, the Highest Stage of Capitalism," in *Lenin on Politics and Revolution* ed. James E. Conner (Indianapolis: Bobbs-Merrill, 1968) p. 134.
31. George Stigler, *The Theory of Price* 3rd ed. (New York: Macmillan, 1966) p. 85.
32. Max Weber, *Economy and Society* eds. Guenther Roth and Claus Wittich (Berkeley: University of California Press, 1978) p. 637.
33. E.P. Thompson, "The Moral Economy of the English Crowd in the Eighteenth Century," *Past and Present* No. 50 (1971) p. 98.
34. Max Weber, *The Protestant Ethic and the Spirit of Capitalism* trans. Talcott Parsons (New York: Charles Scribner's Sons, 1958) p. 69.
35. Thompson, "The Moral Economy...," p. 79.
36. George Lukacs, *History and Class Consciousness* (London: Merlin Books, 1968) p. 66.
37. R.H. Tawney, *Religion and the Rise of Capitalism* (New York: Mentor Books, 1954).
38. Polanyi, *The Great Transformation* p. 102.
39. Antonio Gramsci, *Selections from the Prison Notebooks* ed. Quinton Hoare and Geoffrey Nowell Smith (New York: International Publishers, 1971) p. 263.
40. John Locke, *Two Treatises on Government* ed. Peter Laslett (New York: New American Library, 1965) p. 333.
41. *Ibid.* p. 136.
42. *Summa Theologica* II-II Q. 66 a. 7.
43. Polanyi, *The Great Transformation* p. 40.
44. Hewett, *Reforming the Soviet Economy* p. 330.
45. Armando Pitassio, "Reform Politics in Bulgaria." *Telos* No. 79 (1989) p. 206; Hewett, *Reforming the Soviet Economy* p. 24.
46. Shmelev and Popov, *The Turning Point* p. 251.
47. Anders Aslund, *Gorbachev's Struggle for Economic Reform* p. 130.
48. Aganbegyan, *The Challenge* p. 178.
48. Quoted in Michael Simmons, "Walesa voices fears of steep price rises," *Manchester Guardian Weekly* October 8, 1989; and in Jean-Marie Chauvier, "Fascinations neoliberales," *Le Monde Diplomatique* October 1989 (elision in original).
50. Antonio Carlo, "Contradictions of Perestroika," *Telos* No. 79 (1989) p. 39.
51. Miron Wolnicki, "Self-Government and Ownership in Poland," *Telos* No. 80 (1989) p. 72.
52. See Michael Lebowitz, "Kornai and Socialist Laws of Motion," *Studies in Political Economy* No. 18 (1985), for a consideration of the impact of this full-employment norm on socialist economies.

53. Ernest Mandel, *Beyond Perestroika* trans. Gus Fagan (London: Verso, 1989) p. 158.
54. Shmelev and Popov, *The Turning Point* p. 191.
55. Walter D. Conner, "Imperial Dilemmas: Soviet Interests and Economic Reform," in Nee and Stark (eds.), *Remaking the Economic Institutions of Socialism* p. 318.
56. Friss, *Reform of the Economic Mechanism in Hungary* p. 211.
57. Aganbegyan, *The Challenge* p. 200.
58. *The Road to a Free Economy* (New York: W.W. Norton, 1990).
59. For an overview of Kornai's early work, see Lebowitz, "Kornai and Socialist Laws of Motion."
60. *Ibid.* pp. 68, 44. This view has serious implications: following Kornai's approach, one might say that Chile's General Pinochet, who promoted the "basic human right" of market freedom while repressing political rights, was no worse a violator of human rights than Salvador Allende, who respected political freedom but repressed market "rights." Kornai does, however, oppose a Pinochet-style political solution for Hungary on "political and ethical" grounds (p. 206). But the overall impression left by his work on this point is contradictory. I return to this point in the following section.
61. *Ibid.* p. 21.
62. *Ibid.* p. 49.
63. *Ibid.* p. 153.
64. C.B. Macpherson, *The Political Theory of Possessive Individualism* (London: Oxford University Press, 1962).
65. *Ibid.* p. 153.
66. Tawney, *Religion and the Rise of Capitalism* p. 15.
67. Cited in Polanyi, *The Great Transformation* p. 113.
68. Shmelev and Popov, *The Turning Point* p. 187.
69. Shmelev, cited in Chauvier, "Fascinations neoliberales."
70. Cited in Hewett, *Reforming the Soviet Economy* p. 294.
71. Michael Kalecki, "Political Aspects of Full Employment," in E.K. Hunt and J.G. Schwartz (eds.), *A Critique of Economic Theory* (Hardmondsworth: Penguin, 1972).
72. Cited in David Ost, "The Transformation of Solidarity and the Future of Eastern Europe," *Telos* No. 79 (1989) p. 74.
73. Gabriel Almond and Sidney Verba, *The Civic Culture* (Boston: Little, Brown and Co., 1965) p. 339.
74. L. Antal, *et al*, "Change and Reform," *Acta Oeconomica* 38/3-4 (1987) p. 211.
75. Aganbegyan, *The Challenge* p. 202.
76. Kornai, *The Road to a Free Economy* pp. 206, 195.
77. World Bank, *Structural Adjustment Lending: A First Review of Experience* (Washington: Unpublished, 1986) p. 58.