



Global Transition Strategies in Eastern Europe: Moving to market relations

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ABSTRACT John Marangos conceptualizes the transition from a centrally administered economy to one based on market relations, thereby providing the basis of modelling the process. The transition is viewed as a holistic process. As such, it must incorporate first of all the reason for the adoption of market relations. Also the initial conditions of each country should be incorporated in the modelling process, in addition to the political and ideological structures. These elements of the transition process have been ignored in the transition economic literature.

KEYWORDS administration; economics; ideology; planning; social change

Introduction

The transition process in the economic literature appears to be an oversimplification of the complexities involved. Economists, as a rule, writing on the transition process have reduced it to an isolated variable of the economic sphere; such as price policy, fiscal policy, monetary policy, investment policy or employment policy, thus ignoring the interrelated nature of economic institutions and behaviour. The aim of this article is to provide an alternative view of transition, which avoids the single-isolated economic variable approach. Instead, the transition process is viewed as a holistic process due to the interrelated nature of the reforms.

To avoid the above-mentioned problems, the parameters of the transition problem need to be specified first. This requires the establishment of a process by which elements of the transition problem will be identified and are to be included in the modelling process. The transition models should be comprehensive and their elements interconnected. Further, transition models should be extended to include political and ideological structures. The aim of this article is to provide the foundation for developing a modelling process of the transition to a market economy.

Market relations

The collapse of the centrally administered economies gave rise to economies based on market relations. The use of market relations was warranted in terms of information and motivation. It is argued that the market is a superior form of organization, resulting in a superior outcome compared with central administration, wherever there is no market failure. The market as an economic institution is the expression of economic freedom. The market, in the absence of any form of discretionary power, is an institutional process in which individuals interact with each other in pursuit of their economic objectives. Both parties in an economic transaction benefit from it, provided that the transaction is voluntary and informed; otherwise the transaction will not take place. The market process is impersonal, whereby scattered large numbers of buyers and sellers transact independently of each other in the pursuit of their self-interested goals.

As well, the market system provides the motivation for people to cooperate with each other. The market makes individuals take part in a process more complex and extended than they can comprehend. The market transforms and solves the complex problem of the allocation and distribution of resources. Co-ordination is simple and democratic, in the sense of accountability via the market test. It should be noted, however, that – by contrast – central administration lacks such accountability. Politicians respond to pressure groups with the aim of getting re-elected. In addition, by using their expert knowledge, bureaucrats gain power which they exploit with the aim of extending, sustaining and abusing their privileged position.

The objective of the transition process, all would probably agree, is to set in motion a whole set of mechanisms that would allocate resources more efficiently than they were allocated at the starting point. The initial allocation was excessively administrative and political; the desired allocation would rely much more on markets and individual incentives (Frydman et al., 1997: 42).

With the introduction of market relations in Russia and eastern Europe, issues that were previously irrelevant became extremely important.

Concepts such as prices, credit, unemployment, money supply, interest rates or reserve ratios had never entered into any discussions of socialist economies (Aslund, 1995: 40). Consequently, the hegemony of the market process among economists as a means of stimulating growth implied a transformation in all dimensions of the economic system (Brown, 1995: xiv).

Market relations are able to stimulate ‘a critical mass of the ingredients of autonomy, flexibility, incentives, motivation, and freedom needed for enhanced efficiency and more dynamic technological advance’ (Ofer, 1987: 1824). The introduction of market relations transformed the decision-making process from a vertical one, between central authorities and enterprises, to a horizontal process, between enterprises. This automatically resulted in substantially reducing the relative value of vertical relationships. The term ‘marketization’ had the meaning of making enterprises interact with each other and with consumers through purchases and sales at equilibrium prices (Clague, 1992: 9). Consequently, non-market alternatives were not considered in the transition process.

Transition economic models versus initial conditions

A model depicts in a simple manner the process by which complex organizations operate (Brown, 1995: 1). Models are the result of the need of human beings to understand the environment around them and thus attempt to control it. Models necessarily abstract from details so as to develop a framework to understand the complexities of the real world (Kirzner, 1998: 59). Hence, models are based on assumptions such as ‘economics cannot do without simplifying assumptions’ (Thurow, 1996 [1983]: 99).

However, models are the result of logical deductions and do not include all the elements that we observe in reality. The same applies to the transition process. We should keep in mind that the transition process was a heterogeneous phenomenon. In other words, while the Russian and eastern European economies were structured on the basis of

central administration, this did not mean that these economies were identical. The need for change was recognized long ago and the political authorities in these countries had experimented, to varying degrees, with reform. Centrally administered economies differ in their level of economic development, economic structure, inflation, foreign debt, degree of repression, share of industry, agriculture and services, degree of monopolization and dependence on foreign trade (Aslund, 1992: 5). In addition to each country's initial economic structures and conditions, there was a need to incorporate their own political, cultural and ideological elements, institutional elements, power relationships and the role of the state. These elements were all distinct for each country. For example, the capitalist and democratic traditions of the Czech Republic, which influence the behaviour of present-day Czechs, explain the relatively smooth transition process in the Czech Republic (Frydman et al., 1997: 42).

Therefore, the question arose: 'what is the impact of strategy and policy, and sequencing, as opposed to country-specific initial conditions such as politics, pattern of industrialization, or institutional structure?' (Parker et al., 1997: 3). Herr and Westphall (1991: 323) argued that the efficiency and feasibility of any transition strategy depended on the specific conditions prevailing in the individual countries. Frydman et al. (1997: 44) were in agreement, since 'the idea of a standard package ignores the fact that the way in which complementary policies interact cannot be thought of in terms of a standard general procedure'. In contrast, Sutela (1992: 87) argued that the experience revealed that the basic elements of a market economy can be adapted to different historical and cultural environments. Recognizing the distinctiveness of each country as well as the limitations of economic models makes us aware of the need for a balance between specificity and generalization.

The role of the political and ideological structures in transition

114 The transition process was not restricted to the economic field. Market relations are not indepen-

dent of other social relations (Whalen, 1996: 6). It would seem that the political and ideological aspects of the transformation were fundamental. Indeed, economic reforms cannot be understood or assessed in narrow economic terms. If we are to understand and form an opinion about the transition process, it is essential to view it in a broad social science context, incorporating political and economic relations as well as ideology.

To understand changes in an economic system, it is essential to analyse all the relationships that influence economic choices. As such, we must examine, in addition to economic relationships, the structure of the political authorities and the state, and the prevailing ideology, as well as the external environment, which all impinge on the making of economic choices. This is because the state has a monopoly over the legitimate use of force as a means of imposing restrictions on individual behaviour and the prevailing ideology releases the appropriate directives, moral standards and values to motivate people to behave in a certain predictable way. All these elements give rise to different market-based economic systems.

Societies are not structured only on the basis of economic relationships. Equally important are political institutions and ideology, which are all closely linked. This is because there is an intimate connection between these aspects, and societies are kept unified by a balanced development of the political, economic and ideological structures. Thus the transition process should be conceived as a simultaneous transformation of the economic, political and ideological structures. The transition process cannot be identified only as a problem of economic theory disregarding power, privileges and institutions. Within this framework economic relationships are perceived as interconnected and interdependent with non-economic structures and not mutually exclusive.

The elements of the reform programme are interdependent, mutually supportive and interactive. Economists emphasized the interrelated nature of the reforms, due to the interrelated nature of economic institutions and behaviour. Consequently, there were grave dangers associated with making one or more elements of the reform programme dominant: '... all the elements of a

well-designed reform programme are interdependent, mutually supporting and interactive. It is folly to focus on one or another of the elements in the programme to the exclusion of the rest' (Macesish, 1991: x).

This might be used as an argument that the elements of the reform programme must be introduced simultaneously. If they were introduced at the wrong time and/or in isolation, this would inevitably undermine the success of the reform. 'Arbitrarily selecting some targets while ignoring others can backfire and lead to the failure and discredit of the process of democratization and economic transformation' (Kornai, 1990: 18).

Consequently, the elements of the reform package, moving a centrally administered economy towards a market economy, were interconnected. There was a need for a strategy in regard to the pace, composition and sequencing of the reform. However, some individuals, enterprises, industries or regions would respond quickly to the new conditions, due to their entrepreneurship, size and flexibility. Reformers concentrating their efforts on these individuals, enterprises, industries or regions would create a positive environment for reform, which would have spillover effects.

The elements of the transition process

The elements of the developmental process of transition modelling are:

- *A view of social reality or what exists/existed.* This refers to the type of economic system that existed in Russia and eastern Europe – centrally administered socialism – and how it facilitated the making of economic choices, the outcome of these choices and the implications of alternative economic policies. This analysis is necessary so as to identify what, if any, elements of the centrally administered economic system should be retained. This part of the modelling process encompasses a rationale for the ultimate collapse of the centrally administered economies.
- *A view about what constitutes a good society.* This refers to the desirable end state. An attempt to solve the transition problem required a specifi-

cation of an acceptable, desirable and feasible economic system. The aim of the transition process was to initiate changes that would ultimately bring about an economic system consisting of elements and outcomes which were considered acceptable, desirable and feasible. This referred, for example, to the outcomes that were valued and the trade-offs between desired outcomes that were acceptable, what freedom and justice meant and whether equality of income was desirable. A view of a good society is concerned with the assessment of each economic and non-economic performance dimension in conjunction with the significance assigned to these performance dimensions. Such views reflect values, not social reality. As such, a view of a good society is influenced by normative rather than positive analysis. Thus it cannot be rejected purely by an appeal to facts. However, it is important to note that facts are always relevant to ethical judgements.

- *Desired changes.* The transition to a market economy required the exposition not only of the desirable end state but also of a process by which this could be achieved. The comparison of social reality and what is a good society produced, on the one hand, a judgement about the outcomes of the existing system and, on the other hand, a view concerning the unavoidable changes that had to be introduced to stimulate the development of the appropriate outcomes, that is, a good society.
- *Means of initiating the desired changes.* What remained was to develop an appropriate mechanism by which the desirable economic system could be achieved. This referred to the policy instruments, which would be used to encourage the desired changes. It should be remembered that this mechanism should use only policy instruments consistent with the economic analysis in question. As such, the model in question would be based on a specific body of economic analysis, thus determining the behavioural assumptions and the economic relationships.

A schematic presentation of the developmental process of the transition modelling is presented in Figure 1.

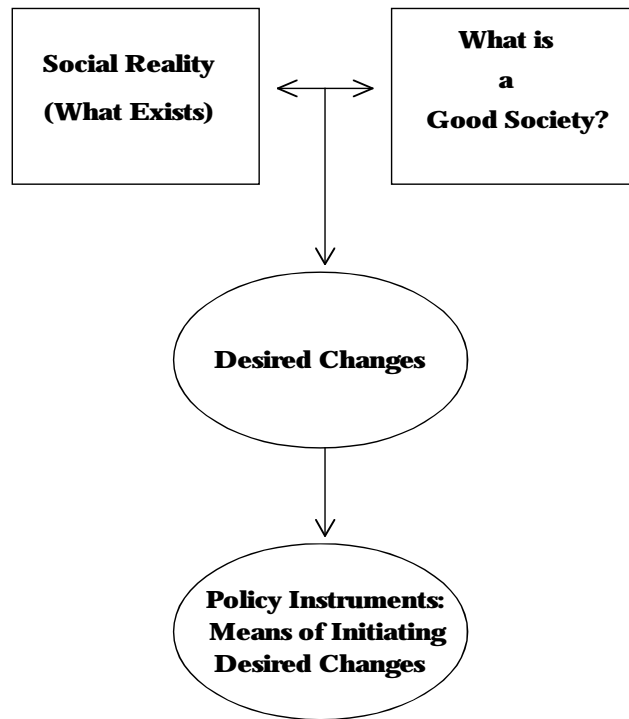


Figure 1. *The contrasting of social reality and what is a good society produces the desired changes that, in turn, would determine the policy instruments necessary to bring them about*

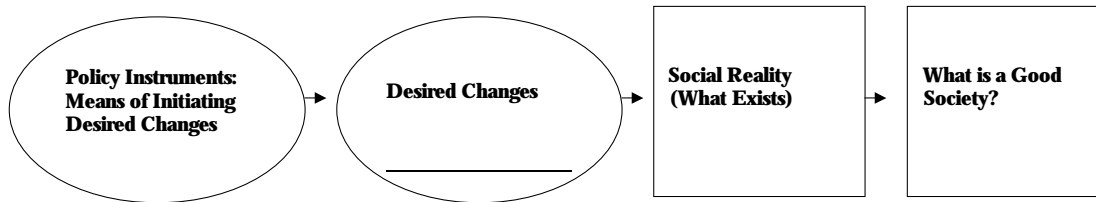


Figure 2. *The aim of the modelling process is to identify the policy instruments necessary to achieve the ultimate goal of a good society by initiating desired changes in social reality*

The schematic presentation reveals that the aim of the modelling process is to identify the policy instruments to achieve the ultimate goal of a good society. This is done by initiating desired changes in social reality, as shown in Figure 2.

The answers to these questions could not be derived by using economic analysis alone, but also depended on one's perception of social reality and ethical issues. Given assumptions about economic behaviour, the question arose of how the economic

system functions and responds to changes, and what is a good society. The answers to these questions reflect one's assessment of each economic and non-economic performance dimension as well as the weights one assigns to these performance dimensions.

In addition, alternative economic theories, mostly conflicting, utilize criteria for determining how society and the economy function and how society should distribute responsibilities between

the market and the government, with the purpose of solving economic problems. 'Different notions of economics and politics lead to different political economies' (Caporaso and Levine, 1992: 3). Thus, different views on 'social reality' and 'what is a good society' are associated with distinct methodologies and a particular set of social values, which have implications about economic policy formulae. This gives rise to alternative models of transition, based on different assumptions, different methods of analysis and different goals.

Conclusion

The reforms in Russia and eastern Europe provided an exceptional example to investigate economic

theories in distinct circumstances (Murrell, 1995: 171). As Woo et al. (1997: xi) reasoned, the focus was 'on developing a systematic understanding of the economic and institutional dynamics underlying the transformations from centrally planned to market economies'. The elements of the transition process were equally important and must be interconnected, and thus consistent. Viewing the transition process in its totality, our terms of analysis are not the narrow economic 'independent' variables, but rather the whole politico-economic-ideological spectrum. Nevertheless, this hypothesis does not deny developing transition models on the basis of different priorities and sequencing of the elements of the reform programme.

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