

A POLITICAL ECONOMY METHODOLOGY IN MODELLING THE TRANSITION PROCESS^a

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ABSTRACT

A political economy approach to the transition process required the incorporation not only of the economic structure but also of the political and ideological structures. Consequently, an application of a political economy methodology to the transition process gives rise to alternative models of transition. Each model confronts the elements of the transition process - economic analysis; what is a good society? speed; political structure; ideological structure and whether the initial conditions were a concern - with different solutions, making it meaningful to distinguish between alternative models.

I. INTRODUCTION.

The movement, in the ex-Soviet Union and Eastern European countries, from a centrally administered to a market-based economy was commonly referred to as the 'transition problem'. While the word "transition" - the passage from one state to another, in this case from a centrally administered to a market-based economy - might seem appropriate, it is not explicitly capture all the complexities involved. The word "transition" or "reform" was a misnomer for what was occurring in Russia and Eastern Europe. The transition process entailed superseding the essential properties of the centrally administered economy, consequently destabilising the economic system and replacing it with a market economy.

Exposition of the transition problem in the economic literature must be a simplification of the complexities involved. In most cases, economists writing on the transition process reduced it to an isolated variable of the economic sphere. The transition problem was "pigeon-holed" into thematic subcategories like price policy, government expenditure, investment policy and unemployment, thus ignoring the interrelated nature of economic institutions and behaviour. Alternatively economists provide a solution to the problem by explicitly or implicitly, mostly implicitly, assuming specific behavioural assumptions and/or economic relationships¹. These assumptions resulted in a pre-determined position, which was presented and defended as the only feasible one. Thus modelling of the transition process was highly subjective and based on value judgements. Comparisons, which ignored these aspects, were meaningless.

The success of the transition process depended not only specifying the necessary economic conditions, but also on whether certain conditions were satisfied with respect to the non-economic elements. Differences in historical background, national culture, economic and political structures and international aspirations can affect growth patters (Ofer, 1987, p.1768). For this reason, the analysis adopted in this paper is in the tradition of "political economy", which incorporates the interaction between political

institutions, social consciousness and ideas within the framework of economic relationships. The transition is a holistic, historical, dynamic and comparative process in nature and, as such, a political economy approach would seem appropriate. Political economy stresses that making economic sense and understanding economic relationships is not feasible without explicit awareness of power, institutions and values (Heilbroner, 1996a, p.ix). In particular, political economy maintains that politics and economics are not reducible to one another (Caparaso and Levine, 1993, p.225; Arestis and Sawyer, 1993, p.9).

The aim of this paper is to develop alternative models of transition, based on a political economy approach. The paper is restricted to the development of theoretical and conceptual models of transition. Each model is a construction based on the values and beliefs, which most economists of the particular model subscribe to. Each model is a stylised version of the view of how the economy operates, with reference to the transition from a centrally administered to a market economy, suggested by the economic theory in question. The analytical framework developed in this paper, which proposes different models of transition, makes it possible to understand the transition process from a new and more enlightened perspective. It provides a better understanding of the complexities involved in the transition process and the differing opinions between economists. This is because the differences between economic models result from differences in political, philosophical, cultural and moral arguments and values. All models have their own ideologies and sets of values, based on which models are defined (Brown, 1995, p.ix; Dillard, 1987, p.1635).

To my knowledge, there have been no attempts to develop alternative models of transition. In addition, there is very little literature available on the transition process based on the tradition of political economy. An exception is Radice (1993, p.13), who distinguished between three alternative paths: the neoliberal (which aims to achieve a rapid and comprehensive commodification of economic life), the protectionist (which aims to develop a viable national economy) and the state-development path (which aims to develop a national strategy to compete in international markets). His analysis was limited, and focused on government strategies and practices relating to foreign capital investment. As a result, his analysis did not encompass all the elements of the transition in the tradition of political economy.

The paper attempts to incorporate the causality of ideas in the transition process. A radical transformation such as the transition from a centrally administered economy to one based on market relations is possible only by primal cause. A change in thinking of "what is a good society" brought about by a kind of founder, the innovator, the producer of new ideas or the producer of directives of action. The political structure serves as an authoritative cause – the decision maker and executor for the whole society – mediates between ideas and action. The other transeconomic causes are subordinate to these two related causes. Nevertheless the subordinate causes once properly directed, along with the economy, come to secondarily influence both the political and the ideas of the people. In particular the subordinate causes attempt to moderate anti-social behaviour under the new economic conditions and to constellate normative ideas in the consciousness of the people².

II. THE ELEMENTS OF THE TRANSITION PROCESS.

To avoid the aforementioned problems associated with the transition process, we need first of all to specify the parameters of the transition problem. This consists of establishing the process by which elements of the transition problem will be identified and are to be included in each model. Further, the transition models should be extended to include political and ideological structures, as a political economy approach requires. In order to solve the transition problem, several key issues had to be addressed:

1) **A view of social reality or what exists (existed):** This refers to the type of economic system that existed in Russia and Eastern Europe that is, 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.

2) **A view about what constitutes a good society:** This refers to the desirable end state. An attempt to solve the transition problem required a specification of 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 by the members of the society and/or the people in positions of power. This referred, for example, to the outcomes that were valued and the trade-offs between desired outcomes that were acceptable. What freedom and justice mean and whether equality of income is desirable. A view of a good society is concerned with the assessment of each economic and non-economic performance dimension as well as with the weights that one assigns 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 we should keep in mind that facts are always relevant to ethical judgements.

3) **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 end state would 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.

4) **Means of initiating the desired changes:** What remained was to develop an appropriate mechanism by which the desirable economic system would 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. 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 Figure 2.

III. ALTERNATIVE MODELS OF TRANSITION.

After identifying the process of transition modelling, the next question concerns the elements based on which alternative transition models would be distinguished. Thus the aim is to detect what I entitle the primary elements, which differentiate between transition models. These primary elements of each model are mutually exclusive distinct to and characteristic of a specific model. These are (1) economic analysis; (2) what is a good society? (3) speed; (4) political structure; (5) ideological structure and (6) whether the initial conditions were a concern. In the proceeding section I analyse the **primary elements** of each transition model:

1. Economic Analysis.

Economic analysis involves the application of a social scientific method to the making, and consequences, of economic choices. Using economic analysis we attempt to describe reality by abstracting and generalising its basic characteristics (Waud, et. al., 1996, p.11). A body of economic analysis comprises: a hypothesis; assumptions; logically derived conclusions; testing by appeal to facts; and maintaining, modifying or rejecting the hypothesis. On the basis of the aforementioned characteristics we can distinguish between three relevant and mutually exclusive alternative bodies of economic analysis:

a) Neoclassical economics. This employs marginalist economics, in which individuals are characterised by rational maximising behaviour. Prices are determined in a perfectly competitive market by supply and demand curves in equilibrium without market power and government discretionary power. It is based on the Jevons/Menger/Walras model, which stipulates the efficiency of markets in allocating resources and achieving equilibrium of production and distribution (Radice, 1993, p.1).

b) Post Keynesian economics. The assumption of the neoclassical model that individuals are utility and profit maximisers is questioned. Using the concept of aggregate demand where consumption is determined by disposable income and planned investment predominantly by profitability and "animal spirits" results in persistent labour market disequilibrium. There is no mechanism to ensure that planned investment will be at such level to achieve full employment, and prices are determined within an oligopolistic environment by cost-plus pricing with the presence of market power.

FIGURE 1

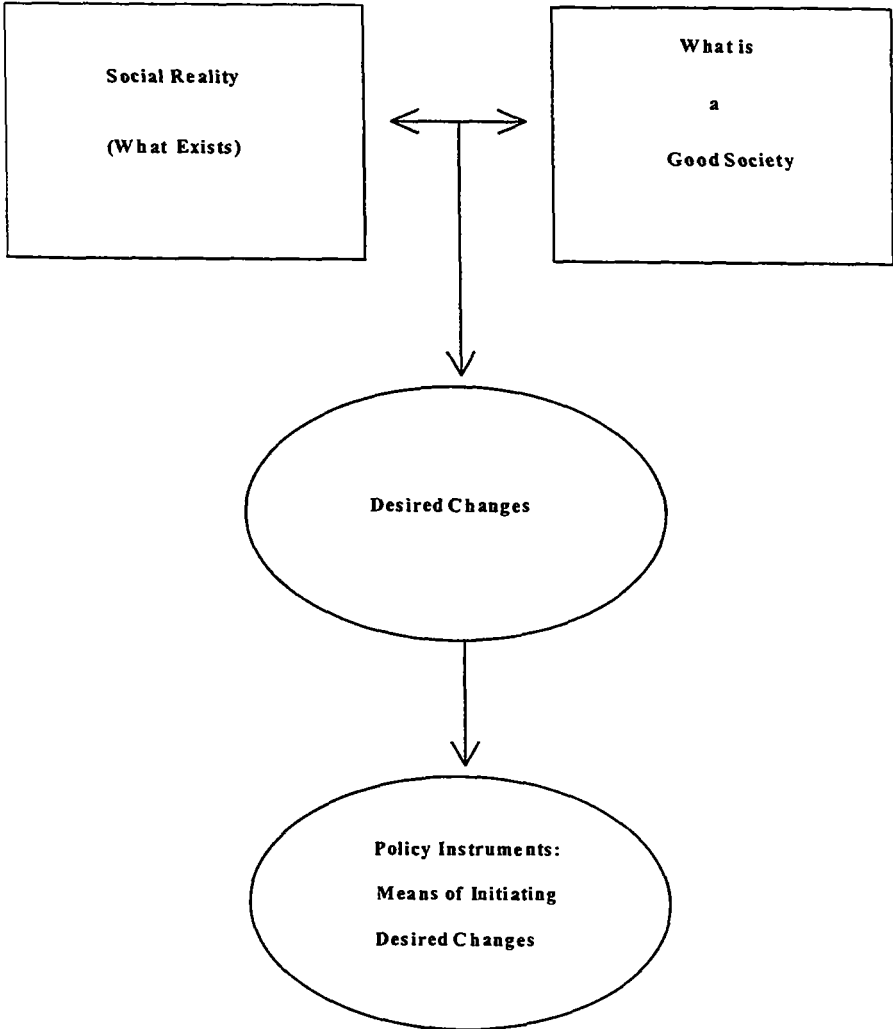


Figure 1: The contrasting of social reality and what is a good society produces the desired changes, which would determine the policy instruments necessary to bring about the desired changes.

FIGURE 2

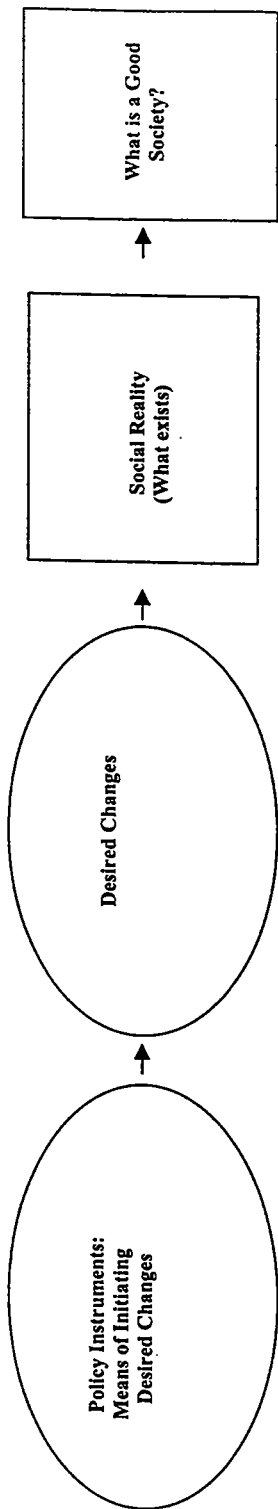


Figure 2: The aim of the modelling process is to identify the policy instruments to achieve the ultimate goal of a good society by initiating desired changes in social reality.

c) **Marxist economics.** Power is an essential characteristic of the model, which results in exploitation and alienation. In addition, the malfunctions of the capitalist system are inherent and fundamental rather than imperfections of an otherwise harmonious economic mechanism. Marxist economics predicts that the capitalist system suffer crises, which become increasingly severe, and ultimately lead to its collapse which gives rise to a socialist system. Non-market Marxist alternatives would not be considered in this paper, since the transition process involved a movement towards establishing a market economy. Essentially based on economic analysis we can distinguish between three alternative models of transition: the neoclassical, the Post-Keynesian and the market socialist.

2. What is a Good Society?

As already stressed, different views with respect to what is a good society gives rise to alternative models of transition. "The choice of economic system is profoundly ideological" (Aslund, 1995, p. 5). Accordingly, the three mutually exclusive alternative bodies of economic analysis are based on three mutually exclusive views of what is a good society, which are directly combined with aforementioned economic analysis. The relationship between free markets and the "proper" role of the government is crucial here.

a) **Competitive capitalism.** The neoclassical model of transition, which uses neoclassical economic analysis, encompasses an approximation of competitive capitalism as a vision of a good society. Market power – that is the ability of firms to influence the market outcome – is the consequence of the use of discretionary power by the state. Without the discretionary power of the state individuals will behave "as if" they are in competitive capitalism, thus eliminating all forms of discretionary power. The state should play a minimal role, and should be allowed to intervene only where there is market failure. It should also provide a "safety net" to avoid physical deprivation. Justice means equal treatment by the state for all citizens. The state should not be involved in redistribution of income and wealth. The market outcome is the just outcome thus there is no distributional justice.

b) **Social-democratic capitalism.** The existence of disagreement over whether competitive capitalism is an appropriate goal, and whether it is feasible, gives rise to the need to consider alternative views of a good society. Consequently a critique of the neoclassical model which assesses its weaknesses and inadequacies gives rise an alternative model based on Post Keynesian propositions. The aim is to develop a comprehensive model of transition, which overcomes the weaknesses of the neoclassical model and is also both realistic and feasible, as argued by Post Keynesian economists. The Post Keynesians favours a social-democratic capitalist system. Post Keynesians are seeking as much freedom as is compatible with a socially desirable outcome, thereby justifying a series of interventions by the state to accomplish "a liberalism that aims at building a true social republic where economic forces are directed to achieve social justice and stability" (Rider, 1994, p. 17)

Post Keynesians in no way discredit the primacy of individual values, the principle of private ownership or the advantages of the market. Rather

they stress the importance of the right combination of the above elements with the common good, state property and planning. The welfare state is the expression of the common good, the means of attaining the objectives of society, especially those of minorities and the disadvantaged. The negative outcomes of the capitalist system are not inherent but rather a tendency. Market power is not the result of the actions of government, but rather of technology, economies of scale and industrialisation. However, the discretionary power of the government can improve the outcome of the economic system and stimulate the development of a civilised society. "A civilised society will work to facilitate the development of excellence in all of its members. This means that our society should maintain the personal liberty of the people and encourage their full employment" (Davidson and Davidson, 1996, p. 22).

c) Market Socialism. In this context, it would also be appropriate to consider a market socialist model of transition. The market socialist model incorporates a different method of economic analysis, mainly Marxist analysis, thus having a different view of how the economic system functions. As the name of the model states, it is a combination of a market system and socialist principles. The market socialist model is concerned with the optimal combination of centralisation and decentralisation, of markets and planning, of individualism and the common good, and of public and private property. A market socialist model is distinct from other models due to the different goals the model tries to achieve. These are preventing exploitation, reducing alienation, greater equality of income, wealth, status and power, and the satisfaction of basic needs. These can only be achieved by the establishment of a socialist economic system, as market socialists argue; the negative outcomes of the capitalist system are inherent and not a tendency, and cannot be avoided by using the discretionary power of the state.

The theory of market socialism is still being developed. Today, Lange and Taylor's (1939) contribution to the theory of market socialism is considered archaic because it ignored incentives issues (Roemer and Silvestre, 1993, p.108). In contrast to the Lange and Taylor's (1939) model of competitive market socialism, market socialists today envisaged an economic system where discretionary power existed. In this regard, the market socialist model bears a close resemblance to the Sik (1967) model, which is based on the interventionist Keynesian tradition of market planning. The market process and economic planning were distinct, yet mutually supporting assignments.

3. Speed of Transition.

The movement towards a market economy may take two mutually exclusive forms: the "shock therapy" or "big bang" approach and the gradualist or evolutionary approach. Campbell (1991, p. 7) posed the question in this way: "whether the socialist reformers can 'create' these markets or whether they must grow organically". This addresses the question in regard to human consciousness and perceptions when a dramatic change in behaviour is required such as the transition from central administration to markets. The opposite views with regard to speed reflected the different beliefs about individual responses, which can either be rapid or

time-consuming. Consequently with regard to the optimum sequencing of the reform program, gradualism means a substantial length of time between the different elements of the program, whereas shock therapy places importance on a rapid descent to the market economy rather than sequencing. Meanwhile we should keep in mind that the debate between gradualists and supporters of shock therapy was meaningful only if there was agreement with regard to the ultimate goal (Rostowski, 1993, p.101). The distinction with regard to speed was relevant only for the neoclassical model, since both Post Keynesians and Marxists were in favour of a gradual approach. They agreed with the gradualist neoclassical economists that change had to be slow since institutions, organisations and patterns of behaviour and thinking could not be changed immediately.

a) Shock therapy or Big Bang. Those neoclassical economists who were in favour of the "shock therapy" or "big bang" approach argued that, so long as the various elements of a market economy were in place so that the market could function freely, that is without any market power and government discretionary power, individuals would respond to the incentives provided. The shock therapy approach was characterised by a rapid implementation of reforms, minimisation of time intervals between measures, and fast correction of policy mistakes. "The main issue is to cross the rising river as fast as possible in order to reach the other shore and establish a firm foundation for the construction of a new economic system based on the market" (Aslund, 1992, p.87). Thus it was argued that the stabilisation program and the institutional reforms should take place at the same time. Lipton and Sachs (1990, p.100) quoted the former Planning Minister Gonzalo Sanchez de Losada, who in 1986-89 administered the reform process in Bolivia and stated that, "if you are going to chop off a cat's tail, do it in one stroke, not bit by bit". Getting the prices right from the beginning would encourage entrepreneurship under hard budget constraints: "... unless prices are freed from the beginning to operate as powerful signals of what is worth doing and what is not, the adjustments that have to be made to improve efficiency and output structure will be put off indefinitely" (Campbell, 1991, p.168). The underlying assumption was that individuals would always respond quickly to the incentives provided, even when dramatically new behaviour was required (Clague, 1992, p.7-8).

In addition, the longer the transition process the more time would be available to self-interest pressure groups to regroup and use their monopoly and political power to oppose the reforms. The new owners of enterprises would attempt to defend their economic rents, managers would endeavour to defend their privileges, and workers would strive to defend their jobs. Their power would be used to achieve preferential treatment, such as protection from imports, subsidies, tax concessions and other discretionary measures. These measures, if achieved, would effectively postpone the transition to a market without distortions. In summary, a gradual process would substantially undermine the credibility of the reform. "Move too slowly and the consensus that supports the reform can collapse. It is uncertainty, not speed, that endangers a reform program and casts doubt on the government's credibility to carry it out" (Macesich, 1991, p. x).

The state did not have the knowledge and capacity to guide and control gradual reforms. Only comprehensive programs implemented rapidly and vigorously had a chance to succeed. In addition to this, foreign governments

and international organisations would only be willing to support transition programs which were quick, comprehensive and brought results, instead of a program which promises the achievement of some goals in the "long-run". The objective of the shock therapy approach was to establish equilibrium prices at which quantity supplied equals quantity demanded as soon as possible, thus stimulating increases in quantity supplied and thus economic growth. This could be achieved by removing subsidies, establishing a hard budget constraint³, controlling the money supply, introducing free trade and a fully convertible currency and, finally, privatising state enterprises. The policies had to be introduced immediately and in one-shot.

Most importantly, the aim of shock therapy was to ensure that a return to the previous state of affairs would have been impossible or at least extremely costly. Given shock therapy's insistence on the need for speed, there was no time for a native capitalist class of small private entrepreneurs to mature over decades or centuries into large corporations. For the shock therapy approach to be able to set up the basis for 'normal' capitalist accumulation, capitalists had to be created as soon as possible. "There was no feasible way his [Sachs's] privatisation could be done legally, legitimately or morally" (Holmstrom and Smith, 2000, p.9). This class had to be 'hothouse'd', virtually overnight. In the end, a combination of elements was essentially drafted to privatise the economy, using criminal methods: the underground Mafia, the nomenclatura and segments of the intelligentsia. Thus 'spontaneous privatisation' was a deliberate strategy by the nomenclatura and criminal elements to transform itself into a capitalist class (Szelenyi and Kostello, 1996, p.1093; Nolan, 1995, p.59). Indeed, economic advisors - the highly paid missionaries (Arnot, 1998, p.224) and the Harvard Institute for International Development (HIID) - bear much of the responsibility for the creation of Russian and Eastern Europeans' criminal capitalists. Currently, there is an investigation into whether, and to what extent, the HIID broke US laws. It has been claimed that they channelled hundreds of millions of dollars from the US Agency for International Development into the hands of corrupt privatisers like Anatoly Chubais. Also, it is being ascertained to what extent Harvard academic advisors personally profited in the process (Holmstrom and Smith, 2000, p.9).

b) Gradualism. On the other hand, neoclassical economists who were in favour of the gradualist approach, along with the Post Keynesians and the market socialists argued that the changes in the economic system, which were required to complement the introduction of market relations, could not be introduced rapidly; these changes inherently take time. Hence the change should be slow and gradual, not revolutionary. There was need for gradual change, since institutions, organisations and patterns of behaviour and thinking do not change immediately with the introduction of market relations. These elements can only take shape and function after an "organic historical development" (Kornai, 1990, p.52). So the process of change had to be slow. It can be speeded up, but is nevertheless slow. Otherwise "artificial transplants hastily forced upon these societies will be rejected by their living organisms" (Kornai, 1990, p.20).

Thus, based on the gradualist approach, the economy should not be fully liberalised until the country had achieved a reasonable level of macroeconomic stability and a competitive financial system of supervision and firms encountered a hard budget constraint. A radical change such as

moving towards a market economy would involve a restructuring process in which raw materials, labour, managers and capital moved from one sector to another. This relocation of resources to satisfy the new and costly economic conditions was a lengthy process, with the unavoidable result of a reduction in production. This would result in a severe reduction of real incomes and living standards. Individuals would not be able to take advantage of the new opportunities the free market provided, since they lacked the resources for effective participation. There was a need for restructuring of the bureaucratic structure and free prices and capital markets without suffering unemployment so as to provide opportunities for everyone. Thus it was not possible immediately to remove shortages, the unequal distribution of income, and the anti-social behaviour that these negative outcomes of the transition process gave rise to. It was not in the interest of society to remove government control and enforce a hard budget constraint, which would be resisted by pressure groups using their power. Consequently, for the gradualists, "the optimal path of reform would be one that conserves some of existing organisational capital in the early stages of transition. Such conservation would seem all the more necessary if it is important to ensure that living standards are not radically depressed in the early stages of democracy" (Murrell, 1992, p. 43). Thus "one must be under no illusion that this process will be anything but gradual" (Blanchard, et. al., 1992, p. xvii).

A gradual process of transition necessitated a process of sequencing of reforms. This made the transition process more complex, because the modelling process involved not only a judgement with regard to the program of reform, but also the order of introducing the necessary reforms. The shock therapy transition model avoided this problem by introducing all the reforms in one shot. It was argued that it is easier to cause a substantial change rapidly than a small change gradually. The gradualist transition economists disagreed arguing that it was much more difficult to initiate changes of the magnitude involved in transforming a centrally administered economy to a market economy. However, this did not preclude that some individuals, enterprises, industries or regions would respond quickly to the new conditions, due to their entrepreneurship, size and flexibility. Reformers, as the gradualists argued, concentrating their efforts on these individuals, enterprises, industries or regions would create a positive environment for reform which would have spillover effects.

4. Political Structure.

It was important to recognise that "politics refers to the activities and institutions that relate to the making of authoritative public decisions for society as a whole" (Caporaso and Levine, 1993, p.20). Consequently, the transition process also depended on developments in the political structure. "In the transition, the liberalisation of political markets is often as important as the liberalisation of economic markets" (Parish and Michelson, 1996, p.1043). This was because market reforms stimulate the emergence of autonomous interest groups, political parties, and independent media, which are basic elements of democracy (Nelson, 1994, p.60). The transition economies initiated "modern" civil societies with relatively open political processes, free speech, and opportunities for non-governmental organisations to participate in political process (Esty, 1997, p.358). Political

legitimacy and cohesion were essential elements of a process of reform, which was so extensive and radical. For example, the major reforms undertaken by the first elected Solidarity government in Poland, with its relatively cohesive public support and strong legitimacy, contrasted sharply with the paucity of reforms in the USSR (Geld and Cray, 1991, p.11). The political structure determines the decision-making process in the society, and this has consequences for the structure and function of the central authorities. It also determines the bureaucratic constraints, that is formal and informal orders or prohibitions enforced through pressures or threats upon the individual by the bureaucracy (Kornai, 1988, p.236).

Politics consist of those institutions and procedures which members of the society use to pursue their preferences regarding goods and services (Caparaso and Levine, 1993, p.135). Thus one of the most significant tasks of the reformers was to establish the relationships between the government, the legislature and the bureaucracy. It involved the subordination of the bureaucracy to the government and the distribution of responsibilities between the president, the government and the parliament. Political decisions would influence market structures.

It is useful to point out the link between economic and political structures. Once a society has chosen its economic structure, this will have consequences for the decision-making process, and especially for the structure and functioning of the central authorities. For example, if in the economic structure the units are co-ordinated through the commands of central administration, then this has implications for the nature of the political structure. A non-pluralistic form of economic co-ordination of specialised economic units requires, for consistency, a non-pluralistic political structure. The political structure has to function in the same way, otherwise its power will be questioned and undermined. On the other hand, if economic structure encourages autonomy, an appropriate political structure has to be in place. If such a structure is lacking, authority will not last for long since individuals who experience the benefits of autonomy in the economic structure are likely to require the same in the political structure.

Individuals participating in the market would ultimately demand pluralism. By pluralism we refer to a structure, which recognises and tolerates more than one view⁴ (Petrenko, 1989, p.18). This is because market relations encourage the development of important qualities for personality development. The qualities gained through the market process can be used in other aspects of life, as well in the political process, thus influencing the nature of the political structure. The individuals developing their personality would require pluralism as a means for achieving an internally consistent personality to guide internally consistent actions. Restriction of political pluralism can only exist in the short-run. In the long-run individuals develop the qualities of cognitive complexity, autonomy, sociocentricity, attitudes towards self and identification with moral values through their involvement in market activity (Lane, 1991, p.5). These qualities, would result in questioning and undermining the authoritarian political process, paving the way for a political structure based on pluralism (Marangos 1997). With respect to the political structure we will concentrate in distinguishing between two mutually exclusive types of transitional models:

a) **Political Pluralism.** A transitional model with political pluralism introduces fundamental changes with consent, debate and discussion, agreement and compromise.

b) **Non-Pluralism.** A transitional model without political pluralism. In this case the transition to a market economy is characterised by a non-pluralistic process, based either on a party, which is a leading role party (with a monopoly of power) and adopts a leading position (its views determine most decisions) and a correct line (the party scientifically derives the correct perception of things), or on a military dictatorship.

At this point we need to differentiate between pluralism and democracy. While pluralism is a necessary condition for democracy, it is not sufficient. With pluralism there is recognition that antagonism and conflicting interests exist in society, based not only on the diversity of human beings but most importantly based on the distribution of property that affect class interest and antagonisms; that is, there is no correct line, no single and invariably correct perception of things. Pluralism stimulates the free circulation of ideas and the building of consensus by bringing these interests together and encouraging compromise through debate and negotiation without liquidating these interests. Pluralism rests on an agreement to tolerate different views and aspirations and simultaneously to set limits to them through the society's institutions. Pluralism recognises the non-identical views of all citizens. It means that the common good will not be laid down in an authoritarian or totalitarian manner by the state but is determined through a plethora of different opinions which are freely discussed (Bracher, 1989, p. 231-44). In a pluralistic environment interest groups are concerned with holding authoritative positions or influencing authoritative public policy.

This aspect is extremely important for the market socialist model. It was argued that it was consistent within a one-party system to have different views. Thus it was possible to have a leading role single party which no longer adheres to the correct line, a pluralistic single party (Petrenko, 1989, p.23). Even under the one-party system, there is a need for a permanent mechanism for comparing views and encouraging self-criticism in the party and in society. Gorbachev, for example, stressed this on numerous occasions. At the Nineteenth All-Union Conference of the CPSU he argued: "Under the one-party system which had historically originated and taken root in our country, we need a permanent mechanism of comparing views, of criticism and self-criticism in the Party and society" (Nineteenth All-Union Conference of the CPSU, 1988, p.73). Gorbachev was arguing that a one-party system did not contradict pluralistic socialism. The number of parties cannot measure pluralistic socialism (Petrenko, 1989, p.19). Supposedly, there was plenty of room in the Soviet society for the development of political pluralism within a one party structure. In fact, it was unlikely that a single pluralistic open party can maintain its leading role status. In a pluralistic environment, interest group organisation and participation is a natural expression of collective interests (Caparaso and Levine, 1993, p.141). Consequently, disagreement was inevitable once the concept of the correct line was rejected and, with it, the emergence of opposition to the majority view which decides to withdraw and establish a new party. The inevitable contradiction was avoided when the Soviet leadership accepted a multi-party system. On the 15th of January 1990, Gorbachev made his first statement in favour of a multi-party system: "I see

no tragedy in a multi-party system, if...it arises as a result of normal historical process and answers the needs of society. We shouldn't be afraid of a multi-party system the way the devil fears incense" (Reuter, *The Age*, 15 of January 1990).

Democracy is the continuing responsiveness of the top authority to the preferences of the members of the society, through a structurally defined procedure like elections. Within a democratic system every member is considered as politically equal (Lindblom, 1977, p.132). Democracies have the aim of constraining and controlling authority. Democracies generate and sustain the right of participation in the choice of government, in the process of legislation and in the control of administration. Collective decision-making through a democratic process, would ensure that the institutions of the society reflect the will of the people. Policy-making reflects the variety of preferences and interests of the society. Democracies require the existence of political parties that compete to win office within defined periods of time. There is a danger that the representatives of the citizens, may by exercising government discretionary power, use it for their own self-interest in the form of monetary income, non-pecuniary perks, power and prestige. That is why the representatives of the citizens are accountable to the people. Braguinsky (1998, p. 231) argued that democracy was essential for transition economies because democracy allowed the formation of interest groups as to achieve a new balance of power. Democracy was also essential for mediating the formation of class interests and class antagonisms and encouraging compromise. In a democratic environment, the aim of the government is to remain in power by introducing policies, which would ensure the winning of the next election. Actually, it has been demonstrated that shock therapy was inconsistent with democracy (Marangos, 2001). Thus, in reality, the way that politicians conceptualise the transition process is different from the way economists and political scientists interpreted transition.

While there was a need for changes in the political structure in transitional societies, these changes did not necessarily involve democracy. Some economists argued that what a market economy needs is a "light" government, not necessarily a democratic one. They would prefer a non-elected government, which does not exercise discretionary power, to one, which is democratic but intervenes, distorting the market. "We should not claim democracy as either sufficient or even necessary for a liberal society with a market economy" (Walters, 1992, p. 101). As well, "democracy is neither necessary nor sufficient for good economic performance" (Intriligator, 1998, p.241). However Rausser (1992, p.317) disagreed arguing that, "sustaining economic success in the long-run, in fact, may require democracy".

However, the adoption of political pluralism would also result in changes in the economic model, which reformers strive to introduce. The process based on political pluralism and not on a correct-line party (the party scientifically derives the correct perception of things), or on military dictatorships, may influence the model itself. Such changes may be of a minor nature, which could be incorporated in the model and would not alter significantly the basic model. For example, the acceptance of multi-party politics, the concessions to private property and hiring labour were not included in the original Gorbachev market socialist model, but were

included in a latter stage in the model. But pluralism exacerbated the difficult situation of the transition by allowing the people to show their dissatisfaction. In particular, pluralism in the Soviet Union revealed the depth of the nationality problem. Contrary to the Soviet leadership's claims, the nationality issue was never resolved and definitely not eliminated. The non-Russian republics had not joined the Soviet Union of their own accord. Russia either inherited the republics from the Tsarist Empire or acquired them through diplomatic agreements, as for example in the case of the Baltic States. "Modern Russia was an artificial empire created by the use of force against different nationalities, held together by force, and doomed to explode as soon as that force was removed" (Sixsmith, 1991, p.147). Pluralism allowed the expression of national sovereignty. The attempt to keep the union together in a political pluralistic environment resulted in large concessions to the republics, which ultimately resulted in the break-up of the Soviet Union. It was a "cost" that the reformers had to pay if pluralism was an essential precondition for the implementation of the model. Thus it appears that in the case of the Soviet Union a one-pluralistic-party political system was not viable.

On the other hand those in favour of a non-pluralistic process, for example the non-pluralistic socialists such as in China, argued that the implementation of such radical reforms required a politically stable and powerful government, which had enough authority to implement the reforms independent of public opinion and vested interests. For example, "the possession of such a hard state has been the single most important advantage enjoyed by the East Asian tigers over the major Latin American countries" (Unger and Cui, 1994, p. 85). In this way the government would be able to concentrate on the reform process and avoid any problems associated with the political process, thus formulating economic policy unconstrained. The achievement of efficiency does not require parliamentary democracy; authoritarian rule may likewise be capable of achieving a dynamic improvement in the standards of living. A transition process based on non-pluralism will evade the aforementioned problems that Gorbachev had to face, as argued by non-pluralistic socialists in China. Chinese reformers followed Mao who, in the development of the economy, supported "putting politics in command" (Weil, 1996, pp.218-9). There was a belief in China that only with the presence of the Communist Party could there be economic growth while still ensuring the construction of a socialist society. Deng consistently maintained that the only feasible political setting in which to reform the command economy successfully was under strong, unified party leadership (Nolan, 1995, pp.163, 300). Consequently, the Chinese non-pluralistic regime was not prepared to allow the degree of political liberalisation required to establish a pluralistic form of market socialism. Effectively, the choice between the two models, with or without political pluralism, had to do with the nature of economic and political power and whether the central authority was willing to relinquish some of its power in favour of participation by the people. Accordingly, it depended on whether the reformers were willing to accept the input of the people in the development of the transition program, at the cost of altering the model significantly.

In addition, the nature of the political structure provoked the question of the role of the state in society. The alternative transition models would need

to specify whether the state could be used as a mechanism to solve economic problems, or whether state intervention was an impediment to social progress so that its role should be minimal. This is because "while the state is central to the functioning of modern capitalism, its interpretation remains particularly contentious" (Stilwell, 1996, p.223).

5. Ideological Structure.

Ideology refers to a cohesive set of values and beliefs about others, the world and ourselves. It embodies a distinct "world view" as how the society and thus the economic system functions. "Ideas and ideologies shape the subjective mental constructs that individuals use to interpret the world around them and make choices" (North, 1990, p.111). The introduction of market relations in the former centrally administered economies unavoidably eventuated in a change in ideology. As Marx and Engels (1988 [1872], p. 58) asked, "does it require deep intuition to comprehend that man's ideas, views and conceptions, in one word, man's consciousness, changes with every change in the conditions of his material existence, in his social relations and his social life?" Consequently, "it is not the consciousness of men that determines their being but on the contrary it is their social being that determines their consciousness" (Marx, 1976 [1859], p. 3). Ideology consists of subjective "models" (North, 1997, p.3) which individuals possess to explain and evaluate the world around them. In addition, ideology is the means of overcoming the free-rider problem (Lin, 1989, p.10). As such, human behaviour takes place within a given ideological framework with its specific values, beliefs and worldview.

Ideology advocates a particular pattern of social relationships and arrangements, and determines the goals of human activities and the moral standards of human behaviour. Ideology determines and creates human personality, which sequentially influences the identity of a society. Thus we should regard ideology as a set of directives for activity as well as the means for rationalising human behaviour. "The purpose of ideology is not to mystify but to clarify" (Heilbroner, 1996b, p.32). It is used to justify a specific economic structure, which its supporters seek to promote, realise, pursue or maintain. The economic, political, legal, moral and religious institutions are what they are because they facilitate and they uphold the ideological framework of the society. "For economic terms to mean anything, they must be related to other terms, to their cultural context" (Dugger, 1996, p.35).

Ideology stimulates the embrace of the attitudes of others, which results in recognition as a member of a group, pre-determines acceptable behaviour and encourages its replication. Ideology advances the behaviour that is considered applicable for a each situation, avoiding in this way "anti-social" actions and behaviour associated with an individual's observation, belief or idea. Conforming to the ideological directives results in cultural leadership. Conforming is more beneficial than divergence. The costs of non-conforming to the ideological perception include behavioural costs, economic costs and costs of exclusion. Thus conformity evolves in imitation; it is rational to imitate to reduce costs. Once an ideology becomes mainstream it results in conformity and imitation.

Those in positions of power seek to foster an ideology, which creates opinions and goals consistent with the existing structure and order, or to induce modifications to the existing rules. Ideology should not be considered as something unchanging and definite, since it can become a tool for reform, defending changes in socio-economic relations. The role of the state is extremely significant in this context because, by guiding its ideological instruments, states can become active "ideological producers" and achieve ideological integration (Mandel, 1977, p. 28).

However, while ideology is flexible, the innovator is not totally unconstrained. The introduction of market relations into a centrally administered economy required a different set of behaviour, values and norms. The existing "cultural frames" and conceptions of control were irrelevant. There was a need for an ideology to encourage individuality, instead of people waiting to take orders and showing no initiative. Otherwise market relations would become unworkable. Old patterns of behaviour, non-competitive culture and conduct and old expectations were very difficult to change. What was required was not only a change in institutions but also a change in thinking; however, the latter could not be established by law. As such, voting in the parliament does not create the market. A change in ideology was required to remove the stigma on initiative and self-help, through the establishment of private property and class interests. Private property and class interests would release the appropriate change in ideology to motivate people to behave in a certain appropriate way determined by the market system. However, conformity to the old ways of behaviour may suppress the formulation of new values and norms and become a barrier to entry of efficient methods of behaviour appropriate to the market process. The transformation would occur only if the benefits from traversing from one to another exceed the costs. Due to switching costs it may be economical to remain with the old pattern of behaviour rather than change to the modern (Doucouliagos, 1995, p.302).

Thus, in addition to the necessary changes in the political structure and in property relations, a change in attitudes, moral judgements and thinking was required. In this context, we need to take nationalism into account. As the economies of Russia and Eastern Europe move towards a market economy, nationalism may encourage the maintenance of social and cultural distinctiveness. Thus the role of nationalism, which is part of ideology, should not be neglected. "Eastern Europe nationalism has a troubled and bloody past" (Bigler, 1996, p.13). Eastern Europe has only two ethnically homogenous countries, Poland and Hungary, and none without territorial hostility with their neighbours. Eastern European economies never developed regional co-operation, which could have reduced national frictions. The only example of regional co-operation was COMECON. However that was involuntary and directed towards the interests of the Soviet Union. With such a background, the collapse of the Soviet Union and the removal of central control in the area allowed the re-emergence of nationalism, with a revival of old feelings and antiquated ways of thinking. The development of markets and pluralism hopefully would eliminate these conflicts.

In addition, the role of religion should not be underestimated. Max Weber (1995, [1920]) conclusion on the relationship between religion and the economy was that religious values and ideas could be a vehicle of

change in society. As well, political boundaries between states can be removed more easily than boundaries between traditions, religion and churches (Solomon, 1998, p.101). Consequently, a student of transition economies cannot intelligently abstract from the causal power of notions of divinity upon the people. In the Soviet Union and Eastern Europe churchgoers continued to believe and to practice their faith despite religious repression. Participation in religious affairs was a declaration of opposition to the regime. The church as an institution of civil society affects political culture either through the actions of the church elites or through the action of churchgoers (Gautier, 1998, p.291). The influence of religion in transition economies can be demonstrated by the active role played by churches and churchgoers in participating in the pro-democracy movement in Eastern Europe especially in Poland and Eastern Germany (Gautier, 1998, p.289). With the transition to a market economy there is a re-emergence of religious values concerning, for example, the family, gender differentiation and abortion, which would influence transition policies (Miller, 1997, p.63).

The restructuring process would also require the acquisition of new skills by the labour force. The development of new skills would be facilitated by the abolition of privileges and in this way encourage everyone to have a constructive input. Previously, the only acceptable income was that earned by labour. Nowadays the profit motive is developing as the result of the reforms. People had to adjust their behaviour, since job and income insecurity was part of the process of moving towards a market economy. The new economic conditions required a transfer of labour from administration and manufacturing into services. This unavoidable change meant job losses and changes in lifestyle. The market reform process would unleash talents oppressed under the previous regime, and replace those who could not or would not adapt to the new economic conditions. Kornai (1990, p.182) was confident that "public attitudes will be changed by social changes themselves". Nevertheless, the development of an ideology independently of culture cannot come about. Consequently, a market ideology has to be nourished within the pre-existing historically developed culture. Although the ideological stereotypes of negative attitudes towards capitalism were becoming more and more weak, they still dictated the mass consciousness (Kosnarskii, 1992, p.30). Glasamm (1994, p. 62) stressed that "a society which does not transform the world through its combined effort and knowledge has neither a culture nor an economy".

An alternative interpretation of the role of ideology in society is that it defends how the economic system operates, what principles it embodies and the policies implemented, which are for the purpose and benefits of the people in power. Any action which is "justified" by ideology has the aim of maintaining and/or extending the monopoly position of those in power over the economic and political sphere. "Ideology is the deeply and unselfconsciously held views of the dominant class in any social order" (Heilbroner, 1996b, p.32). However this cannot take place without a guiding moral force based on the traditions of the country in question. As such we can argue "ideology is never independent of the interest of the ruling class" (Milenkovitch, 1992, p.49). Gramsci's (1971) analysis of the hegemony of ruling class ideas that were presented as ideas of the whole society, revealed that such hegemony was never absolute. Instead there would always exist

ideas and attitudes that were counter-hegemonic, standing in opposition to the dominant values and ideas.

There are a number of mutually exclusive dimensions which ideology can encourage within a market system:

a) **Self-interest.** With respect to the ideological structure, market economies have developed an ideology that emphasises and encourages self-interest and self-help. We need only to remember the often quoted passage of Adam Smith (1986 [1776], p.119) that “it is not from the benevolence of the butcher, the brewer of the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self-love and never talk to them of our necessities but of their advantages”. Market supporters stress that, to be able to understand social phenomena, we need to understand individual actions. Individuals are allowed, within defined limits, to follow their own values and convictions rather than somebody else’s, and individuals should not be subject to coercion. The neoclassical model would be in favour of stimulating a self-interest ideology.

b) **Common Good.** The question arose whether there was a need to bring together the individual’s and society’s goals. Should there be any restriction on individual behaviour in a market system in the name of the common good? If the answer is yes, how then would the common good be determined? By an open pluralistic process where individuals come together to plan for the common good, or through a leading role, leading position and correct line party? The answer needs to be incorporated in each transition model. The Post Keynesian model combines a self-interest ideology with the common good within a democratic environment.

c) **Participation.** The decision-making process does not only involve the formulation of the common good, but may also involve the breakdown of hierarchical relations within the enterprise and society. The question then arises whether the transition model will allow the participation of the workforce in the decision-making process of the enterprise. The market socialist model integrates self-interest, common good and participation.

6. Initial Conditions.

The transition process was characterised by uncertainty (Thomas and Wang, 1997, p.223) The absence of any historical paradigms -*The Economist’s* (Anonymous, 1990, p.18) metaphor about the transition process was that there is no known recipe for unmaking an omelette- has resulted in an attempt to approximate the initial conditions of centrally administered economies with the stabilisation programs initiated in the mature market economies. However there was disagreement on whether the transition process should take into account the historical and cultural factors which underlined the unique features of a each country or whether the were analogies between different countries in similar states of their economic, political, and social development (Ashund, 1992, p.24). For example Sachs (1993, p.3) argued “the prototypical case in Europe that I will refer to is that of Spain, which in many ways provides a kind of guidepost to the path that the countries of Eastern Europe should follow”. Edwards (1992, p.131) argued that “the large number of stabilisation attempts in Latin America during the last four decades provides a wealth of lessons - both positive and

negative - on different aspects of anti-inflationary programs". Or, "an analogy is presented by what Central and Eastern Europe encountered just after World War I" (Aslund, 1992, p.26). Meanwhile, Bilenkin (1995, p.27) was very critical of the reproduction of Western values in transition economies because "the population has been subjected to an aggressive acculturation and indoctrination in the values of consumerism and a neoconservative ideology patterned after Thatcherism and Reaganism".

The attempt to approximate any of the initial conditions of the centrally administered economies with the experience of any mature market economy was, as some economists argued, immaterial. The stabilisation programs initiated in mature market economies assume a well-functioning market with developed institutions and the dominance of private property, sticky prices and wages and forward-looking economic actors motivated by individual material incentives. The initial conditions of centrally administered economies, that is dominance of state property, central control of the whole economy, and the encouragement of non-material incentives, did not entirely approximate the conditions of any mature market economy. As such Share (1995, p.577) and Brown (1995, p.169) argued that experience has taught us that successful countries had never tried to copy models of development of other countries, especially of European countries. Even though Japan is a notable example. Kagarlitsky (1993, p.88) stated that "the proclaimed goal of becoming a developed capitalist state in the mould of Britain or France is simply objectively unattainable". Accordingly, the reform process must be tailored to individual conditions of the transition country (Frydman, Rapaczynski and Turkewitz, 1997, p.45). Thus economic development must originate from the initial conditions and social practices of the people (Brown, 1995, p.169). Recognising 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 generalisation. As such the experience of mature market economies was irrelevant. Thus, there are two mutually exclusive options regarding the initial conditions. On the other hand, the shock therapy supporters argued that the transition program that they proposed had general application across economies with immensely different initial conditions and political environments. The gradualist neoclassical economists showed some concern for the initial conditions since they shaped the gradual transformation of the society, but this should not be used as a pretext to substantial delay the reforms and distort the achievement of a free market. Meanwhile the Post Keynesians considered the initial factors important, while for the market socialist they were extremely important in shaping socialism, because of the hostile capitalist world the transition countries would be surrounded by if they chose that socialist path.

On the basis of the aforementioned primary elements we can distinguish between the following transition models in the following Table 1.

TABLE 1: ALTERNATIVE MODELS OF TRANSITION BASED ON PRIMARY ELEMENTS

PRIMARY ELEMENTS	MODELS OF TRANSITION				
	Neoclassical Shock Therapy	Neo-classical Gradualism	Post Keynesian	Market Socialism	
Economic analysis	Neoclassical		Post-Keynesian	Marxist	
What is a good society?	Competitive capitalism		Social-democratic capitalism	Market socialism	
Speed	Shock therapy	Gradualism	Gradualism	Gradualism	
Political structure	Pluralism		Pluralism	Pluralism	Non-Pluralism
Ideological structure	Self-interest		Self-interest Common good	Self-interest Common good Participation	Self-interest Common good Party Participation
Initial conditions	Less Concern	Some concern	Important	Extremely important	

IV. Conclusion.

A political economy approach to the transition process required the incorporation not only of the economic structure but also of the political and ideological structures. Consequently, an application of a political economy methodology to the transition process gives rise to alternative models of transition. Each model confronts the elements of the transition process economic analysis; what is a good society? speed; political structure; ideological structure and whether the initial conditions were a concern, with different solutions, making it meaningful to distinguish between alternative models. The development of each model is based on a set of ideas to most of which individual economists who subscribe to the particular body of analysis would conform. Consequently, which model was implemented depended on the values, beliefs and power relationships between the members of the society of the transition economy, mature market economies and international financial institutions.

In the preceding analysis alternative models of transition were developed, based on a political economy approach. It was stressed that comparisons between models were inappropriate before demonstrating the goals and method of analysis, which are associated with the assumptions regarding economic behaviour, institutions, ideology and the initial conditions. However, since the theme of value judgements and critiques of transition models has been raised, the value problems must be at least given some explicit consideration. To assert that economists should not at least attempt to recommend a solution to the transition problem is intellectually myopic, not to say disingenuous (Cox, 1998, p.2). "Of course, social science does not equip us to give a definite answer" (Lipton and Sachs, 1992, p.249). But the implementation of a transition model, independently of the model, confronted a set of objective constraints. These constraints were associated with the domestic and external environment within which the transition process was unfolding. Especially, with regard to the external environment, governments in transition economies faced a set of constraints regarding financial aid and foreign direct investment. Mature market economies and international financial organisations were only willing to provide financial aid to transition economies, which pursued a shock therapy approach. As well, multinationals were only willing to invest in transition economies which allowed a high degree in decision-making with the free market approach. The dominance of the shock therapy approach, as the experience of the transition economies demonstrated, can be interpreted as being imposed due to the high opportunity cost associated with foreign aid and foreign investment. The imposed external constraints did not allow for the transition economies to choose between alternative models of transition based on their values associated with what is a good society.

ENDNOTES

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¹ For example, the books edited by Woo W. T., S. Parker and J.D., Sachs (1997) and Clague C. and G. Rausser (1992) contain a collection of papers which are based on the neoclassical point of view and mostly on a single policy issue.

² I am grateful to an anonymous referee for this analysis

³ The budget constraint is the sum of financial resources available to the decision-maker, which places a constraint on spending. However firms under centrally administration encounter a soft budget constraint, instead of the hard one faced by capitalist firms. Whenever a socialist firm was in the red the central authority would bail it out with financial assistance in the form of subsidies, reduce taxation, provide credit, or increase administered prices (Kornai, 1992, p.140-5).

⁴ This is a minimalist definition of pluralism.

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