The Catastrophe of Marketization

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Abstract: *The aim of this paper is to discuss the present dismal economic and social condition of the ex-Soviet bloc countries within an analytical framework which sees it as a case of marketization in an internationalised market economy. It is shown that the effects of marketization were generally catastrophic resulting in the deterioration of the economic and social welfare of the majority of the population. Furthermore, the fact that marketization takes place in an internationalised economy, combined with the absence of the pre-conditions for the development of a strong domestic industry and technology, practically guarantee the "Latin-Americanisation" of most of Eastern Europe and particularly Russia. It is also shown that the attempt to create a "socialist" market economy in China (as opposed to the capitalist market economy in East Europe) may have produced some spectacular macro-economic effects in terms of the conventional measures of growth, but the effects on social welfare have been dismal, in terms of exploding inequality, rising unemployment and low-wage employment, rapidly deteriorating health standards, deteriorating welfare services and environmental degradation.*

1. The analytical framework

Statism versus marketization

The first step in an attempt to understand the nature of the changes in the countries which used to be characterised as "actually existing socialist" (former Soviet bloc countries) is to develop a proper analytical framework. It is obvious to me that neither the Marxist approach, nor the dependency or regionalisation and globalisation approaches can each provide such a framework alone. This is also recognised by Field and Goodman[1] who convincingly argue that developments in these countries can be understood through the combined processes and situations of globalisation, regionalisation and dependency and their interaction with geopolitical factors. To my mind, although these approaches may provide useful insights in such an understanding, still, they suffer from the basic drawback that all

[1] Heather Fild & James Goodman, "Transforming Europe: new zones of dependency" (in this issue).

of them have originally been designed to interpret different processes. Thus, the marxist approach has been designed to show the transition from pre-capitalist to capitalist social formations. Likewise, the dependency, globalisation and "modes of production" approaches have been designed to show the process of integration of market economies, or of economies at various stages of articulation of capitalist and pre-capitalist modes of production, into the world market economy. For similar reasons, a recent neomarxist[2] approach, which does not consider the development of the market economy in these countries as an integral part of the internationalisation process, is inevitably inadequate.

The ex-"communist" countries differ significantly from both market and pre-market economies. Thus, as far as property relations is concerned, these countries were not meeting the criteria of capitalist, pre-capitalist or an intermediate type of society at the time they embarked on a process leading to a market economy, either of the "socialist" type (China, Vietnam) or of the capitalist type (ex-Soviet bloc countries). The various forms of collective ownership prevailing in these societies, ranging from state ownership to co-operatives etc, differentiated them from the traditional capitalist or pre-capitalist societies, despite the fact that they shared some important characteristics (most notably the wage relationship), with capitalist societies. Similarly, the way resources were allocated was very different from the one which characterised market economies. It was not the market but central planning, i.e. a conscious allocation mechanism, which had the task of allocating scarce resources. As a result, these economies, before the collapse of "actually existing socialism," were never fully integrated in the world market economy. Thus, Eastern Europe's trade with the West had historically represented a very small proportion of world trade, amounting to less than 5 percent of the pre-world war II global trade and about 10 percent of the post-war trade.[3] Also, their internal price structure was very different from that of the world market,[4] a fact which became all too evident after the collapse of these regimes and the very difficult problems that the Eastern European countries faced in adjusting to world price structures.

It is therefore obvious to me that we need a new analytical framework to interpret the process of integration of the formerly state-socialist societies into the internationalised market economy. In this analytical framework, as I attempted to show elsewhere,[5] it is preferable to use the term "market economy," instead of the

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[2] Gil Eyal et al. *Making Capitalism Without Capitalists* (London: Verso, 1998).

[3] *See* Alan A. Brown and Egon Neuberger, *International Trade and Central Planning* (Berkeley: University of California Press, 1968), Table 1; and, also, *World Development Report* (World Bank, various years).

[4] World Bank, *From Plan to Market* (WDR 1996), p. 4.

[5] Takis Fotopoulos, *Towards An Inclusive Democracy, The Crisis of the Growth Economy and the need for a New Liberatory Project* (London: Cassell, 1997), Ch. 1.

usual Marxist concept of "the capitalist mode of production" (which emphasises production relations), or alternatively "the capitalist world economy,"[6] (which focuses on exchange relations). The choice does not emanate from a need to comply with today's "political correctness" but from my belief that although the concepts "capitalist mode of production" and "capitalist world economy" have provided important insights in the analysis of social classes and the world division of labour respectively, they are too narrow and outdated. They are too narrow because they imply that power relations in general can be analysed in terms of (or be reduced to) economic power relations and they are outdated because in today's internationalised market economy neither the class analysis implied by Marxist theory, nor the concept of the world division of labour implied by the "world-system" approach are particularly relevant.

The term "market economy" is used here to mean the concrete system that emerged in a specific place (Europe) and at a particular time (two centuries ago) and not as a general historical category of an approach aiming to show the evolution of the economic system throughout History, as the Marxist concept of the mode of production supposedly does. So, the market economy is not identified with capitalism, as it is usually the case. We may define the ***market economy*** as the self-regulating system in which the fundamental economic problems (*what, how*, and *for whom* to produce) are solved "automatically," through the price mechanism, rather than through conscious social decisions, although this should not be taken that in a market economy there are no social controls at all. In fact, we may distinguish various phases of ***marketization*** (which is defined as the historical process that has transformed the socially controlled economies of the past into the market economy of the present), on the basis of the role of the state in connection to social controls over the market. Thus, the state played a crucial role in the establishment of the market economy two centuries ago and, also, during the first attempt to set up a liberal internationalised economy in the last century (liberal phase).

The rise in this century of what I call ***statism*** (the period of active state control of the economy and extensive interference with the self-regulating mechanism of the market aimed at directly determining the level of economic activity), was a historically brief interlude in the process of marketization. In the West, socialist statism took the form of the social-democratic consensus and it lasted for less than half a century, from the mid thirties up to the mid-seventies when it became incompatible with the requirements of the internationalisation (as opposed to "globalisation") of the market economy.[7] In the East, socialist statism also lasted for

[6] *See,* e.g., Immanuel Wallerstein, *The Capitalist World Economy* (Cambridge, Massachusetts: Cambridge University Press, 1979), Ch. 1.
[7] Takis Fotopoulos, *Towards An Inclusive Democracy,* Ch. 1.

about forty years after the end of the war, apart from the Soviet Union which however did not manage even to celebrate its centenary.

The extreme example of statism was of course Stalinist Russia, where, for the first time since the establishment of the market economy in the nineteenth century, a "systemic" attempt was made to reverse the marketization process. It was in the 1930s that the collectivisation of farms removed land from the market. Furthermore, the introduction of the 5-year plans removed from the market most important economic decisions. Still, even this extreme form of statism, which after the Second World war expanded to a significant part of the world, was extinct by the last decade of this century. In a sense therefore this form of statism was, also, a brief interval in the process of marketization in these countries, Therefore, today's transition to a market economy may be seen as a resumption of the marketization process which was violently interrupted by the advent of "actually existing socialism."

Furthermore, as I showed elsewhere,[8] the concentration of political and economic power at the hands of the communist party bureaucracy, in combination with the non-abandonment of the wage system, meant that the effect of socialist statism in Eastern Europe was just a change in the personnel of the ruling elite, rather than the elimination of the elite itself. In other words, the place of capitalists in the ruling elite, who had been controlling the economic process (i.e., what, how and for whom to produce) *indirectly,* through the market system, was simply taken over by party bureaucrats and technocrats (managers, economists etc.) who controlled it *directly* — through the central planning system.

The socialist growth economy

The advent of "actually existing socialism," however, had another important effect: it created another type of growth economy in which economic growth was a deliberate objective rather than the outcome of the dynamics of the economic system itself (as in the case of the market economy). So, if we define the ***growth economy*** as the system of economic organisation which is geared, either "objectively" or deliberately, to the maximisation of economic growth, then, the growth economy, historically, takes the form of either a "capitalist" growth economy or a "socialist" one. In both these two versions, including the hybrid form of social democracy, the means are different but the end-result is the same: the maximisation of growth. In fact, it is the much lower degree of compatibility between ends and means in the socialist case than in the capitalist one which has already led to the eclipse of the socialist growth economy.

[8] Takis Fotopoulos, *Towards An Inclusive Democracy,* Ch. 2.

It should be clear that the distinction I make between the capitalist growth economy and the socialist growth economy is made on the basis of the way in which economic resources are allocated, and not in order to define the nature of the respective regimes. This is of particular importance with respect to the regimes of "actually existing socialism," which can surely not be characterised as socialist, even by the standards of classical Marxism.[9] Thus, in the capitalist growth economy, economic growth and the basic economic problems (what, how, for whom to produce) are left to the price mechanism, whereas in the socialist growth economy most of the corresponding decisions are taken through some form of central planning mechanism. Using this distinction, under the "capitalist growth economy" label, we may classify the growth economies in the West, which mainly flourished in the post Word War II period and took either a social-democratic form (at the beginning of the period) or the present neoliberal form, whereas under the "socialist growth economy" label, we may classify the pre-1989 economic structures in the East, namely the countries of "actually existing socialism."

The above distinction is necessary because, although ownership — and particularly control — of the means of production was only formally social in the "socialist" growth economy, the fact that the allocation of resources was achieved mainly through the central planning rather than the price mechanism constitutes an important qualitative difference. Thus, whereas in the capitalist growth economy the growth objective as well as the intermediate objectives (efficiency, competitiveness) are derived "from within" the logic and dynamics of the system itself, in the "socialist" growth economy, the same objectives were imposed "from without," by the political decisions of the party bureaucrats who controlled the planning mechanism. In other words, it is conceivable that a planned economy may pursue different objectives from those that a market economy does. Although, obviously, a certain amount of development of productive forces will always be needed so that, at least, the basic needs of all citizens are satisfied, still, this does not imply a struggle to maximise growth in competition with the capitalist growth economy and everything this struggle involves in terms of the need to improve efficiency. So, whereas in the capitalist case, the growth economy is the ***inevitable outcome*** of the workings of the market economy at the micro-economic level, in the socialist case, it is simply the ***selected objective*** at the macro-economic level.

However, apart from this basic difference, the two types of the growth economy share many common features and, in particular, two very important characteristics: concentration of economic power and ecological damage. These characteristics, in turn, follow from the fact that both versions share the intermediate objective of

[9] *See* Takis Fotopoulos, *Dependent Development: The Case of Greece* (Athens: Exantas Press, 1985 & 1987), Ch. A.

efficiency. Efficiency is defined in both systems on the basis of narrow techno-economic criteria of input minimisation/output maximisation and not on the basis of the satisfaction of human needs, which is supposed to be the aim of an economic system.[10] Therefore, although concentration of economic power in the socialist growth economy was mainly the outcome of the concentration of political power in the hands of the party elites, and not the outcome of the "automatic" functioning of the economic system, still, the adopted objective to maximise growth and efficiency imposed the need to use the same methods of mass production in both the East and the West. Furthermore, given that the concept of economic efficiency, which both systems share, does not take into account the "externalities" of the economic process and particularly the negative consequences of growth on the environment, the outcome is today's widespread environmental damage all over the planet.

Despite the fact that the dominant ideology in the West has been that of liberalism and in the East socialism, still, both the market economy in the former case and the planned economy in the latter shared the ***growth ideology*** which may simply be defined as the ideology founded on the social imaginary signification that "the unlimited growth of production and of the productive forces is *in fact* the central objective of human existence."[11] The growth ideology has been established for over 200 years, in the wake of the industrial revolution and the "grow-or-die" dynamic that was set in motion by the market economy. Thus, from Adam Smith[12] to Karl Marx,[13] the fundamental problem was how humankind could, with the help of science and its technological applications, maximise growth. In fact, Marx was even more emphatic about the importance of rapid growth. So, the growth ideology has complemented the *liberal* ideology of the capitalist growth economy and the *socialist* ideology of the socialist growth economy. In this sense, the growth ideology has been the ultimate ideological foundation for both the capitalist and the socialist growth economy, despite the different ways in which the hierarchical patterns of power concentration are structured in the two types of growth economy. Furthermore, the growth

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[10] The usual definition of *economic efficiency* is in terms of *technical efficiency* (input minimisation or output maximisation for any given combination of inputs) *production efficiency* (which implies that no reallocation of resources could increase output) and *exchange efficiency* (which implies that no further exchanges could improve consumer welfare). However, this supposedly "neutral" definition of efficiency assumes away distributional aspects so that it is perfectly possible for a particular allocation of resources to be "efficient" and at the same time not capable to meeting adequately (or not at all) the needs of many citizens .

[11] Cornelius Castoriadis, *Philosophy, Politics, Autonomy* (Oxford: Oxford University Press, 1991), p. 184.

[12] Adam Smith, *The Wealth of Nations* (London: Harmondsworth, 1970), p. 104.

[13] As Sean Sayers observes, drawing from Marx's *Capital*, Vol. 3, and *Grundrisse*, "Marx regards the immense expansion of production to which capitalism has led as its progressive and 'civilising' aspect"; Sean Sayers, "Moral Values and Progress," *New Left Review*, No. 204 (Mar.-Apr. 1994), pp. 67-85.

ideology has, in a sense, functioned as the "ideology in the last instance," since it has determined which ideology would be dominant at the end. This is why the economic failure of the socialist growth economy (namely, the failure to create a Western-type consumer society) was the main reason that led to the collapse of this type of growth economy and to the present predominance of the capitalist growth economy and its own ideology (liberalism). The common growth ideology can also account for the fact that both types of growth economy share a similar environmental degradation. In fact, the ecological crisis in the countries of "actually existing socialism" was even more serious, despite the absence of capitalist production relations, in the sense of privately owned means of production. This was due to the less efficient technologies used in the planned economies and the fact that the pollution effects were intensified by the price structures which underpriced energy and raw material resources leading to their overuse.

However, despite the fact that the growth ideology underpinned both the liberal and socialist ideology one should not ignore the intrinsic relationship between means and ends. Thus, despite the fact that both types of growth economies aimed at the same goal (maximisation of economic growth) still the difference in the means used is very important. Planning is a means which is primarily consistent with a system of social ownership of the means of production whereas market is primarily consistent with private ownership. Although therefore various combinations of planning/market and social/private ownership of productive resources have been proposed and implemented in the past, the fact remains that it is the combination of planning (combined perhaps with forms of artificial "markets" like the ones I proposed elsewhere[14]) with forms of social ownership which can only secure the satisfaction of all citizens' needs. Therefore, any combination of real markets with private ownership of productive resources (as in market economies) is bound to distribute the economic benefits from growth in a very uneven way and therefore cannot meet the needs of all citizens. In fact, even if real markets are combined with forms of social ownership of the means of production, they are bound to lead again (because of the dynamics of the market mechanism itself) to significant unevenness and inequality, as in the "social market" economies of today (e.g. China or Vietnam).

Marketization in an internationalised economy

The analytical framework proposed here aims at interpreting the present dismal economic and social condition of the ex-soviet bloc countries as a case of marketization within the framework of an internationalised market economy. In this problematique, the fact that marketization took place in such a framework was decisive in ruling out the possibility of moving to an intermediate form of statism (like

[14] Takis Fotopoulos, *Towards An Inclusive Democracy,* Ch. 6.

the one prevailing in the West during the period of the socialdemocratic consensus) which seemed to be the goal of the intellectuals who played a significant role in the overthrow of the previous regime. As I tried to show elsewhere,[15] the type of mixed economy that was dominant in the West during the period of the socialdemocratic consensus is no longer possible today, as it is utterly incompatible with the liberalised and deregulated markets which the internationalisation of the market economy requires.

Furthermore, the proposed analytical framework may also transcend the problems which neo-Marxist writers like Eyal, Szelenyi and Townsley face in their attempt to explain the transition to what they call "capitalism without capitalists." Thus, according to the authors, this transition represents "a distinctive new strategy of transition adopted by technocratic-intellectual elites in societies where no class of private owners existed prior to the introduction of market mechanisms."[16] I believe that this approach not only is false in explaining the type of "development" taking place in these countries at the moment but it is also inadequate in the analysis of the new hierarchical structures which are developing in "post-communist" countries.

It is false, because it cannot grasp the fact that in today's internationalized market economy there is no need for a class of indigenous capitalists to initiate the process leading to the establishment of the system of the market economy. In other words, today, the introduction of the institutional framework of the market economy and the resulting marketization process is enough to create a new breed of domestic economic elite, which, in cooperation with the foreign economic elites who control the activities of multinationals, effectively control the productive resources. But, the fact that the system of the market economy is essentially imported in these countries rather than indigenously developed has several negative implications on their economic development process, which, in this sense, may be classified as a case of dependent development. This, in contrast to the neo-marxist analysis which evaluates positively the outcome of marketization and draws the absurd conclusion (that flies in the face of overwhelming evidence to the contrary), that "despite substantial social costs (the transition) achieved far-reaching economic restructuring"![17]

As regards the inadequacy of this approach in the analysis of the new hierarchical structures in "post-communist" countries, although it is true that the type of social structures developing in these countries is not the one we meet in, for instance, a Latin American dependency case (given the difference in the transition processes involved), still, the proposed analytical framework is not useful either. Thus, the

[15] Takis Fotopoulos, *Towards An Inclusive Democracy,* Ch. 1.
[16] Gil Eyal et al. *Making Capitalism Without Capitalists,* p. 1.
[17] Gil Eyal et al. *Making Capitalism Without Capitalists*, p. 186.

authors, starting from a definition of capitalism as a class-stratified system in which economic capital (i.e. property ownership) is dominant, proceed to define communism as the system in which social capital (social network ties) — institutionalised as political capital (political network ties) — was the major source of power and privilege. In this problematique, a post-communist society is defined as "a unique social structure in which cultural capital (i.e. education, skill, credentials) is the main source of power, prestige and privilege," whereas possession of economic capital just places actors in the middle of the social hierarchy.[18] To my mind, this attempt to improve on the Marxist taxonomy, which distinguished classes on the basis only of economic capital, may be blurring rather than enlightening the issues involved. I think that what matters in an analysis of the forces leading to hierarchical relations and structures is not the form of capital ownership which gives to its possessor the right to control the economic or political process but, instead, the form of institutional framework which allows him/her to do so. In other words, the main characteristic of a hierarchical society is not the particular way in which the possessors of various forms of capital gain access into the elites but the very institutional framework of market economy and representative "democracy" which, by its own dynamics, leads to concentration of economic and political power respectively, i.e. to the creation of economic and political elites. This does not mean that it is only institutions that matter and agents do not matter. On this, I would agree with the authors that we need "a historical emphasis on the *interaction* between agents and structure" to interpret the post-communist transformation. I would argue however that although it is true that it is the agents' (usually revolutionary) *praxis* which determines the institutional framework, still, once this framework is established, it crucially conditions the agents' practice.

The historical fact, for instance, that the main agents (though not the exclusive ones) in introducing the system of market economy and representative democracy were the possessors of economic capital does not create a necessary causality relationship where the adoption of the market economy system should necessarily follow the rise of a class of possessors of economic capital. In fact, as the authors themselves point out, recent scholarship has begun to cast doubt on the assumption that there must be "capitalists before capitalism." Such research shows that historically it was not unusual for capitalism to emerge without the leadership of a propertied bourgeoisie.[19] The possessors of cultural and social capital — who seem now to be playing the dominant role in the process of establishing the market economy framework in the ex-Soviet bloc countries — have also played a significant role in the rise of the same framework in advanced market economies, two hundred

[18] Gil Eyal et al. *Making Capitalism Without Capitalists*, p. 6.
[19] Gil Eyal et al. *Making Capitalism Without Capitalists*, pp. 48-52.

years ago, although it was the possessors of economic capital who played the dominant role at that time.

Once, therefore, the institutional framework of the market economy has been adopted, the social groups which take charge of the economic process are those in positions of control of the means of production and distribution, irrespective of whether they owe their position to the possession of economic and/or or cultural capital. The only difference with the previous institutional framework of a planned economy is that, as far as the control of the economic process is concerned, the possessors of political capital have now been replaced by the possessors of economic capital whereas the possessors of cultural capital remain more or less in the same positions of control. The possessors of political capital therefore assume the same function as the political elites in any other market economy: they are in control of the political process. So, the cultural as well as the political elites play the same role in these countries as in any other country integrated into the internationalised market economy, i.e. they are relatively autonomous, although they will never question the dominant role of the economic elites and of the institutional framework (the market economy) which institutionalises their power. This reflects the fact that in any social structure which can be characterised as a market economy the dominant element is the economic one, although this does not mean that the other elements (political, social, cultural) are just in a position of dependence on the economic element.[20]

In this problematique, it is not difficult to explain the fact that, so far, the cultural bourgeoisie (which, as the authors argue, has assumed the historic mission of creating bourgeois society and a capitalist economic order) "have been more successful in establishing the market institutions of modern capitalism than in creating a class of individual private proprietors, especially in the corporate sector."[21] The cultural elite in post-communist countries simply plays the same role that the political and military elites had historically played all over the Third World in the post-war period: to create the institutions for the successful integration of their countries into the world economy, irrespective of whether this process would lead or not (mostly, it did not) to the development of any strong domestic capitalist classes.

The fact that, as the authors admit, the core of the technocrats' ideology (what I call the dominant social paradigm) is monetarism, which the possessors of cultural capital attempt now to combine with their original civil societarianism (the idea of creating a capitalism without a ruling elite of capitalists), is a clear indication that the technocrats and intellectuals in post-communist countries, faced with today's reality of the neoliberal consensus within an internationalised market economy, abandoned

[20] See for further analysis, Takis Fotopoulos, *Dependent Development: The case of Greece*, Ch. A.
[21] Gil Eyal et al. *Making Capitalism Without Capitalists*, p. 9.

their original ideals of enhancing the civil society and introducing effective social controls on the market and joined instead what I called elsewhere "social liberalism."[22] In other words, it seems that today even the possessors of cultural capital, who played a critical role in the changeover, do not believe anymore in the idea of creating "capitalism without capitalists." I would therefore disagree with the authors'[23] conclusion that:

> the reality of the world after the fall of socialism is not the making of a unitary system from the Chicago school's economic textbook. Rather it is a world of capitalisms — that is a world of socio-economic systems with a great diversity of class relations and institutional arrangements.

I would argue instead that the present internationalised market economy is indeed, to all intents and purposes, a unitary system. The parameters which determine social, political and economic action are, in broad terms, the same for every country integrated into the internationalised market economy: liberalisation of markets, minimisation of restrictions on the free movement of capital and commodities, flexible labour markets. These are the parameters which define the neo-liberal (or, in Europe, the social-liberal) consensus. Therefore, any variations among countries simply reflect "initial conditions," in other words, they are more relics of the past rather than guides to the future and, as such, tend to disappear over time (e.g. the German "social" market, the restrictions on markets still existing in ex-Soviet bloc countries etc.).

2. From socialist statism to marketization in East Europe

The achievements of "actually existing socialism"

A useful starting point in an interpretation of the present situation in the emerging East European market economies may be to examine briefly the causes of the failure of socialist statism. This would give us an understanding of the "initial conditions" or parameters within which the present marketization takes place.

First, we should notice that, regardless of the overall economic failure of "actually existing socialism," it cannot be disputed that this system had in its record several major achievements, as even the World Bank recognises:[24]

> The achievements of the planned system were considerable. They included increased output, industrialisation, the provision of basic education, health

[22] Takis Fotopoulos, *Towards An Inclusive Democracy,* pp. 85-91.
[23] Gil Eyal et al. *Making Capitalism Without Capitalists*, p. 16.
[24] World Bank, *From Plan to Market*, p. 1.

> care, housing and jobs to entire populations, and a seeming imperviousness to the Great Depression of the 1930s. Incomes were relatively equally distributed, and an extensive, if inefficient , welfare state ensured everyone access to basic goods and services.

I will single out two achievements which are of particular significance, especially in view of their fate after the collapse of the system.

The first achievement was to eliminate the insecurity created by open unemployment and the resulting marginalization of the individual. This was achieved, of course, at the expense of widespread "disguised" unemployment. However, if, to the liberals, disguised unemployment was a symptom of economic inefficiency, to the socialists it was just an inevitable consequence of social policy. Still, there is no doubt that the attempt to disguise open unemployment in this way contradicted the very logic of the growth economy. This is why the first casualty of the on-going full integration of these countries into the internationalised market economy was the abandonment of the state's commitment to full employment — a commitment which had already been abandoned by Western social democrats. The inevitable result was bound to be widespread unemployment, as can be shown either through liberal Keynesian theory (where the free market is shown to be unable to ensure full employment, except under special circumstances and for a limited period of time[25]) or through Marxist theory (where unemployment — the "reserve army" of labour — ensures that capital accumulation does not create a rising trend for wages.[26]) Thus, according to the World Bank, unemployment rose sharply almost everywhere, as a result of the forced shrinking of the state sector and the fact that the private sector did not (***and could not***) expand in a way to absorb the surplus labour. Even the data on registered employment show a dramatic rise in unemployment although, in fact, they hide reality since, as the World Bank admits, many people took early retirement, or stopped registering as unemployed once their unemployment benefits expired. Thus, between 1989/90 and 1994 registered employment fell 20 to 25 percent in Bulgaria, Hungary and Slovenia.[27] In Russia and Ukraine registered employment fell by only 7 to 8 percent, but this was because state enterprises were reluctant to resort to mass layoffs (in order to avoid social unrest) and workers remained formally attached to their firms receiving low or zero wages, in exchange for some enterprise benefits which they continued enjoying.[28]

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[25] *See*, e.g., Michael Bleaney, *The Rise and Fall of Keynesian Economics* (London: Macmillan, 1985), esp. Ch. 12.
[26] *See*, e.g., Paul Sweezy, *The Theory of Capitalist Development* (New York: Monthly Review Press, 1942), pp. 87-92.
[27] World Bank, *From Plan to Market*, p. 26
[28] World Bank, *From Plan to Market*, p. 73

The second achievement was that the degree of inequality in the distribution of income was lower in the countries under "actually existing socialism," than in Western countries at the same level of development, as it was shown by reliable Western studies.[29] This, despite the considerable inequalities induced by the institutionalised privileges and various economic benefits enjoyed by the bureaucracy. Marketization, on the other hand, meant a massive rise in inequality as a result of — as the World Bank points out — wage liberalisation, the increase in the income earned in the private sector of the economy (where there is a high degree of income differentiation) and the accumulation of individual wealth.[30] In fact, inequality is not only an inevitable by-product of the dynamics of the market economy, but, as the World Bank points out, a desirable element as well, because it creates incentives for efficiency.[31] Thus, the Russian Gini coefficient (the most commonly used measure of inequality) in just five years (from 1988 to 1993), doubled, from 24 to 48 percent, implying a doubling of inequality. As a result, whereas in 1990 those in the top 10 percent of the Russian social pyramid were three times as rich as the 10 percent at the bottom,[32] by 1993, i.e. within three years, they were seven and a half times as rich![33] Similarly, inequality increased by 48 percent in Bulgaria, 42 percent in the Czech republic and so on.[34] Furthermore, not only personal but regional inequality, also increased sharply, as a result of marketization. Thus, in 1995 the richest 20 percent of territories received 44 percent of total income, compared with only 5 percent for the poorest 20 percent.[35] Needless to add that, the prospects for the future look even gloomier, since the more the state machines in East Europe are integrated into the internationalised market economy the fewer their degrees of freedom for intervention to reduce the market-generated inequalities.

Taking into account these major achievements of "actually existing socialism," as well as the fact that the Soviet bloc played a major role in containing the second superpower from major crimes, like the ones it already perpetuated in Iraq and Yugoslavia, I would strongly disagree with Noam Chomsky when he states that "the collapse of this regime should have been welcomed by the left as an important victory, which eliminated barriers to authentic socialism."[36] I would not of course dispute that this regime did not secure political or even economic democracy, in the sense I defined it elsewhere.[37] Still, western democracies are not democracies in the

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[29] Michael Ellman, *Socialist Planning* (Cambridge: Cambridge University Press, 1979), pp. 267-68.
[30] World Bank, *From Plan to Market*, p. 67.
[31] World Bank, *From Plan to Market*, Ch. 4.
[32] *The Guardian* (26 Nov. 1992).
[33] World Bank, *World Development Report 1998/99*, Table 5.
[34] World Bank, *From Plan to Market*, Table 4.1.
[35] World Bank, *From Plan to Market*, p. 70.
[36] Noam Chomsky interviewed by *Democracy & Nature*, Vol. 5, No. 1 (1999), p. 22.
[37] Takis Fotopoulos, *Towards An Inclusive Democracy,* ch. 5.

proper sense of the word either. In both types of regimes political and economic power is concentrated in the hands of elites, the only difference being that the degree of political dependence of the average Western citizen was smaller than that of the citizen in East Europe, whereas the opposite was true as regards economic dependence. In other words, given that the average citizen in the East had a secure job and his/her basic needs were covered, albeit at an elementary level, the degree of economic dependence was smaller in the East than in the West. This became particularly obvious today, after the collapse of the socialdemocratic consensus in the West. So, I would argue that the collapse of the "socialist" regimes could only have been characterised as a "victory" if it had indeed eliminated barriers to authentic socialism. But, far from doing this it may have created even more barriers. The fact that people enjoy now more political freedoms than before means little, as even a liberal economist like J.K. Galbraith admits, if at the same time they are deprived of even the most basic economic freedoms. The present economic collapse and the enhancement of citizens' economic dependence could easier lead to forms of fascism rather than to socialism.

The causes of the collapse of socialist statism

To give an adequate interpretation of the phenomenon of the collapse of "actually existing socialism," it is necessary to outline the causes of its economic failure. It was precisely the system's economic failure that, on the one hand, led to the spectacular U-turn of Soviet bureaucracy, which was expressed by Gorbachev's *perestroica*, and, on the other, functioned as the catalyst for the collapse of "actually existing socialism" in the satellite countries. Economic failure manifested itself by a significant slow-down in the development of production forces which led, at the end, to stagnation. Indicatively, the growth rate of industrial output in the USSR fell from an average 7 percent in the 1960s to 4 percent in the 1970s and to 2 percent in the 1980s.[38] Also, the average GNP growth rate fell from 7 percent in the 1960s to 5 percent in the 1970s and barely 2 percent in the 1980s.[39] At the same time, serious shortages of consumer goods developed and the phenomena of technological backwardness and low quality of production intensified.

To my mind, as I tried to show elsewhere,[40] the fundamental reason for the historic failure of socialist statism in both its versions ("actually existing socialism" and social democracy) lies in its attempt to merge two incompatible elements: the "growth" element, which expressed the logic of the market economy, with the social justice element, which expressed socialist ethics. This is so because whereas the growth element, as part of a growth economy, implies the concentration of economic power

[38] Michael Barratt-Brown, *Models in Political Economy* (London: Penguin, 1984), p. 144.
[39] World Bank, *From Plan to Market*, p. 2.
[40] Takis Fotopoulos, *Towards An Inclusive Democracy,* ch 2.

(whether as a consequence of the functioning of the market mechanism, or as a built-in element of central planning), the social justice element is inherently linked to the dispersion of economic power and to equality. Thus, socialist statism, in its effort to make the benefits of growth accessible to everyone and lend universal meaning to Progress — which was identified with growth — attempted to create a socialist growth economy, disregarding the fundamental interdependence of growth and the concentration of economic power. Moreover, the attempt to merge the growth element with the social justice element created a fundamental incompatibility between the ends and means. Thus, whereas the capitalist growth economy constituted the inevitable consequence of the market economy and, therefore, the means (market economy) and the end (growth economy) were perfectly compatible, in the case of socialist statism, the end (growth economy) was not compatible with the means (social-democratic statism/central planning). In fact, the greater the degree of statism (as in the case of central planning), the greater the incompatibility between the means and ends, contributing even more to the failure of the system.

Thus, the economic failure of "actually existing socialism" can be attributed to the fundamental incompatibility between the requirements of the growth economy and the functioning of a centrally planned economy. Whereas in a market economy the market forces are comparatively free to secure the degree of concentration which is necessary for growth, in a planned economy the distorting interventions of bureaucrats and technocrats in the growth process, aiming at the contradictory merging of growth with social justice (for example, in the form of "hidden unemployment"), inevitably led to economic inefficiency. Similarly, in a bureaucratically organised economic system, it was practically impossible to introduce new technologies and products, particularly in the consumer goods sector where a decentralised information system is a necessity.

Also, the fact that both the capitalist growth economy and socialist statism shared the same goal, that is, economic growth, meant that the same principles played a decisive part in the organisation of production and in economic and social life in general, irrespective of whether the production motive was private profit or some kind of "collective" profit. This becomes obvious by the fact that the principles of economic efficiency and competitiveness mark both types of socialist statism. One may therefore argue that from the moment both versions of socialist statism showed that, in the last instance, they rested on the same fundamental principles as the market economy did and that they were, inevitably, leading to the reproduction of similar hierarchical structures, the countdown leading to the collapse of socialist statism itself and of, the ideologies on which it rested (Marxism/Keynesianism), had begun. This was due to both objective and subjective factors.

The objective factors refer to the fact, as already mentioned, that the pursuit of efficiency and competitiveness, which the growth objective implies, fundamentally contradicts the socialist aims. It is obvious that the criteria of social justice, on which the socialist aims are based, are much broader than the narrow economic criteria that define economic efficiency and competitiveness and as such are incompatible with them. The economic failure of the system therefore, particularly in terms of low productivity, could be explained on the basis of this fundamental contradiction between efficiency and socialist ethics.

The subjective factors refer to a corresponding contradiction between the socialist ideology and the reality of "actually existing socialism" and in particular to the widespread realisation of the failure of socialist statism to lead to a new form of social organisation — a new model of social life that would transcend the principles characterising the system of the market economy. The economic crisis of socialist statism, combined with the bureaucratic organisation of social life that state socialism inevitably implied have been the essential factors that led to the credibility crisis of the socialist project in its statist form. For the average citizen It was obviously a better bet to choose the "real thing," which might better "deliver" in terms of consumer goods, rather than keep supporting a system that not only was failing in its socialist promises but in certain important aspects was a bad imitation of the market economy.

In fact, the lack of political democracy and democracy at the workplace was, according to an important interpretation of the collapse of "existing socialism,"[41] the basic cause of the system's inefficiency. This lack of workers' participation in the decision-taking process, unavoidably, led to the alienation of direct producers, as a result of the total absence of work incentives. Thus, the socialist ***ideological*** incentives, which the bureaucratic élite tried to create in place of the economic ones, were doomed to fail, whereas the capitalist ***economic*** incentives were institutionally absent.

As regards the ideological incentives (which were used mainly by Stalin and Mao in their effort to make up for the absent economic incentives), their failure was inevitable in a system characterised by the fundamental contradiction between an ideology based upon the principles of equality and social justice, and the reality of a blatantly unequal distribution of economic and political power.

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[41] Such views are expressed, e.g., by Cornelius Castoriadis, *Political and Social Writings* (Minneapolis: University of Minnesota Press, 1988), Vols. 1-2, as well as by the East German Green, Rudolf Bahro —at the time he had not yet adopted the case for the "Green Adolf" (*see* Janet Biehl, "Ecology and the Modernisation of Fascism in the German Ultra-right," *Society and Nature*, Vol. 2, No. 2 (1994)— R. Bahro, *The Alternative in Eastern Europe* (London: Verso, 1978).

As regards the economic incentives, there are two main incentives provided by the capitalist growth economy: one positive, ***consumerism***, and one negative, ***unemployment***. Both were absent in the countries under "actually existing socialism." Consumerism was impossible, not only because of the bureaucratisation of the economic process which had created an inefficient consumer goods sector, but also because of the fact that these countries had to channel a relatively small proportion of their economic resources to the production of consumer goods. This was so, because, given their lower level of development (compared to the advanced capitalist countries), this was their only way to cope with the exorbitant defence expenditures imposed on them by the Cold War. Furthermore, the right to employment — usually inscribed in the constitution — not only created widespread disguised unemployment, but also reinforced an attitude of "minimal effort" and passivity. The consequences were inevitably disastrous, especially with respect to the efficiency of the information flow which is particularly significant for the adequate functioning of every mechanism of resource allocation.

So, the failure of "actually existing socialism" to achieve the principal aim of creating an efficient socialist growth economy produced the following dilemma for the ruling elites: either socialist decentralisation, or decentralisation through the market. The former involved the creation of an authentic socialist economy, through the institution of new structures for socialist self-management and a parallel struggle for the establishment of a new international division of labour based upon the principles of co-operation and solidarity. The latter involved the creation of a "socialist" market economy and a full integration into the internationalised market economy, which is founded upon the principles of competition and individualism. The first option would entail the self-negation of the ruling elites (not to mention their exclusion from access to Western capital, while many of these countries were already in deep debt), as well as the dissolution of the hierarchical structures they had established. On the other hand, the adoption of the second option was entirely consistent with the reproduction (with some changes in form) of the hierarchical structures and of the elites themselves (including most of their personnel).

Hence, the criteria used in selecting the form of decentralisation were not economic (as presented by Western analysts and politicians), but ***political***. The discourse used by the protagonists of perestroica, in order to justify it, was indicative. Thus, according to Alexander Yakovlev,[42] perestroica signified the substitution of the theory that universal human values transcend class interests for Marxist class theory. It is characteristic that among these "universal" values the dominant value is considered to be the mixed economy and free competition! Once the reformist elites embarked

[42] *See* the interview given by Alexander Yakovlev to *The Guardian* (20 Aug. 1991) and, also, his book, *The Fate of Marxism in Russia* (Yale: Yale University Press, 1993).

on a strategy to introduce a "socialist" market economy, the dynamic that was set in motion was bound to lead to the transcendence not just of the "socialist" growth economy but of "actually existing socialism" itself. The soviet reformist elite in particular, unlike the Chinese élite, had to accompany the reforms (perestroika) with more openness (glasnost) in order to outmanoeuvre the strong hard-liner military-industrial faction in the establishment which did not wish to see any significant changes in the status quo. Unlike therefore the Chinese case where a kind of capitalism "from below" was allowed to flourish — a development which did not need changes at the political level — capitalism "from above" (the type of capitalism introduced by the Soviet elite and similar elites in East European countries) did require more openness at the political level. But, more openness gave the chance to the centrifugal forces (encouraged by the Western elites), which had a vested interest in the restoration of the capitalist growth economy, to push for the fragmentation of the USSR and the overthrow of "actually existing socialism."

3. The catastrophe of marketization

The marketization policies of the new elites

The new regimes which came to power in Eastern Europe after the collapse of "actually existing socialism," embarked (under the tutelage of the IMF, the World Bank and other Western organisations) on a strategy to dismantle not just the system of planning in the allocation of resources but also state ownership of productive resources. At the same time, the strings attached by the international capitalist organisations to the loans and "aid" given to these countries were, also, designed to reinforce the capitalist market economy being established and to preclude any attempt towards a self-managed production structure.

Unlike China that adopted a "phased approach," the approach followed by most Eastern European countries involved a program of reforms which the World Bank calls "an all-out approach." This program aimed at replacing central planning with a market economy in a single burst of reforms, which included various measures aiming at a rapid marketization of the economy. Thus, the Polish elite liberalised the economy with one "big bang" in 1990 which "freed" 90 percent of prices, eliminated most trade barriers etc. Similarly, the Russian elite substantially liberalised prices and imports in 1992. Albania, the Baltic countries, the former Czechoslovakia and the Kyrgyz Republic also followed the all-out approach of rapid marketization.

This type of "shock therapy," was deemed to be necessary not just by the Western neoliberal economists who were despatched as advisors but also by the intellectuals

and managers in the East who played a crucial role in precipitating the collapse of the previous regime. As Eyal et al point out,[43] shock therapy:

> was not only a means of rescuing the economy, it had an educational value. Its goal was to transform socialist man into a citizen of civil society — that is to say into a private individual who was ready to take responsibility for his own affairs. (For them) the consciousness of the people was backward. Public opinion polls indicated that majorities of the Polish, Hungarian and even Czech populations still subscribed to socialist values: they wanted more equality, they were suspicious of wealthy people, they wanted their government to guarantee their employment and they supported government provision of free healthcare and education. (…) The managers' focus on privatisation and corporatisation, and the intellectuals' desire to purify society and re-educate the people, combined to produce capitalism from above.

In this sense, as the same authors stress, this "therapy" was perfectly consistent with the civil societarian approach which became dominant in Eastern European countries during the last decade of "existing socialism" — an approach which gradually de-socialised intellectuals from a socialist, communitarian value system and re-educated them in capitalist, individualistic virtues. This is because, as Eyal et al point out, the civil societarian approach "is a discourse about a classless society — a discourse of freedom which never confronts the question of inequality."[44]

The main types of policies adopted by the governments all over East Europe in this decade were:

- rapid price and trade liberalisation
- immediate opening of markets to entry by new private businesses
- privatisation of state-owned enterprises.

The rationale behind these policies, which can be summed up as "marketization" (as defined above), was given clearly by the World Bank[45]:

> Why is liberalisation so important? It decentralises production and trading decisions to enterprises and households and directly addresses the two fundamental weaknesses of central planning: poor incentives and poor information.

[43] Gil Eyal et al. *Making Capitalism Without Capitalists*, p. 181.
[44] Gil Eyal et al. *Making Capitalism Without Capitalists*, p. 178.
[45] World Bank, *From Plan to Market*, p. 22.

The new elites in the ex-Soviet bloc countries fully share this rationale. In fact, their ultimate and intermediate objectives are the same as those of their predecessors (the central planners and, later, the reformers of the "social market"): maximisation of economic growth through maximum efficiency. The only difference is as regards the means. Poor incentives and poor information are problems that now had to be tackled not through ideological and administrative means (central planning), or through semi-economic means (market socialism) but through pure economic means, namely, the market forces, which have to be left as undisturbed as possible in their function of maximising economic growth through maximisation of efficiency.

However, as I mentioned above, there is an intrinsic link between means and ends. Marxists could justifiably argue that although their aim (highest development of productive forces, i.e. maximisation of growth) was the same as that of liberals, still, the difference in means used (planning instead of market) combined with social ownership of productive resources implied that growth was seen as the best means to satisfy the needs of all citizens. However, this is no longer the case: maximisation of growth is now explicitly recognised that it will not lead to the best satisfaction of the needs of *all* citizens but only of a minority of them and then, through some kind of "trickle-down" effect, it is supposed to lead to a general improvement of the standard of living, — a supposition that flies in the face of all existing evidence to the contrary.

The catastrophic effects of marketization policies

The general picture emerging in the countries of the ex-Eastern bloc, after almost a decade of marketization, is of a massive decline. The positive growth rates of the eighties have been converted into negative rates this decade in Russia, Bulgaria, Czechoslovakia, Hungary, Romania, Estonia, Latvia, Lithuania, Belarus, Ukraine, Georgia, Armenia, Mongolia and the other Asian republics.[46] The consequence is that, with base year 1989, by 1997 four ex Soviet bloc countries had a cumulative fall in the GDP of up to 10 percent, three up to 20 percent, three up to 30 percent, three up to 40 percent, four up to 50 percent, three up to 60 percent and four had a massive decline of up to 68 percent![47] No wonder that no ex-Soviet bloc country (apart from Poland[48]), has as yet reached the level of production before the collapse (1989) and that in seven of these countries production is less than half that level, whereas in

[46] World Bank, *World Development Report 1998/99*, Table 11.
[47] Anthony Browne, *The Observer* (06/12/1997).
[48] For a graphic description of what the Polish 'miracle' means in practice see J. Nagiecki, "In search of an alternative path" (in this issue).

Russia it is still less than 60 percent of it. Unsurprisingly, a study found that most of the region will not regain their 1988 living standards even by the year 2010![49]

The main cause for this catastrophe is none other than the marketization process (what the World Bank calls "liberalisation"[50]), which was introduced after the collapse of "existing socialism" and the related dismantling of Comecon.

Thus, as regards liberalisation, not only price and trade liberalisation was rapid but privatisations were extensive. Thus, the ex-Soviet bloc countries have privatised more than 30,000 large and medium-size enterprises in five years — something that even the World Bank sees with admiration given that in the eleven years between 1980 and 1991 the rest of the world privatised fewer than 7,000.[51] The principal consequence of marketization was a massive de-industrialisation that is indicated by the generally negative industrial growth rates in this decade, which resulted in drastic falls in the industrial shares. From 1990 to 1997, industry's share declined from 52% to 33% in Bulgaria, from 32% to 24% in Hungary, from 48% to 40% in Romania, from 56% in Czechoslovakia to 39% in the Czech republic and 31% in the Slovak republic and so on.[52] The effect of liberalisation on employment and wages is not difficult to imagine, given the relevant experience in the West, where a direct relationship may be established between the degree of liberalisation and unemployment. The countries which have achieved the highest degree of liberalisation (Czech republic, Hungary and Poland)[53] show also the highest degree of layoffs: the largest 150 to 200 firms reduced their work forces by 32 percent in the Czech republic, 47 percent in Hungary and 33 percent in Poland.[54]

As regards the disintegration of Comecon, in effect, it led to the collapse in trade among the ex-Soviet bloc countries. Thus, consumers (or, at least those in the new middle classes who could afford it) turned to western products, given their superiority over the soviet products and the parallel disintegration of state production. At the same time, imports of Russian energy and raw materials by the other Comecon countries collapsed after they had become hugely expensive, as a result of the shift toward world market prices, trade in convertible currencies and the ending of their subsidisation. No wonder that even OECD, an enthusiastic advocate of marketization, admitted that: "according to some calculations, this volume effect

[49] J. M. C. Rollo and J. Stern, "Growth and Trade Prospects for Central and Eastern Europe," *The World Economy*, No. 199. Quoted by Peter Gowan, "Neo-Liberal Theory and Practice," p. 55.
[50] World Bank, *From Plan to Market*, p. 26.
[51] World Bank, *From Plan to Market*, p. 4.
[52] World Bank, *World Development Report* (various years).
[53] See fig. 1.2 , World Bank, *From Plan to Market*.
[54] World Bank, *From Plan to Market*, p. 45.

alone (as a result of dismantling Comecon) can explain most of the fall in output in Hungary and the former CFSR."[55]

The human cost of marketization has been, inevitably, huge. The combined effect of the rapid decline in production and the consequent increase in unemployment, as well as of the drastic increase in inequality, was a massive rise in poverty. According to the World Bank,[56] in 1993, 33 percent of the Bulgarian population fell below the poverty line (versus a mere 2 percent in 1987/88) and the same thing happened to 38 percent of the Russian population and 76 percent of the population in the Kyrgyz republic. It is indicative of the catastrophic impact of marketization that in Poland and Bulgaria, the only two countries for which the World Bank provides comparative data, poverty doubled in the former and increased by 16 and a half times in the latter! Given the direct link between poverty and deterioration in health that recent studies in Britain and elsewhere have shown one can imagine the effects of the rise in poverty on health standards. Particularly so when, on top of the poverty factor, there is another factor which contributed significantly to the rapid deterioration of health: the policies imposed by the West to reduce budget deficits that resulted in a decline in the quality of and access to medical care. No wonder that even officials of the the World Health Organisation, though "careful to avoid overt political criticism of the switch to laissez-faire economics in Eastern Europe, privately, expressed anger at the way the former communist countries had been encouraged by Western aid donors to dismantle free health care services, whereas Professor K. Roszkowski of the WHO pointed out that "the social conditions in eastern Europe are ripe for an explosion of TB in the next decade."[57] Needless to add that women pay a particularly high price for marketization as they are the first to be sacked and to face the deterioration in health care or child care systems etc.[58] It is not therefore surprising that hundreds of thousands of women from ex Soviet bloc countries find their way to prostitution in the West.[59]

As regards, in particular, the effects of marketization on Russia, the Russian growth rate has been declining by an average 9 percent in the 1990s (from an average positive growth of 2.8 percent in the 1980s).[60] No wonder that the per capita Russian

[55] OECD, *Integrating emerging market economies into the international trading system* (Paris: OECD, 1994) (quoted by Peter Gowan, "Neo-Liberal Theory and Practice," p. 17).
[56] World Bank, *From Plan to Market,* Table 4.1.
[57] E. Luce, *The Guardian* (22/06/1994).
[58] World Bank, *From Plan to Market,* Box 4.2 & p. 73.
[59] New Europe, "The World's Oldest Profession: Eastern Europe's Newest Trend," *New Europe* (4/10/1998), p. 5.
[60] World Bank, *World Development Report 1998/99*, Table 11.

GNP today is only two thirds of what it was just before the collapse of USSR[61] and the cumulative effect is that Russia's production fell by half since 1992.[62] This means that half the wealth and economic activity bequeathed by the previous regime has ceased to exist.

However, Russia's (as well as that of central Europe) integration in the internationalised market economy did not start in the nineties. In fact, the present integration completes a process already begun in the previous century and rudely interrupted by the rise of the Bolshevist regime to power. About 100 years ago, the tsarist reformist Sergei Witte complained that Russia was a country that exported raw materials and imported finished goods, that is, a country in the capitalist periphery. Today, the country returns to its former position, with regard to both the structure of production and, subsequently, the structure of its trade.

As far as production is concerned, the initiative for the required restructuring of the manufacturing sector, that would have created the conditions for survival in the competition with Western firms, should have come either from the managers of public corporations (supported by the state) or from private — domestic and foreign — capital. However, the first possibility was, from the start, ruled out by the Western financial backers of the reforms. The international organisations took pains to ensure that every single dollar of help to Russia would be "linked" to market reforms.[63] Simultaneously, they pressed for the drastic reduction of public deficits and for the privatisation of state companies which, following the dramatic devaluation of the rouble, offered particularly lucrative opportunities for western capital. Still, neither Western capital, nor domestic capital for that matter, showed any particular desire to invest in Russian manufacturing. Thus, foreign capitalists, following their usual practice in the periphery, turned to few investments in the particularly profitable — due to the rich natural resources — energy (oil, gas) and timber sectors, as well as the mining of raw materials.[64] At the same time, domestic capitalists have been mainly involved in a massive capital flight abroad which, according to a joint study by the Institute of Economics of the Russian Academy of Sciences and the University of Ontario in Canada, has reached a total of $133 bn. during the period 1992-97 — more than twice as much as post Soviet Russia's

[61] According to the *World Development Report 1996*, the Russian per capita GNP was $4,110 in 1989 (or, measured at PPP, $6,440) (Table 1). By 1997, the per capita GNP has fallen to $2,740 (or $4,190). *World Development Report 1998/99*, Table 1.
[62] Simon Pirani, *The Observer* (16/05/1999).
[63] Indicatively, Yeltsin and the central Russian Bank, in order to receive a 1.5 billion dollar loan, had to promise the International Monetary Fund that they would drastically reduce state subsidies of Russian exports. All this, while the EU had refused to reduce tariffs on Eastern products, causing a further widening of the deficit in the Russian trade balance; *The Guardian* (26/03/1993).
[64] Martin Woollacott, *The Guardian* (24/03/1993).

sovereign debt to international banks and institutions (about $60 bn).[65] On top of this, the West, through various international organisations, imposed a strict "austerity" program in order to "stabilise" the Russian economy in its new place in the international division of labour. The combined effect of these developments was a catastrophic de-industrialisation. Thus, industrial investment fell by 16 times since 1992[66] and, as a result, the industrial output declined massively this decade by an average 11 percent per year,[67] leading to a rapid decline of the industry's share in the GDP (from 50 percent in 1989 to 39 percent in 1997).[68] In other words, within 8 years, the industrial share was reduced by 22%. It should be noted for comparison that it took double this time (from 1980 to 1996) for the upper middle income countries (the group to which Russia belongs) to suffer a similar de-industrialisation.[69]

With regard to trade, the completion of Russia's integration into the internationalised market economy has resulted in the collapse of the traditional commercial links with the other countries of Eastern Europe and the former republics in the Soviet Union. According to M. Kaser, a distinguished sovietologist at Oxford University, in 1988, the final year of the Central Plan, Russian trade with the other republics constituted four-fifths of the total trade, representing 27 percent of the Russian GNP.[70] Today, trade with the other republics has collapsed, and Russia imports final products (essentially, luxury consumer goods for the new élite) and exports raw materials, exactly as it did 100 years ago.

It was the worsening slump, together with the continuous integration of Russia into the world market economy, which led to the 1998 crisis. As regards the effects of integration in particular, the collapse of the "Asian miracles," a year before, has contributed significantly to the rapid decline in the price of oil and primary products (in real terms, the prices of primary products are today at their lowest since the 1930s!), on which Russian exports mainly depend. As a result, Russia's financial dependence on the West has been growing rapidly, with its external debt rising from $2 billion in 1980 to $64.7 b. in 1992 and to £120 b. in 1995, amounting at present to 38% of its GNP, or 127 percent of its exports.[71] Today, the total state debt exceeds $150 b. and commercial debts bring it to a massive $215 b.[72] No wonder that Russia's

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[65] Simon Pirani, *The Observer* (16/05/1999).
[66] Simon Pirani, *The Observer* (16/05/1999).
[67] World Bank, *World Development Report 1998/99*, Table 11.
[68] World Bank, *World Development Report 1996* & *1998/99,* Tables 1 and 12 respectively.
[69] Another indication of this massive de-industrialisation is the fact that whereas in middle income countries the per capita electric power consumption has increased by 43% between 1980 and 1995, in Russia it has declined by 11% in the same period. World Bank, *World Development Report 1998/99,* Table 18.
[70] M. Kaser, *The Guardian* (16/03/1994).
[71] World Bank, World Development Report 1997, Table 17.
[72] James Meek, *The Guardian* (31/03/1999).

long-running economic crisis took the form of a default on its debts in 1998 and it was followed by debt rescheduling and a further devaluation of the rouble. The continuous growth of the external debt means an increasing burden on the budget to service it. Even before the 1998 crisis, interest payments were eating up to 30 percent of the budget, frequently forcing the government to postpone the payment of wages, pensions and subsidies, causing considerable social unrest.

As regards the Russian human cost of marketization, it suffices to mention that whereas the world crude death rate has fallen by a quarter between 1970 and 1993, in Russia it has *increased* by 44 percent and almost all of this increase happened after 1989.[73] As a result, male life expectancy at birth, which in 1990 stood at 64, by 1996 has fallen to 60[74] and people not expected to survive to age 40 is almost 10 percent of the total population (a rate comparable not to that of European countries but to that of Ecuador, the Dominican Republic, Honduras etc).[75] Not surprisingly, demographers expect that the Russian population will fall by about a fifth over the next 30 years — a collapse which, as John Gray points out, is unprecedented in any modern peacetime nation.[76]

It is because of these disastrous effects of marketization that even sections of the emerging new elite, particularly those interested in the development of a domestic manufacturing base, talk about the Latin-Americanisation of Russia. Arkady Volsky, for instance, president of the Union of Russian Industrialists, states that Russia cannot possibly have a totally open economy, since only 16 percent of its enterprises can withstand international competition.[77] In the same vein, Boris Kagarlitsky, leading cadre of the party of Labour, states that "the government's economic policy does not aim to overcome the crisis but to make it work for the benefit of the new élite, which stands to profit from the country's Latin-Americanisation."[78] This is why, in the aftermath of the 1998 crisis, a significant part of the political and military elite has argued in favour of more statism of the type one could see in the early post war Asian models of Japan and South Korea, with tighter controls on imports and foreign investment and more protection for domestic industry. However. Russia's financial dependence on the West is such that, barring the overthrow of the present economic elite and the dismantling of the economic ties with the West, the country will have to

[73] World Bank, *World Bank Development Report 1995*, Table 26. According to a study, the crude death rate in Russia has gone up from 11.4 in 1991 to 14.4 in 1993 and 16.2 in the first quarter of 1994 (Michael Ellman, "The Increase in Death and Disease Under 'Katastroika'," *Cambridge Journal of Economics*, No. 18 (1994), p. 349.
[74] World Bank, *World Development Report 1996 & 1998/99.*
[75] UN, *Human Development Report 1997*, Annex Table A2.1.
[76] John Gray, *The Guardian* (24/02/1997).
[77] *The Guardian* (16/11/1992).
[78] *The Guardian* (7 July 1993).

follow the policies "suggested" by its lenders. In fact, as a Western analyst[79] observed, the West demands even further liberalisation:

> Russia is seen in the West as a giant supplier of raw materials and a vast potential market for industrial goods. Western governments want to open its economy to foreign investment in the richest sectors, which means breaking up monopolies such as Gazprom and allowing them to be sold to outside bidders. They want free access to new manufacturing sectors such as telecommunications and pharmaceuticals which were underdeveloped in the Soviet system. They want Russia's last tariffs removed so as to flood the country with Western exports.

At the political level, the most probable "scenario" is a long period of instability which, in the long term, may initiate processes that could enhance radical — most likely extreme nationalist — tendencies. In fact, the present resurgence of the communist party under Zyuganov expresses more a rising nationalism[80] and an effort to support "the 'good' — that is — paternalist nomenclature"[81] rather than any attempt to roll back the market economy, which is taken for granted by the reformed "communists." The mass media, which are completely controlled by the new business elite, also encourage a kind of "patriotic capitalism." As Anatoly Kostyukov, deputy editor of a Russian weekly points out, "there used to be ideological control. Now its purely the interests of clans and different groups, the interests of business." It is obvious, as Kostyukov notes, that the Russian media today reflect growing consensus among the elite in favour of patriotic, oligarchic capitalism, where debate centres on which banker gets what property.[82]

In the meantime, the invasion of consumerism, in combination with the explosion of inequality, have led to an outbreak of criminality, alcoholism and drug abuse. Still, the trend favoured today by the rising new elites in Russia and the other Eastern countries is political liberalisation, in the sense of "democratisation." The same trend is actively supported by the West. In fact, the policy of "democratisation" has been advanced by the West since the early 1980s not only in Eastern Europe but throughout the capitalist periphery and semi-periphery, to which the Eastern bloc countries now belong. Thus, Ronald Reagan, in a speech to the British Parliament in 1981, announced that the US was about to throw its prestige and resources behind a

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[79] Jonathan Steele, *The Guardian* (22/08/1998).

[80] *See* Markus Mathyl, "Is Russia on the Road to Dictatorship?," *Green Perspectives*, No. 34 (Dec. 1995).

[81] Alexander Buzgalin and Andrei Kolganov, "Russia: the Rout of the Neo-Liberals," *New Left Review*, No. 215 (Jan.-Feb. 1996), p. 132.

[82] James Meek, *The Guardian* (12/09/1997).

program to strengthen "democracy throughout the world."[83] The timing of this announcement was not accidental. The authoritarian regimes in the periphery could only survive as long as the "alibi of growth," that is, the growth ideology, was still credible. However, at the beginning of the 1980s it was already clear that the "development" that had taken place in the peripheral countries was based upon totally unstable foundations (mainly on foreign borrowing), and was unable to create a Western-type growth economy. At that point, democracy became "a way of spreading and sharing responsibility," as B. Cumings[84] aptly commented. In reality therefore, "democratic participation," which is celebrated today in the periphery and semi-periphery, is simply participation in misery. The system of ***liberal oligarchy*** now replacing the authoritarian regimes of the past cannot, by its nature, ensure citizens' true participation in decision making — merely their collective apathy. This apathy, however, is today secured in a much more sophisticated way than in a Stalinist-type of regime, which was not capable of creating the illusion of citizen participation. The average citizen is asked every four to five years to choose his masters, occasionally becomes involved in pressure groups, rarely rises to the élite itself, while "by and large he does, and is expected to, remain relatively passive — in fact, the health of the system depends on it."[85]

However, the crucial problem that the transplantation of liberal oligarchy to the periphery creates is that, whereas the Western liberal oligarchy is founded on the "40 percent society," there is no chance, in the foreseeable future, for the peripheral liberal oligarchy to acquire a similar basis, on which a system of institutionalised apathy could be built.

The future prospects of the marketized economies in Eastern Europe

The future of the market economies now emerging in Eastern Europe will be determined by whether it will be possible to build a successful capitalist growth economy in place of the "socialist" growth economy that has just collapsed. This depends on two main factors:

- first, on whether the mass influx of Western capital, which is still awaited, will actually materialise; and
- second, on whether some, at least, of the trade-flows within the former Eastern bloc, which are presently being dismantled in the process of integrating the bloc countries into the internationalised market economy, will be re-established.

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[83] Sheldon Wolin, "What revolutionary action means today" in *Dimensions of Radical Democracy,* ed by Chantal Mouffe (London: Verso, 1995 & 1992), p. 241.
[84] B. Cumings, "The Abortive Abertura," *New Left Review*, No. 173 (Jan.-Feb. 1989), pp. 5-32.
[85] P. Bachrach, *The Theory of Democratic Elitism* (Boston, 1967), pp. 8-9.

In case these aims are generally accomplished, then the negative effects of marketization (drastic increase in unemployment, widening of inequality, downgrading of social services and so on) may be largely tolerable, provided that they do not acquire mass proportions. However, the chances of these aims being achieved are small, although for some countries in central Europe they are considerably greater.

Thus, as regards, first, the mass influx of Western capital, it has not as yet materialised and it seems all the more doubtful today whether it will ever do so. In the fierce competition among the countries of the "extended" South to attract foreign investment, vast China possesses considerable comparative advantages (lower wages, political "stability," etcetera). The existing evidence up to now supports this hypothesis. The entire East European region has attracted very small capital flows. The capital flow to the ex-Soviet bloc countries in the period 1990-95 amounted to only 15 percent of the total capital outflow to the capitalist periphery, i.e. the ex Second and Third Worlds (or 13 percent if we take into account only private capital flows), whereas that to China alone amounted to 13 percent.[86] In fact, net capital inflows are much smaller and even negative to some countries, once debt service and capital flight are taken into account. Also, foreign investment flows to the ex-Soviet bloc countries were even smaller, without-macro economic significance. Thus, during the period 1989-95 the cumulative foreign investment attracted by most Soviet bloc countries was less than 6 percent of their 1994 GDP, apart from the cases of the Czech republic, Estonia and Albania where it ranged between 12 and 15 percent. The only case in which there was a significant foreign investment inflow was Hungary where the cumulative foreign investment reached 30 percent of the 1994 GDP level (exactly as in China). It is indicative that the cumulative foreign investment attracted by China alone during this period was almost four times as much as that attracted by the entire former Soviet bloc (121,704 m. of dollars versus 31,000 m.).[87]

Furthermore, not only was the flow of foreign investment in the region small but in effect was directed in buying the state industries which, with the collapse of the currencies in the region — particularly the rouble — were sold "for a song." In Hungary and Poland for instance the overwhelming bulk of privatisations (some 55,000 enterprises by the end of 1993) have gone to foreign buyers. As a result, the private sector has grown rapidly in several ex-Soviet bloc countries and by 1995 its output amounted to almost 70 percent of the GDP in the Czech republic, and between 50 and 60 percent in Poland, Hungary, the Slovak republic, the Baltic republics, Mongolia and Russia. However, this expansion of the private sector, celebrated by

[86] World Bank, *From Plan to Market*, Fig. 9.1.
[87] World Bank, *From Plan to Market*, Fig. 3.2.

the World Bank and the Western institutions, was not accompanied by an increase in production, as the data about the massive shrinking of these economies examined above show. This means that the new businesses in the booming private sector of these countries were mainly trading companies with no production base of their own. The consequences on employment can be easily imagined. Particularly if we take into account that at the same time state employment was dwindling (in Russia alone employment in the state sector was halved within four years, from 90 percent in 1990 to 44 percent in 1994.[88])

As regards, second, the possibility of re-establishing trade links within the former Eastern bloc, the chances of these links acquiring in the future a quantitative significance similar to the old one — when trade among the former Soviet republics accounted for more than four-fifths of their total trade in 1989[89] — are virtually nil. Particularly so, given the core objective of Sachs's[90] plan to break up the Comecon region. The parallel "encouragement" (by the "Group of 7") of the revival of economic activity, on the basis of trade-led growth directed toward Western Europe,[91] further contributed to the break up of the Comecon links. Furthermore, the gradual integration of all these countries into the World Trade Organisation will make it impossible to implement any discriminatory trade policies in favour of other ex Comecon countries. As a result of these policies, although trade expanded rapidly and in 1996 took on the average 88.5 percent of GDP in the ex-Soviet bloc countries (double the world average,)[92] it is overwhelmingly directed towards the West. Thus, in the first five years of this decade the imports of East European countries from OECD countries increased 216 percent and their exports to them 159 percent.[93] At present the EU countries are already the main trade partners of East European countries, with trade between these regions having more than doubled since 1989. No wonder that the traditional EU trade deficit with the region turned into a surplus![94] The following extract from a World Bank report on the transition to marketization gives a clear picture of the place in the new world division of labour which is reserved for ex-Soviet bloc countries:[95]

> The Europe Agreements help to lock the CEE (Central and Eastern Europe countries) into open trade policies (…) the evolving pattern of trade between the two regions is one of increasing intra-industry trade and of increasing

[88] World Bank, *From Plan to Market*, Fig. 1.3 & Table 1.2.
[89] World Bank, *From Plan to Market*, p. 133.
[90] Jeffrey Sachs, "What is to be done?," *Economist* (13/01/1990).
[91] Peter Gowan, "Neo-Liberal Theory and Practice," pp. 6-7.
[92] World Bank, *World Development Report 1998/99*, Table 20.
[93] World Bank, *From Plan to Market*, p. 133.
[94] Peter Gowan, "Neo-Liberal Theory and Practice," p. 24.
[95] World Bank, *From Plan to Market*, pp. 133-34.

> processing and assembly activity by CEE firms. The Europe Agreements create incentives for EU companies to engage in outsourcing, where they provide designs and materials, monitor quality and take care of marketing. Encouraging this form of trade helps EU firms exploit relatively skilled and cheap labour, while reducing the costs and risks that CEE partners face in developing new export markets (…) admittedly, long-term integration with the NIS (Newly Independent States, i.e. the rest of the former Soviet bloc countries) could involve vastly greater trade flows. But even here the new flows would largely consist of the NIS sending increased supplies of energy-most notably, oil and natural gas-to Western Europe in return for a large volume of capital — and technology — intensive goods (machinery and equipment) and high quality consumer durables.

It may, therefore, safely be predicted that the more developed of these countries (the Czech republic, the republic of Slovakia, Hungary, Poland) will occupy a position in the semi-periphery of the internationalised market economy, while the remaining ones will constitute its periphery. So, the neoliberal policies imposed today by major Western capitalist countries, combined with the absence of the pre-conditions for the development of a strong domestic industry and technology, practically guarantee the "Latin-Americanisation" of Eastern Europe. A symptom of this fact is the increasing indebtedness of these countries to the West, as shown by the fact that, in1996, the value of the external debt was 89 percent of Bulgaria's GNP, 62 percent of Hungary's, 74 percent of FYR of Macedonia, 42 percent of the Czech republic, 41 percent of the Slovak republic — rates highly compatible to Latin American standards!

4. The marketization process in China

The Chinese way towards a "socialist" market economy

The Chinese "socialist" growth economy is being replaced not by a capitalist market economy, as in Eastern Europe, but by a "socialist" one, in the sense that an attempt is made to keep most of industrial production under state control. However, the dynamic of the market economy that was set in motion by the reforms inevitably leads to a capitalist market economy in China as well. This is evident, if differences in the cost of production between the private and the state sector are considered. Thus, as the World Bank points out, unlike state enterprises, private enterprises do not face problems of "excessive" employment (estimated to be about 20 percent of total state employment), unfunded pensions and of providing social services they cannot afford.[96] It is because of such "problems" that pay in the state sector is (including

[96] World Bank, *From Plan to Market* (WDR 1996), p. 47.

benefits) about 60 percent higher than in the nonstate sector.[97] One could therefore confidently expect the victory of private over collective enterprises, and of foreign-owned over local ones, as some studies also predict.[98] Thus, at the moment, a dual economy has been created in China and a corresponding dual structure of power, with the market gaining increasing control over the economy, at the expense of the bureaucracy which has to rely on repression to hold on to power.

The conversion to a market economy started in 1979. But, instead of the all-out approach followed in most of East Europe, the approach chosen by the Chinese party elite (which seems that it has not as yet been overtaken by the technocrats and intellectuals, as in Eastern Europe,)[99] was a phased approach of joint ventures, gradual liberalisation of prices and opening of markets, i.e. gradual marketization. So, in contrast to the abrupt abandonment of the plan in favour of the market, China went through several stages of "combining plan with market" before adopting, in 1992, the goal of a "socialist market economy." As the World bank describes the process, "in each case a free market developed in parallel with the controlled market (…) by the end of 1994 this dual-track system had led to the decontrol of more than 90 percent of retail prices and between 80 and 90 percent of agricultural and intermediate product prices , all of which are now market determined."[100] As a result, since the marketization process began, a significant part of China's economy has moved away from state ownership, and state enterprises' share of industrial output has declined significantly, although in 1994, state enterprises still accounted for three-quarters of investment and 70 percent of bank credit.[101]

Still, it is not the private sector as such that has mainly benefited because of the decline of the state sector. Production in the private sector amounts to only about a quarter of GDP, whereas in Russia it already approaches 60 percent and in the Czech Republic 70 percent.[102] Most of state ownership has moved into various forms of collective, (non-state) ownership, i.e. neither state owned, as in state socialism, nor privately owned, as in private capitalism. Thus, Township and Village Enterprises (TVEs), which are owned by local governments or by individual citizens (who maintain close fiscal ties to the government), producing mainly consumer goods for the local and foreign market, now account for a third of total industrial growth.

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[97] World Bank, *From Plan to Market* (WDR 1996), p. 74.
[98] Richard Smith "The Chinese Road to Capitalism," *New Left Review,* No. 199 (May-June 1993), pp. 96-97.
[99] Gil Eyal et al. *Making Capitalism without capitalists* (London: Verso, 1998), pp. 184-85.
[100] World bank, *From Plan to Market* (WDR, 1996), Box 2.2.
[101] World Bank, *From Plan to Market* (WDR, 1996), p. 70, p. 46.
[102] World bank, *From Plan to Market* (WDR, 1996), fig. 1.3.

However, as the World Bank points out, "studies show intense competition for investment (including foreign investment) among communities with TVEs." No wonder that this competition results in a high degree of capital intensiveness (i.e. the use of much more capital relative to labour) indicated by the fact that capital-labour ratios in TVEs are only 25 percent of those in the state sector.[103] It is therefore obvious that the drastic expansion of the nonstate sector plays a significant role in the rapid growth of unemployment in China, as the capital intensiveness of the nonstate sector makes impossible a significant absorption of surplus labour.

The obvious aim of the Chinese bureaucracy is to allow as much freedom as possible to the market forces at the micro-economic level and keep for themselves some control over the macro-economic allocation of resources, (through some kind of 'communist Keynesianism'), as well as a strict control over the political process and the military machine. This strategy was confirmed by the 15th Congress of the Communist Party in 1997 that decided to go further down the road to marketization, which began in 1978 with the scrapping of collective farms. In the 1997 Congress, President Jiang Zemin announced the gradual transformation of 10,000 of the 13,000 large and medium-sized industries[104] (which still employ two-thirds of the country's 170 million urban workers) into joint stock companies in which the public would be able to invest. This has simply accelerated a process which started earlier in the decade, as it becomes obvious by the fact that stock market capitalisation (i.e. the value of shares in the Chinese stock exchange), has increased from $2 bn in 1990 to $206 bn in 1996.[105] However, the blatant contradiction between socialist ideology and reality became obvious by the way in which the party bureaucracy attempted to present this flagrant privatisation as a kind of social ownership, with the *People's Daily* stressing at the time that "public ownership does not mean state ownership"![106] Still, President Jiang Zemin was frank about the possible effects on employment when he stressed that "all workers should change their ideas about employment!"

The marketization process has gathered further momentum since then and China's parliament, in March 1999, amended the constitution to declare private business "an important component of the socialist market economy." This means, as the chairman of the Beijing Tong Chan Investment Group commented, that the class of private entrepreneurs will now have, for the first time, a clear political and personal status.[107] Furthermore, after the recent visit of the Chinese Prime Minister to the USA, it was announced that China's joining the World Trade Organisation (WTO) was a matter of time, perhaps months. As Clinton (rightly) has long argued, Chinese

[103] World bank, *From Plan to Market* (WDR, 1996), p. 51.
[104] Andrew Higgins, *The Guardian* (14/09/1997).
[105] World Bank, *World Development Report 1998/99*, Table 16.
[106] Andrew Higgins, *The Guardian* (11/09/1997).
[107] Elisabeth Rosenthal, *The New York Times* (15/03/1999).

membership in the trade organisation is not about economics but about global integration. Thus, at this meeting, the Chinese Premier made so clear China's willingness to open its markets — in telecommunications, banking, insurance and agriculture — that even the main American negotiator characterised it as "very sweeping."[108] In the event, China agreed to permit US telecommunications companies to control Chinese cellular telephone firms and Internet companies and even to allow 100 percent foreign ownership of commercial banks within five years. The only concession that the Chinese elite still resists is to open the financial markets and abolish exchange controls, evidently, because of the events which precipitated the collapse of the Asian "miracles."

A marketization miracle or a mirage?

The effect of the marketization reforms, in terms of the conventional measures of "success" of the growth economy, have been significant. Thus, the annual growth rate of GDP, which before the marketization reached an average rate of 4.9 percent (1966-78),[109] has more than doubled since 1979, reaching an average 10.2 percent in the period 1980-90 and a staggering 12.8 percent in 1990-95.[110] As a result, the Chinese per capita GNP, which was $404 in 1978 has more than doubled since then and by 1997 it was $860.[111]

A significant part of China's growth was due to the expansion of its exports which grew by an average of 16 percent this decade, when world trade increased by only 7 percent. As a result, China's trade share of GDP has gone up from 13 percent in 1980 to 40 percent in 1996, (whereas that of the USA is still only 24 percent[112]) and the country moved from the world's thirty-second largest exporter in 1978 to the tenth position in 1994. It is also worth mentioning that the sector which contributed most in this expansion was not, as usually, the services sector, whose growth has fallen significantly between the eighties and the nineties (from 13.6 percent to 9.5 percent) nor the agricultural sector whose growth also declined (from 5.9 percent to 4.4 percent) but the industrial sector whose growth expanded (from 11.1 percent in the eighties to 16.3 percent in the nineties).[113] In other words, China, far from de-industrialising, seems to be intensifying its industrialisation.

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[108] David E. Sanger, *The New York Times* (09/04/1999).
[109] World Bank, *From Plan to Market* (WDR, 1996), Table 1.
[110] World Bank, *World Development Report 1997*, Table 11.
[111] World bank, *From Plan to Market* (WDR, 1996), Table 1 & World Bank, *World Development Report 1998/99*, Table 1.
[112] World Bank, *World Development Report 1998/99*, Tables 11 & 20.
[113] World Bank, *World Development Report 1998/99*, Table 11.

However, if we consider more closely the facts, the Chinese expansion gives more the impression of a mirage rather than of a genuine miracle.

First, as regards the structure of production, a closer examination of the data shows that China is also following the pattern of post-industrialism. Thus, between 1980 and 1997 the share of agricultural output to GDP has declined (from 30 to 20 percent), that of services increased (from 21 to 29 percent) and that of industry increased (from 48 to 51) — a pattern confirmed by changes in the structure of employment. Still, the growth of the industrial sector was not mainly due to an increase in the share of manufacturing, which in fact declined slightly, but, instead, to a drastic increase in non-manufacturing activities (construction works, mining etc).[114] This is a clear indication that much of the growth "miracle," particularly in the last few years, is due to public works in infrastructure (roads, irritation, telecommunications),[115] in a kind of "communist Keynesianism," which keeps growth relatively high but does not directly increase the productive capacity of the country, or its productivity. In other words, most of the growth in the state sector has not been "intensive," namely due to improvements in productivity, but extensive, owing to a significant increase in employment in this sector which grew by 20 million during 1978-94.[116] In fact, in the first phase of reforms (1985-90) the state sector provided about 70 percent of all new jobs, although since then TVEs have taken over as the main engine of employment growth.[117] It is indicative that even the World Bank which, for obvious reasons, celebrates the current marketization in China, had to admit that, overall, only up to one-third of the increase in Chinese output since 1985 can be attributed to greater efficiency.[118]

Second, as regards the growing private sector, the real engine of growth in it has been not the domestic saving/investment boom, as the World Bank asserts, but the foreign-invested industrial sector, most of which is concentrated in Southern China. It is highly indicative that China attracted a cumulative foreign direct investment inflow that amounted to $121.7 bn over the period 1989-95 alone (for comparison, the highest foreign investment inflow to an ex-Soviet bloc country over the same period was $10.6bn), which corresponds to 30 percent of its 1994 GDP.[119] It is therefore obvious that China's "miracle," to a significant extent, depends on foreign investment — a fact which implies that only if foreign investors continue to perceive the present

[114] World Bank, *World Development Report 1998/99*, Table 12.
[115] This assumption is confirmed by recent reports on how Chinese growth was kept relatively high (though much lower than before) due to a massive state spending on infrastructure see, e.g. John Gittings, *The Guardian* (31/12/1998); Gittings and A. Brummer, *The Guardian* (22/01/1999).
[116] World Bank, *From Plan to Market* (WDR, 1996), p. 25.
[117] World Bank, *From Plan to Market* (WDR, 1996), p. 74.
[118] World Bank, *From Plan to Market* (WDR, 1996), p. 25.
[119] World Bank, *From Plan to Market* (WDR, 1996), Fig. 3.2.

political and economic stability continuing, the inflow of investment at these rates will persist. But this assumes that domestic social unrest, which is stimulated by the effects of marketization itself, will be controlled. Furthermore, the foreign investment inflow depends on Chinese attractiveness in terms of low cost of production vis-à-vis its neighbours, i.e. the Asian Tigers. But, the latter have become much more competitive as a result of the recent collapse in the value of their currencies which made their cost of production comparable to that of China. Furthermore, the collapse of the Guandong International Trust and Investment Corporation (Gitic), which marked China's first financial bankruptcy since 1949, has thrown the country's ability to attract foreign investment into serious doubt.[120]

Third, as regards the expansion of trade, three quarters of Chinese exports consist in labour-intensive products, usually produced by factories from the Asian Tigers which simply moved their production lines to China in order to exploit low cost conditions in this country. So, the crisis of the Asian Tigers affected not only foreign investment in China but also its exports to the area. This becomes obvious by the fact that Chinese exports, which grew by 20 percent in 1997, increased by only 4 percent in 1998,[121] mainly because of the drastic fall of exports to Asian markets.[122] The fact that the Chinese growth rate in the last couple of years is much lower than the one achieved earlier in the decade is a clear indication of the fragility of the Chinese miracle, which owes a lot to unstable external sources (foreign trade and investment) rather than to self-reliance. Thus, the GDP growth rate fell from the astonishing 12.8 percent in 1990-95 to 8.8 percent in 1997 and 7.8 in 1998![123] The fact that China's external debt increased from about 2 percent of its GNP in 1980 to 12 percent in 1996[124] is another indication of the increasing external dependence of China — a dependence which is proportionate to its integration into the world market economy.

Finally, as regards the mythology about China becoming an economic giant, rival to the biggest capitalist countries in the West and so on, one have to take into account the fact that this myth can only be sustained if Chinese income is compared to Western income in absolute terms. If instead, as it is more appropriate we compare incomes in relative terms, taking into account the huge Chinese population, a wide gap between Chinese and Western incomes is revealed. The Chinese per capita GNP, even if we take into account purchasing power differences, is only 12 percent of the

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[120] Martin Jacques, *The Observer* (07/02/1999).
[121] Richard Smith, "New Problems for Old :The Institution of Capitalist Economic and Environmental Irrationality in China" (In this issue).
[122] Martin Jacques, *The Observer* (07/02/1999).
[123] Richard Smith, "New Problems for Old: The Institution of Capitalist Economic and Environmental Irrationality in China" (In this issue).
[124] World Bank, *World Development Report 1998/99*, Tables 1 & 21 and *World Development Report 1982,* Table 3.

US GNP in 1997.[125] Furthermore, despite the phenomenal Chinese growth rates in the last two decades, the closing of the gap is extremely slow. Thus, back in 1978, before the marketization process had started, the Chinese per capita GNP was (in PPP terms) about 10 percent of the US figure. That means that even if China could continue enjoying the present growth rates (which is almost impossible, as Chinese leaders themselves do not expect it to exceed the 8 percent mark over the next decade[126]) it will take several centuries for China to even approach the Western level of development.

Who pays the price of the marketization "miracle"?

Irrespective however of the doubt concerning the nature of recent Chinese development as a miracle or a mirage there is little doubt that the Chinese example is a perfect illustration of the impossibility, as well as the undesirability, of a "socialist" market economy. Not only the dynamics of it have inexorably led to the elimination of the remnants of "socialism" but, in the process, they have already created the familiar effects of a market economy. Thus, despite the fact that social ownership is still the norm, inequality, unemployment, insecurity and poor social provision are now rampant in China.

As regards inequality, both personal and regional inequality are growing rapidly since marketization. The increase in personal inequality can easily be attributed to marketization and particularly to the "liberalisation" of the labour market which, in effect, means, as the World Bank puts it, "a shift from basic wages plus benefits (often in kind) to wages plus bonuses related to productivity or profitability."[127] Personal inequality has increased by almost 40 percent between 1980 and 1995.[128] As a result, personal inequality in "socialist" China today is much higher than the average inequality in capitalist European Union![129] In fact, the degree of Chinese inequality is much higher than the Russian, or even the American one, despite the fact that the latter is the highest among the advanced capitalist countries!

As far as regional inequality is concerned, the fact that market-led investment, mainly foreign, is concentrated in the most profitable areas (investment in the coastal areas is four times higher than in poorer regions)[130] leads to huge disparities within China which at present are as great as those between Germany and the

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[125] World Bank, *World Development Report 1998/99*, Table 1.
[126] Martin Jacques, *The Observer* (07/02/1999).
[127] World Bank, *From Plan to Market* (WDR, 1996), p. 73.
[128] The Gini coefficient has increased from 30 percent in 1980 to 41.5 percent in 1995 (*World Development Repor*t 1996, Table 1 & 1998/99, Table 5.
[129] The Chinese Gini coefficient is 41.5 versus an average 29 percent in 12 EU countries, World Bank, *World Development Repor*t 1998/99, Table 5.
[130] World Bank, *From Plan to Market* (*W*DR, 1996), p. 70.

poorest countries of Eastern Europe.[131] This is the direct result of the fact that areas like the south-eastern coastal area have been growing at an annual rate of over 13 percent, more than double the growth rate of populous central China of 6 percent. No wonder that by 1992, household expenditure by urban families in the south was 75 percent higher than that in the north[132] and that the per capita GDP of China's richest region, the Zhuhai Special Economic Zone, is now 86 times higher than that in the poorest area, Qinglong county in Guizhou.[133]

As regards unemployment, the official unemployment rate at 3 percent of the urban workforce has little relation to reality. As Andrew Higgins points out, "this does not include tens of millions of factory workers who have no work, draw no salary but remain on their employer's books; the real unemployment rate ranges between 15 and 60 percent depending on the region."[134] This is confirmed by the fact that more than 8 million workers laid off in 1996 alone and nearly 6 million in the first half of 1997. No wonder that according to Chinese researchers up to 11 percent of the urban population live in "absolute poverty" and are not able to cover even basic needs. Furthermore, rural unemployment is estimated to be 26 percent of the rural labour force and by 1998 it has reached 134 million.[135] As a result, and given China's flimsy social security, social unrest is growing,[136] as the employment effects of marketization make people increasingly unsafe.

It is therefore obvious that the rapid economic growth of the last twenty years or so, as one could expect from a market-led growth, has not improved everybody's welfare. This is particularly so when one takes into account that the extra income created was not spent on social welfare. Instead, the opposite is the case. Public expenditure on education was only 2.3 percent of GNP in 1995, i.e. much lower than that for high and low income economies (5.5 percent). Furthermore, it has been declining since marketization began, as it is indicated by the fact that in 1980 it was 2.5 percent of GNP.[137]

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[131] Paul Hirst & Grahame Thompson, *Globalization in Question*, p. 108. This conclusion is also supported by other studies which confirm that the spatial distribution of income has certainly become more unequal over the reform period, *see,* e.g., C. Brammal and M. Jones "Rural Income Inequality in China Since1978," *Journal of Peasant Studies*, Vol. 21, No. 1 (Oct. 1993).

[132] World Bank, *From Plan to Market* (WDR, 1996), p. 70.

[133] Andrew Higgins quoting Hu Angang, a prominent Chinese economist at the Chinese Academy of Social Sciences, *The Guardian* (30 May 1996).

[134] Andrew Higgins, *The Guardian* (17/11/1997).

[135] Richard Smith, "New Problems for Old :The Institution of Capitalist Economic and Environmental Irrationality in China" (In this issue).

[136] See e.g. Martin Jacques, *The Observer* (07/02/1999).

[137] World Bank, *World Development Report 1998/99*, Table 6.

Also, public expenditure on health was only 2.1 percent of GDP in 1990-95, versus an average of 2.7 percent for low and middle income countries and 6.9 percent for high income countries.[138] On top of this, health standards have been deteriorating since marketization began, as even the World Bank (an enthusiastic supporter of it), had to admit: "the health status of the Chinese people by the end of the 1970s was remarkably good for a country of China's income level (...) by the late 1980s China had actually fallen behind countries at similar income levels."[139] In rural China, in particular, the reforms had a serious impact on health. Before marketization, a share of communal production used to be set aside to finance collective needs, including primary health care, vaccination, birth control and maternal health care. The marketization reforms reduced the ability of the village to tax peasants and a system of cost recovery rapidly replaced tax funding, creating general problems of access. Not accidentally, infant and maternal mortality rates in rural areas are now 50 to 100 percent greater than the national average.[140] No wonder the Chinese elite is now bent in creating a new contribution-based welfare system provided by the employer and in selling off state-owned dwellings and creating a new market.[141]

Finally, as regards the environmental problems of the capitalist market/growth economy being installed in China, we should note the rapid increase in this country's contribution to carbon dioxide emissions. Thus, whereas in 1980 China's share in the world's emissions was 10.9 percent, by 1995 it has increased to 14.1 percent, being the second largest share after that of the US (24 percent). But, the US's share in world production was in 1995 a massive 26 percent, versus a mere 3.5 percent of China.[142] This means that China's carbon dioxide emissions are disproportionate to its level of production, presumably due to the lower level of technology of China compared to that of the USA. Therefore, as the marketization process entrenches itself in China, given its lower level of development, one should expect an impact on the global greenhouse effect disproportionate to its growth.

In China, as well as in Vietnam, as Gabriel Kolko points out in a post-script to his authoritative study of the Vietnam war, "communist rulers are attempting to merge capitalist institutions and Leninist justifications for elite domination."[143] In both countries, Professor Kolko argues, market-based reforms have created new categories of rich and poor, and widened the gap between town and country leading,

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[138] World Bank, *World Development Report 1998/99*, Table 7.
[139] World Bank, *From Plan to Market*, WDR 1996, p. 127.
[140] World Bank, *From Plan to Market*, WDR 1996, p. 127.
[141] A. Brummer & J Gittings, *The Guardian* (22/01/1999).
[142] World Bank, *World Development Report 1998/99*, Tables 1 & 10.
[143] Gabriel Kolko, *Anatomy of a War* (New York: The New Press, 1994). Quoted by John Gittings, *The Guardian* (13/01/1995).

rapidly, to the development of class societies in the Western economic sense of the term.

5. Conclusions

As the above analysis attempted to show, marketization in both East Europe and the Far East, either in the form of the introduction of a capitalist market economy in the former, or of a "socialist" market economy in the latter, has been a dismal failure. Although the "socialist" market variety of marketization may have produced some spectacular macro-economic effects in terms of the conventional measures of growth, the effects on social welfare were dismal: exploding inequality, rising unemployment and low-wage employment, rapidly deteriorating health standards, deteriorating welfare services, environmental degradation. As it is always the case with the marketization process it has drastically improved the standard of living of the privileged minorities which control the political and economic process, at the expense of the vast majority of the population which sees personal and regional inequality expanding and their quality of life deteriorating.

It is therefore obvious that the issue is not whether marketization is effectively controlled (as is supposed to be in China), or not, (as in the ex-Soviet bloc countries) — the view supported by socialdemocrats. The real issue is how we transcend marketization altogether and build a new type of economic organisation which will be based on economic democracy (i.e. the equal distribution of economic power), as part of an inclusive democracy, which alone only secure meeting the needs of the entire population rather than of privileged social groups.

Link: http://www.inclusivedemocracy.org/dn/vol5/fotopoulos_marketisation.htm

Takis Fotopoulos | Brief Bio

Takis Fotopoulos is a political philosopher, editor of Society & Nature/ Democracy and Nature / The International Journal of Inclusive Democracy; he is also a columnist for the Athens Daily Eleftherotypia. He was previously (1969–1989) Senior Lecturer in Economics at the University of North London.

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He is also the author of numerous books in Greek on development, the Gulf war, the neo-liberal consensus, the New World Order, the drug culture, the New Order in the Balkans, the new irrationalism, globalisation and the left, the war against 'terrorism', Chomsky and Albert, the present multi-dimensional crisis and the systemic crisis in Greece. His latest book in Greek is Greece as a protectorate of the transnational elite: The need for an immediate exit from the EU and for a self-reliant economy (Athens: Gordios, November 2010).

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