

Comments on the papers of Morawski and Sato

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Two papers presented in this session deal with Central and East European countries from a common point of view. The view point is that of the historical perspective of these countries from the 1980's until today, as you can readily see from the title of Prof Sato's paper.

The issues they intend to analyse are the contemporary change from a socialist system to a capitalist one, but both speakers emphasize the historical sequence of the process, which started in the 1980's, continued through the downfall of the old communist regimes in 1989-91, and now arrive at the latest stage beginning in 1993-94. Both of the speakers claim the concept of historical continuity is more decisive than that of discontinuity in understanding the situation of systemic change.

Prof Morawski claims that the first period of the change began with the formation of the Solidarity labour movement in 1980 in Poland, while Prof Sato starts his report from "the third wave of economic reforms" within the socialist system in this area in general. The second period is the period of the collapse of the old system and the breakdown of the Soviet Union. The third period is on going. So far, the systemic change has been dealt with by scholars, as a sort of methodological dichotomy to distinguish between the old socialist centrally planned economy, and the newly emerging capitalist, free market, economy. Both papers challenge these discontinuity approaches, and the present continuity hypotheses of systemic change in Poland and this area in general (sometimes touching on the Russian course).

In brief, they say, in the first period there appeared a radical, critical, movement against the system in Poland in particular, and/or began a gradual small scale marketization and small privatization in Hungary and Poland, followed soon by Perestroika in the Soviet Union from 1985 onward. This is the starting period of the change. The second period was that of the

collapse of the old system and of political revolution full of optimism of becoming advanced capitalist countries, similar to the West, in short time span. The third period is characterised by disappointing difficulties and a return to power of the old ruling parties, renamed and reoriented as social democratic political entities, and, supported by the mass of the people.

This historical course was interpreted in the past in a dichotomist way of thinking, or more precisely, by trichotomist explanations. Namely, in the first period the situations were explained by the concept of "market socialism", in that, the micro-economy would be better ruled by free market principles, whereas the macro-economy must be ruled by planning principles, a sort of the former Blusian thinking. The second overturn period, the old system repudiated totally from the stand point of Neoclassical thinking, in that, all of the planning was the worst form of resource allocation, while the free market should attain the best of the best, there must be no governmental interventions at all, a sort of Hayekian thinking. However, after the experience of hard difficulties, minus economic growth, poverty, and inequalities, Central and East European people lost their optimism of seeing their economies become like those of the West immediately on the one hand, so, in CEE countries a social democratic way of thinking has appeared, whereas in Russia there has been a return to an authoritarian way of thinking.

After the historical course of the development of thirteen or fifteen years, speakers here stress, we can and have to have a framework to analyse the systemic change as a whole in this area, not by the method of dichotomy or trichotomy, but by single or consistent hypothesis, and frame of reference. Prof Morawski and Prof Sato each present an original and stimulating framework of thinking to make sense of complex and twisted situations in the area. I am honored to comment on these significant papers here.

As I see it, there is an essential difference between the two papers. Prof Morawski deals with the historical continuity from an epistemological perspective, that is, from the viewpoint of a

social psychologist in Poland. His socio-political framework, or paradigms, are: (i) a Democratic orientation in the first period; (ii) a Neo-liberal paradigm in the revolutionary, shock-therapy period; (iii) a Conservative orientation in the present ongoing period.

He applies these three paradigms to the history of Poland, claiming that the Democratic orientation prevailed in the 80's, when Solidarity flourished and challenged the legitimacy of the established Communist rule, and without this movement the systems downfall in 1989 would not have occurred. Thus the Democratic orientation was the driving force of systemic change. The revolutionary change gave the trade union and labour movement governing power, but in order to transform the old system to a market economy or a capitalist system, Democratic orientation has been replaced by a Liberal policy, which emphasizes the individual, inequalities, and accepts unemployment, poverty, and refuses governmental welfare functions.

The idea of the worker, as "the salt of the earth" is refuted, in turn leading the elite to ascend to power. This period was short lived. Because of the harsh difficulties (above all the heavy unemployment), cut down the standard of living, the people elected social democratic groups (the renamed old ruling political parties), to power. The cycle is, in some sense, closed. A Democratic orientation has returned as an element of the corporatism in Polish style, a concession to privatization, marketization, and social protection, and the government. This is a Conservative orientation, which consists of a tripartite Democracy (trade union), Liberal (management), and the conservative government (renamed old political groups).

Contrary to this, Prof Sato analyses the historical continuities from the viewpoint of a comparative systems economist, and as an sincere observer, who has dealt with the problems in his long academic career as an eminent specialist. His research area in this paper is wider than Prof Morawski's, that is, it covers almost all the CEE countries, sometimes encompassing Russia. His argument is too sophisticated and

penetrating to give any concise comments in this session. In the main I agree with his analysis of the realities in the area, so I'd rather ask him to add some detailed explanations. However, my duty is not to ask, but to make clear some important issues here, so I'd like to focus my attention on his concept of the "Post-socialist mixed economy" from a comparative economic systemic approach.

Prof Sato defines the present economic situation in CEE countries as "Post socialist mixed economy", which is not an Anglo-American type of capitalism but is rather similar to the type of corporate and managerial capitalism with some active governmental interventions, as in Germany or in Japan. He intends to say, at least there is no tendency at all in CEE market economies towards a type of private ownership-orientated capitalism. Thus, systemic transformation, aiming for a pure market economy, and started in 1989-91 is based upon discontinuity in itself, but at the same time, there are strong forces of continuity at work resisting individual ownership, the rules of market competition, antagonism between economic winners and losers and inequality between rich and poor. Needless to say, the elements of both continuity and discontinuity are important in any historical process, but concerning this problem his emphasis lies in the continuity elements, I think.

There are two tools with which he analyses his continuity framework. The first is the "ownership relation", which does not clearly distinguish either state or private ownership, but has much complicated forms such as official fund ownership, holding company ownership, cooperative, and the foreign capital ownership and so on (there are also many mixed or cross ownership in-between these). The second tool is the concept of "coordination mode" in economic systems, among which market coordination mode is only one of them, so that of "state mode", "network mode", "hierarchies mode", are also to be considered. Therefore, the conventional alternative, i.e., either central planning or the free market, is rejected.

Here we need not resummarize Sato's paper, it is not only

impossible for me but uncalled for, you can easily see what the paper intends to say. The Neoclassical textbook type of transition, the sort of which was recommended and pushed by IMF advisers in the shock-therapy period, is demonstrated by these analytical tools as simply being false.

The period of "the third wave of economic reforms" has its peculiar meaning in systemic change, he insisted, because since then small-scale privatization and micro-markets in parallel with macro-planning had appeared, and even in the big-bang revolutionary period, i.e., in the second period, the state held still a substantial share of ownership in big enterprises, while the vertical, directive, decision making has been abolished and emerged a market type of horizontal network.

The post-socialist economy is not a pure capitalist economy based on individual private ownership with free market without government interventions. It is a "mixed economy" in many contexts. Prof Sato elaborately illustrates the realities of CEE economies, and their historical courses by the use of these analytical tools. I support his diagnosis and recipe, firmly based upon the Japanese, non Anglo-American, historical course of socio-economic development.

On Prof Morawski's paper

(1) Discontinuity not continuity: Problems of equality, job security, and social ethics; Alternation in social roles of the labouring mass and the elite in systemic change.

Prof Morawski appreciates the current social democratic element in tripartist compromise, but how long will this tripartist stability continue? If the resistance from the trade unions or the labour movement against the transformation of the system is strong enough there should be a substantial delay in systemic transition. In respect to economic growth, Poland is the forerunner among CEE countries at this moment, but her rate of unemployment is one of the highest. Such a situation is quite

understandable in capitalist economies.

Capitalist systems and Socialist systems both have their own advantages and disadvantages. Capitalist societies have political pluralism and liberty, economic prosperity and a preponderance of durable goods, and innovation and efficiency, but it has to survive vital worldwide competition with possible bankruptcies and high rates of unemployment. Risktaking and inequality are its fundamental laws. Socialism is just the opposite. Socialist societies were governed by unendurable political dictatorships, their economies were directed from above by bureaucracy, and were inefficient and stagnant, but still there was job security, pensions, low rates of housing and cheap public transport, and officially recognized ethics of equality. Members of society are protected by the visible hand of patriarchal state, for better or for worse.

Man could not fabricate one optimal society made of a collection of the advantageous parts of each system. Capitalism without severe competition and unemployment is impossible, while socialism with a high rate of innovation and prosperity does not exist. The ideal socialism, a perfect planning, exists only in party propaganda, just as the ideal market, and a perfect competition, finds itself only in textbooks of micro-economics. Already a systemic choice has been made in Poland. It is an irreversible process. The social value of equality, job security, and ethics must be respected, I quite agree, but we confront real difficulties in the course of the transformation from a socialist society to a capitalist society. We should also recognize the disadvantageous sides and specific values of socialist societies. The government must give a decisive priority to the industrial policy and growth policy to overcome present day economic distress in CEE countries, even at the cost of social insurance and equality policy. (Prof Csaba's insightful paper presented at the symposium must be referred.)

The same is to be claimed about the problem of the alternation of the social roles of both the labouring masses and the elite during transition. Prof Morawski believes in workers'

invariably as "the salt of the earth". This ethic spread throughout the nation in the first democratic period, but it was negated in the second liberal period, and now recovers its respectable position in this conservative social democratic period. His proposition assumes that the Polish course confirms continuity of mass-democracy. But, in every revolution the roles of social classes alter fundamentally; in fact in many cases, the roles are completely reversed. Polish Solidarity is a typical case of discontinuity, not of continuity. In the first period Solidarity, the first mass protest movement in a socialist societies, resisted heroically against the Communist ruling system, foretelling the crises of world socialism. A similar destructive role was played by the Siberian coal miner's strike in 1989. However, the bearers of productive power and productive relations in the newly emerging capitalist systems are not the trade unions or the workers, On the contrary, the bearers are capitalists, investors, managers, and the able policy makers in government. The participation of workers in the workplace is really important in contemporary hightech production systems, but their role is quite different from the role, that was once performed by Solidarity workers.

(2)The reasons for the success of the East Asian economies are not corporatism, but: export-oriented growth policies led by authoritarian governments; the disregard of workers social security; the shop-floor worker's capability to gear his skill to international competition.

Poland in the mid 1990's understandably selected a non Anglo-American style of capitalist development. But, if the speaker imagines that, this choice could be made from the example of successful East Asian economic development (including that of China), one must observe the real conditions in that area have been quite different from those established by present day Polish corporatism.

I need to mention that, in the 1960s-70s, ANIES (Asian

newly industrializing economies) were led by an export-oriented growth policy directed by authoritarian governments. This course brought about success in this area, while many Latin American countries and others, supported by populist movements (including a few CEE countries), striving for the import-substitute policies, fell into heavy international debt.

Next, concerning China's economic success after 1979, when economic reforms were introduced, and it began to open up to the world market, Sachs and Woo concluded the conditions of its success were based mainly upon the absence of the need to take care of social insurance, job security, minimum wages and so on in rural districts, where about 70% of the people live. The spectacular Chinese economic growth should have been impossible if a normal, advanced level of social welfare had been required. So, the state-owned enterprises, which conventionally provide job securities and other facilities to their employees, fell into severe difficulties when faced with competition from non state-owned enterprises and foreign companies.

Lastly, workers are not in themselves "the salt of the earth", I should stress, but in East Asia workers have the capability to get new skills, learn newly borrowed technology efficiently, and adapt flexibly to the on- and off-the-job training required. The basic cause of the Asian nations' economic success was the high utility /price ratio in labour, i.e., the skill /wage ratio. This type of worker is not the same as those in Solidarity.

On Prof Sato's paper

(1) Theoretical issues on the *Post socialist mixed economy* in comparison with the Anglo-American type, the West European type of capitalism (mixed economy), and East Asian variants. Is the CEE economy a parallel one? The historical stages of capitalist economies: the proto-type in 19th century; the managerial, corporate type in the 20th century, revised, with Keynesian policies and social democracy.

Prof Sato argues, that the standard Neoclassical approach, the Misesian dichotomic approach (in which it is only possible to choose between a system based on private ownership with a market - market economy, and a system based on state ownership with bureaucratic coordination - central planning), is wrong for the purposes of giving a rigorous description of CEE economies. I agree, the standard Neoclassical theory is very simple, and in many cases has nothing to do with economic realities, above all, with the subject of systemic transition.

Still I have one point to say, that the CEE type of mixed economy is in a sort of chaos, and has almost nothing in common with contemporary West European and Japanese mature capitalist economies. The CEE type is not a parallel with them, but, say a pseudo type of mixed economy. To be sure, this CEE type is not that of Anglo-American capitalism, but this doesn't mean it is similar to the European or Japanese systems.

In my point of view, there are three types of capitalist system: the British type, based on individual ownership with primitive industrial relations; the American type, based on corporate ownership with modern industrial relations (the exclusive right of management is balanced by the right of trade unions' to collective bargaining), and the German and/or Japanese type based on corporate ownership with harmonious industrial relations (participatory corporate governance). The first is a proto-type of the capitalism in 19th century, the second and the third both are modernized developed types in the 20th century. Thus, to set a category of an Anglo-American type is, in this sense, misleading. The CEE type is much far distant from the American type, than is from the British type. The German or Japanese type is the most sophisticated one, embodying the historical elements of capitalist development over the past hundred years or more. These modern capitalist production systems combine the factors of production, i.e., capital (investment), management, modern technology, skilled workers (human capital), and trained workers, effectively.

Briefly speaking, the American Taylorist principle of the

high-wage high-efficiency linkage is backed up by a Fordist production regime, a hierarchically divided organization, management skills, and institutionalized R & D. Japanese high-wage high-efficiency linkage is backed up by managerial participation on the side of the employee, e.g. TQC, total products quality control movement, and so on. Without these principles, there are no American or Japanese types of capitalism.

A chaotic CEE capitalism at this moment can't compare with either the American or German/Japanese systems. If one wishes to compare them, we must start first confirm, how the capitalism in the CEE and the advanced capitalism in the 20th century are essentially different from each other. [I have already mentioned the differences between the CEE type and the East Asian.]

In reference to the concept of *mixed economy*, I have some words to add, in short, on the topic of hysteresis in 20th century capitalism, on Keynesian macro regulatory policy in general, and the social democratic movement in Western Europe, both of which transformed a classical primitive, *laissez-faire* capitalism (a British type) to a mixed economy. CEE economies are rather, *Post socialist chaotic, pseudo, coarse, mixed economies* or to use the reporter's expression "inferior" mixed economies. They do not belong to the German or Japanese type, but quite altogether another. Maybe just the opposite.

(2)Another aspect of continuity, but also refer to the 1970s and onward; CEE countries in international relations, above all, CEE in the international division of labour in the age of globalization and structural adjustment. Historical, geographical, and geopolitical continuity.

This paper discusses continuity and discontinuity in systemic change only from a regional perspective. By itself this is indeed the correct method. However I believe the collapse and breakdown of the socialist world system, accompanied by the end of the Cold War, is a phenomenon in the history of the world,

just in the same way as that of the Cold War, the Russian Revolution, the liquidation of the imperialist colonial system, and the expansion of the socialist system westward, eastward and southward. Systemic transition in CEE countries is the part of this collapse, and this collapse was in turn one of the most serious results of globalization, which accelerated from the '70s onward in the extreme. From this point of view, CEE countries are going to return to their proper place in the world order, which they used to occupy in the inter-war period. Prof Sato's paper is full of instructive propositions, so this point of view is, as it were, an additional order after a delicious main dish. There are many continuities. I only intend to mention the dynamic and asymmetrical nature of international division of labour, in which the socialist system was defeated at last, and to which CEE economies are going to pertain.

In the 1950s international trade was governed, roughly speaking, by a vertical division of labour in a sort of classical Ricardian type, i.e., advanced capitalist economies (ACE) export manufactured goods and import primary products from the developing countries (DC). At that time, socialist economies (SE) were closed, striving to achieve quantitative targets of heavy industries. The ranking order of economic power and performances was approximately;

$$ACE \geq SE > DC.$$

In the '60s emerged newly industrializing economies (NIES), and a new international division of labour in manufactured goods appeared, between capital intensive goods and labour intensive goods. This type of international trade is explained by the neoclassical Heckscher-Ohlin theorem. Socialist economies remained in a closed situation, and continued to strive for an increase of producers goods, while a serious shortage of durables was keenly recognized. The international economic ranking was follows:

$ACE > SE > NIES \geq LDC$ (i.e. less developed countries).

Developing economies were beginning to split.

In the 1970s-80s, the contemporary globalization spread. Foreign investment, especially by the multi-national enterprises, grew tremendously and so-called intra-industry trade increased. East Asian countries, including coastal China, were transformed into the manufacturing bases for the whole world. Export-oriented policy succeeded, but import substituting policy was frustrated. A horizontal international division of labour developed (a kind of intra-industry trade), above all, in the machine, electric, and electronic industries. This international trade is explained by Leontiev, Kojima, Krugman and so on, in a revised neo-classical theory of international trade. The division of labour between technology intensive goods and capital intensive goods flourished.

Even the socialist economies couldn't resist these tendencies, so they opened foreign economic relations just a bit, and they become, say, semi-open economies, which relates to "the third wave of economic reforms". In this international environment, socialist economies took each their own course: China successfully entered into the growing East Asian and Pacific division of labour, and was herself interwoven into the area, CEE countries accumulated international debt because of their import substituting policy, just as Latin American nations did. The Soviet Union at first got a large sum of convertible currencies by exporting oil and other resources, but this early advantage transformed itself in the second half of the 1970s into a disadvantage to the Soviet Union. Now the ranking order becomes as follows;

$ACE > NIES \geq SE > LDC$.

The Soviet model of closed industrialization has been defeated all over the world. To introduce the market is actually to open each economy to the world market. If "the third wave of

economic reforms" had to have a reality, then the opening policy must have to be pursued. So, Perestroika resulted in the systems collapse. In the 1990s the order should be;

$ACE \geq NIES > \dots FSE$ (former socialist economies) $\dots \geq LDC$.

But now a new international division of labour is emerging, in relation to the competitiveness of exporting manufactured goods, whatever these kinds are (namely, technology intensive, capital intensive, or labour intensive). East Asian countries have so much power, that even the most advanced economies lost their comparative advantage in manufactured goods except for hightech sophisticated goods. They are making efforts to get a comparative advantage in the service sectors, above all, in the financial sectors, and R & D sectors. This means that de-industrialization is proceeding in both the most advanced economies and in the least developed countries. The defeated CEE economies have to enter into this international system of the division of labour. What should their position in the world market, the real competitive market be?

There is a constant tendency to lower the ranking of socialist, and post-socialist countries (SE, FSE, except China) in international economic relations. This is the most serious problems of continuity in respect to the countries of this region, whether socialist or capitalist. (For information on the vicious circle of the peripheral CEE, see, Prof Berend's excellent paper presented at this symposium.)

During the inter-war period the CEE countries were severely affected by the world depression, especially suffering from the agrarian crises, and Nazi-Germany's expansion eastward. History will not repeat itself again, but the EU becoming an exporter of agricultural products on the one hand, and East Asian countries are exporting manufactured goods on the other.

CEE countries exist geopolitically in-between the economic super power Germany in the West, and the military super power,

Russia, in the East. How will the situation change?

Wallerstein asserted that Eastern Europe was suppressed by the active Western cities and competitive handicraft manufacturing in the 16th and 17th centuries, and was forced to become the corn (agrarian products) supplying base for Western Europe. In this meaning "Eastern Europe" is a historical concept on the periphery of Western Europe.

How can the CEE countries overcome this gloomy continuity by their own efforts?

Appendix: A formula

CEEs in Continuity; The decline tendency of their ranking in the world economy. International economic relations and systemic collapse and transformation - Dynamic aspects of the world economy, 1950s to 1990s

- 1 1950s: International division of labour Vertical, Ricardo type
 ACE, manufactured goods
 SE, closed industrialization, heavy industries; inter-systems rivalry
 DC, primary products
 | Ranking: $ACE \geq SE > DC$.
 ↓
- 2 1960s: IDL, Horizontal and Vertical, Heckscher-Ohlin type
 ACE, manufactured; capital intensive goods
 SE, closed; heavy industry oriented, shortage of durable goods
 NICS, manufactured; labour intensive goods LDC, primary goods; DC split
 | Ranking: $ACE \geq SE > NICS \geq LDC$.
 ↓
- 3 1970s-80s: IDL, Horizontal, Foreign direct investment led, Intra-industry trade Leontiev-Kojima-Krugman type
 ACE, manufactured; technology intensive goods
 NIES, manufactured; capital, labour intensive goods
 SE, semi-opened; China, primary products → labour intensive goods
 "3rd wave" CEE, import substituting policy, debt accumulated
 SU, oil and raw materials
 LDC, de-industrialization
 | Ranking: $ACE > NIES \geq SE > LDC$.
 ↓
- 4 1990s: IDL, Re-integration of the world economy, SE defeated
 ACE, Service, Finance, hightech manufactured (de-industrialization)
 NIES+, manufactured; capital, labour intensive, and low level hightech
 FSE, opened; China, foreign investment led, export led, industrialization
 CEE, FSU, minus growth, de-industrialization
 LDC, de-industrialization, importing foods
 Ranking: $ACE \geq NIES > \dots FSE \dots \geq LDC$.