Possibilities for and Limitations to a "Mixed Ecomomy" in Post-Socialist Transformation: Reflections after Thirteen Years*[1]

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In Retrospect - 'Continuity' and 'Discontinuity'

Just thirteen years ago, in 1983, this writer presented a paper at the International Symposium on "Order Orientation and Liberalizing Tendencies in Soviet & East European Societies", organized by the Slavic Research Center, Hokkaido University, August 23-25, 1983, under the title "Possibilities for and Limitations to a 'Mixed Economy' in Socialist Planned Economies", which was later published in "Acta Slavica Japonica" (Tomus 2,1984) [Sato, T., 1984]*[2].In that paper I paid special attention to the then on-going changes which started to appear in the course of the so-called "third wave" of economic reforms from the beginning of 1980s (in Hungary and China in particular). I raised the question that "something essential" was showing itself, which could not be disregarded when we considered the future economic system of 'socialism'. Taking particular notice of the incorporation of different types, of non-state ownership, (namely private, cooperative (small collective) and mixed types of ownership) into the then dominating socialist economic system, I termed these changes a "creeping" approach to a "mixed economy" in socialist economies.

My way of thinking was repeated in my papers presented at different international conferences held in 1987 [Sato, T., 1987] and 1988 [Sato, T., 1988], and finally took shape in my discussion paper presented at the International Round-Table Conference on "Market Forces in Planned Economies", organized jointly by the International Economic Association (IEA) and USSR Academy of Sciences in Moscow on March 28-30, 1989 (just five months before the onset of the 'Revolution' in the Central-Eastern European countries (hereafter CEECs)), under the title "Rethinking Market-oriented Economic Reforms in Socialist Countries"*[3].

In this paper inter alia I stated as follows:

"Taken together, there is a clear tendency toward a 'mixed economic system', based on the recognition of the 'universality' of the market economy common to all economic systems, capitalist or socialist... [Then] the difference between capitalist and socialist economic systems might be interpreted eventually not so much in terms of ownership and relations of plan and market, but in terms of macropolicy (regulation) exercised over the market with due attention to such values traditionally associated with socialist ideas, as security, stability, equality and solidarity" (P. 254-55).

This might be called a very social-democratic view of 'socialism', in so far as it recognizes the market economy as an 'universality' and only sees the difference between capitalism and 'socialism' in the 'quality' of macro-economic regulation exercised over the market.

People are very forgetful even of the near past. After the systemic changes inaugurated by the 'East European Revolution' of 1989 and the 'New Russian Revolution' two years later (this writer uses the latter term for the sake of convenience only, as it differs greatly from the 'Civic Revolution' in CEECs, in Czecho-Slovakia, Poland and Hungary in particular, in the sense that those who came to power were not new political elites, but the second echelon of former Nomenklatura as opposed to the former hence it resembled the 'Romanian' model), many writers forgot what they had been writing before 1989 and concentrated mainly on 'discontinuity' in the processes before and after 1989, while disregarding the elements of 'continuity' which threaded through both processes [Sato, T., 1990]*[4].

As Bravant [Bravant, J. M. van, 1994, p. 77] rightly observed, "it is simply unhelpful to draw a caricature of the past forty years, to pretend that the transformation can be inaugurated in a tabula rasa." With the same line of thinking, Köves [Köves, A, 1994, p. 158] noted that "the to-be-established 'full-fledged' market economy" was conceived as "just the opposite of what the planned economy used to be", but also 'overemphasis on dis-continuation', namely building up "a type of Chinese Wall separating pre-1989 economic reforms from those following the political changes-led to a neglect of real economic potentialities and constraints of different countries". This, in turn, brought about far bigger costs than were initially anticipated, especially the social costs of transformation to find their clear reflex in the changes of political trend in CEECs since 1993 and quite recently in Russia.

History seems to have avenged itself. This applies to the euphoria over rapid privitization in particular. Contrary to the inflated expectations for a market economy with an ownership structure of the Anglo-Saxon type, in which private owners prevail, what we now see in all transition economies (hereafter TEs) is a peculiar type of 'mixed economy' ('post-socialist mixed economy', as the author calls it)*[5], peculiar, not only in the traditional sense that some parts of the economy still remain in public hands, but more importantly, in the ownership structure of individual firms, a peculiar type of 'mixed ownership' (state, cross, quasi-collective and private etc.) seems to have been incorporated [Sato, T., 1995, p. 12]. As this seems not to be a temporary phenomena, "there will not be any clear-cut dividing line between the state-owned sector on the one hand and non-state-owned enterprises on the other in the years to come" [Köves, A., 1994, p. 162]. Hence the problématique (problem-setting) of a 'post-socialist mixed economy' to seems quite real, and this is also closely related to the question 'what kind of capitalism in CEECs and Russia will emerge in the future?'

Path-dependence in Systemic Transformation

The concept of path-dependency refers not to revolutionary, but rather evolutionary features of system trajectories. According to Avner Greif, who coined this concept, path-dependency means that the present framework of economic systems depends greatly on historical conditions, and, therefore, in order to understand a given economic system at any given time it is necessary to study in depth its formation, tracing back to the past [Greif, Avner, 1996]. So, a path-dependency approach will focus on both heritage from the past and active creation. Hence, we should focus on evolution in the era of 'socialism', during the late-80s in particular, as well as paying attention to the trajectory after the big political changes since 1989.

When former socialist countries ushered in the era of post-socialist transformation, they had already followed diverse paths of change since the introduction or imposition of the Soviet-type model. In the following years, especially in the 1980s, an increasing variety of national paths could be observed, while some common trends coexisted with divergent tendencies. This was eloquently stressed by Csaba [Csaba, László, 1995, pp. 2-4] with the main emphasis on the 'peculiarity' of Hungarian development which "did not badly need social engineering" (i.e., the 'shock therapy' approach).

In the first years of transformation, a conventional approach dominated which clearly underestimated such diversity in initial starting conditions. Moreover, the notion of a standard text-book view of the 'market economy', explicitly or implicitly of an Anglo-Saxon flavour, was dominant. Quite recently, especially after the changes in political trends in CEECs and Russia from 1993 onwards, various searches for different paths could be discerned, but it appears to me too early to reach some persuasive conclusions about to what extent they would lead to a stabilized similarity or dissimilarity in the future economic systems of these countries. So, at the time of writing, instead of taking a simplified view of the 'market economy' that might be established in these countries, we need to make a careful comparative analysis of these initial trials that will help us in our further analysis of the emerging patterns of economic systems in transition countries.

As stated in Notes*2, the last decade of 'socialist' systems in some CEECs (Hungary, first of all) and China saw the emergence of a creeping 'socialist mixed economy'. Janos Kornai himself also refered to a "mixed economy of a socialist type" [Kornai, Janos, 1983, pp. 236-237]*7. Many authors, including myself, have focused on the development of the private sector as well as of alternative forms of ownership (as opposed to that of the state) in these countries, and the shift away from the organizational homogeneity of the traditional 'socialist' economic systems. By contrast, Czecho-Slovakia, where the reform attempts of 1968 had been radically suppressed, and the former USSR (at least until 1989) were still close to this traditional model when the regime collapsed in 1989 or in 1991.

The era of radical systemic transformation was inaugurated by an unexpected and somewhat unprecedented form of political change. As Lavigne [Lavigne, Marie, 1995, p. 248] rightly concluded, "the collapse of the system was a political act from which the transition started." This change, although almost simultanious, took different forms according to the then existing socio-political conditions. While in two Central-Eastern European countries (Poland and Hungary) it took the form of 'negotiated retreat' and in Czecho-Slovakia the 'surrender' of communist leaders, in which new political elites came to power, in Romania those who came to power were from the second echelon of the former ruling elite and hence the former power structure has remained essentially the same - just like a 'shadow' structure. Bulgaria lies just in-between. In time, these differences, to which not so much attention was devoted at the time, were to influence the path of systemic changes more heavily.

Following the strong advice and recommendations from international economic organizations, most notably from the

IMF, all governments of the region proclaimed macro-economic stabilization and institutional changes, especially privatization, as the most important and immediate means to reach the common target model of a market economy based on private ownership. However, differences in initial conditions and in policy orientation resulted in different paths: Poland was the first to apply 'shock therapy', but the political conditions associated, first of all, with the incorporation of 'self-management' at the enterprise level constantly delayed the plans for mass privatization, and the actual change in the ownership structure of the former state sector was rather slow.

In Czecho-Slovakia, too, shock therapy was introduced, but this was after rather a longer preparation (one year after Poland) and under far better initial conditions than in Poland. A mass 'voucher' privatization was organized and implemented successfully seemingly (at least in the sense that it has secured an increased support for the ruling party led by Prime-Minister Vaclav Klaus). Hungary, on the other hand, where the evolutionary change towards a 'mixed economic system' had been most pronounced in the 1980s, adopted from the beginning a more gradual approach to macro-stabilization and privatization, opting for conventional methods rather similar to the privatization schemes applied to some developed market economies in the 1980s.

These differences in privatization schemes were connected with other differences in initial economic conditions. In the Czech case, where foreign indebtedness was small and the state budget could afford to maneuver, the distrubution of the assets of SOEs among the population could be carried out through the distribution of vouchers which could be exchanged for shares in the corporatized SOEs.

In the case of Hungary, where foreign indebtedness was already big and therefore badly needed an increase in foreign direct investment (FDI), direct foreign participation in privatization was placed at the top of the agenda, which in turn heavily influenced the chosen pattern of privatization. On the other hand, in Poland, where rescheduling and the reduction of foreign debts had been undertaken, and the inflow of fresh foreign money was stopped for a considerable time, privatization had to rely mainly on the limited domestic capital which considerably affected the pace of privatization of large SOEs.

In the above three countries, followed by Russia two years later, 'small privatization' of small state or cooperative enterprises, notably in retail-trade, proceeded quite fast and successfully, while an impressive development of newly-created private firms, generally small ones, took place especially in the service sector. Another common feature was the almost immediate disruption or distruction of vertical dependence of firms, closely linked to previous "bureaucratic coordination" [Kornai, J., 1992], either in its direct from (Czecho-Slovakia) or its indirect form (Hungary, and to a considerable extent also Poland). An unexpected development affected all these countries, the most severe case being Russia, namely the huge decline in output linked with hyper-inflation which was termed (not completely accurately) by Kornai as the "transformational recession" [Kornai, J., 1993] (this author himself has been using the term "inflationary depression")*[8], with considerable path-dependent effects on further developments. Some peculiarities in the development of hybrid ownership forms discussed below are closely linked with the adjustment efforts to the consequences of the 'depression' [Stark, D., 1994]

In all countries a wide array of 'continuities' became manifest in the over-all systemic transformation. A 'self-reorganization' process of the economic system is now at work, where rearrangements or recombinations of inherited organizational or institutional forms are combined with a more or less genuine creation of new forms. Among the latter, some have a close resemblance with their western capitalist counterparts ('managerial capitalism'), but others have peculiar post-socialist features.

A Peculiar Combination of Ownership Forms

The post-socialist economy is characterized by an unique diversity of ownership forms and owner-manager relations, a hybrid mixture of forms, ranging from private forms to public ones with a high proportion of intermediate (quasi) ones. This mixed combination is all the more complex, because the degree of hardness and hardening the budget constraint varies not so much in accordance to the ownership forms, but within the same ownership types. Moreover, a great number of enterprises are themselves of a 'composite' nature; for example, they often combine within a single organizational form employees' ownership, foreign paticipation and public ownership. The common systemic legacy of CEECs makes this new configuration typical of transitional economies: the persistence of some 'socialist economy-type' behaviours (more or less soft budget constraint, risk aversion, 'good contact' or bargaining with the state, state resources 'pumping', cheating and so on).

Two salient features can be noted in the process of emerging configuration of ownership forms. On the one hand, small and medium-sized private enterprises (SMEs) are mushrooming in all countries more or less in a similar way. On the other hand, peculiar form of interwoven ownership are emerging in all of these countries which makes the difference between them.

(1) The Proliferation of diversified Small and Medium-sized Private Enterprises

The impressive increasing number of private SMEs in all CEECs is accompanied by the proliferation of company forms: limited liability companies, joint ventures, joint stock companies, individual business units, partnerships, illegal entities and so on. Another feature of this SMEs development is the diversity of organizational forms. Here, many factors are at work: whether ownership is separated from management or not; the size of firms; the sectors of operation (services, industry and agriculture etc.); capital-intensity, links with large domestic SOEs (for example, sub-contracting firms); and the presence of foreign investors (joint-ventures or 100% subsidiaries).

The similar expansion of private SMEs in transition countries is, firstly, due to the same combination of various privatization methods implemented in most countries: small-scale privatization programmes; management / employee buy-outs; and sale of all or part of the capital to foreign investors. Also these are sometimes combined with the break-up of larger units; in other cases only a transformation of ownership takes place.

Secondly, it can also be explained by the 'conversion' of small private businesses, illegal or semi-legal ones of the previous 'second economy' and a few legal forms which existed under the 'reformed' socialist system (1980s), into legal and/or illegal business entities. Contrary to the expectations of the first designers of transition, the 'second' (hidden, grey and black) economy has been growing in all CEECs since 1989, but the nature seems to have slightly changed. While under 'socialism' people got involved in the second economy to compensate for the failures of the system and to add something to their living, now people rather go underground to avoid paying taxes and get an advantage over their business rivals.

Moreover, in Hungary, the development of a small-scale private sector began as early as 1982 with the government entitlement to set up quasi-private business entities. The most important forms were the so-called Enterprise Contract Work Associations (VGMK), which made it possible to form a contract relationship between groups of a state enterprise and the enterprise management so that they could work independently within the firm during their spare time. Other important forms included the so-called Economic Contract Work Association (GMK) which was practically a private business to be formed outside the SOEs, industrial and service cooperative groups (VGMK in the cooperative sector) and different types of small cooperatives (mainly shops and restaurants etc.). The development of this sector has served as a broad basis for the subsequent rapid expansion of the small private business sector in Hungary (of which the small limited liability companies were entangled in the "corporate satellites" organizational form [Stark, D., 1993]) and provided it with the first entrepreneurial know-how and training; a clear illustration of path-dependent development.

The diversity of private organizational forms broadened from the early 1980s in Poland too, and the Polish private sector experienced a period of rapid expansion. Direct investment was also encouraged through small-scale "Polonia" firms, theoretically owned by 'overseas' Poles, whose growth, however, after a period of rapid expansion during 1982-84, showed a remarkable slow-down after 1984. Private individuals were also entitled to lease shops, restaurants and kiosks and manage them privately from the 1970s onwards. After 1987, leasing spread to other activities. Economic Working Groups, similar in principle to the Hungarian VGMK, were permitted too, but did not expand so much. The existence of small private or quasi-private enterprises in the 'reformed' (1980s) socialist system may explain the fact that entrepreneurship in Hungary and Poland have taken off more quickly than in, say, the Czech Republic.

Thirdly, an important share of the small private sector has emerged through the spontaneous creation of national (legal or illegal) SMEs or of foreign groups' subsidiaries. It should be noted that a considerable part of newly-created private small enterprises do not correspond to their western counterparts, as they are sometimes 'forced individual enterprises' founded in order to avoid unemployment, their aim being surviving and not making profits. Nearly the same version are the so-called 'multiple business ventures', that is, the creation of several 'sleeping' small enterprises; they are only partly active, essentially in order to limit the tax burden.

It is not yet entirely possible to determine the relative importance of privatization and of newly-created private businesses in the development of whole national economy, because firstly, the share of the private sector in the whole economy of TR countries depends greatly on the "definition" of what is "private", which differs significantly between countries as was noted quite rightly by Mihályi [Mihályi, P., 1993]. This is also related to the "pressure to produce numbers showing a high share of the private sector in GDP, employment or in the capital stock" (ironically, a kind of revival of the former 'socialist emulation' mentality), and secondly, though SMEs undoubtedly represent the numerical majority, their share is somewhat more limited in terms of economic activity measures (Table 1-2.).

(2) The Emergence of an Interwoven Ownership

As already noted, in several CEECs, similar forms of interwoven ownership are emerging, i.e. hybrid forms of complex cross-ownership between public and private partners (perhaps with the exception of Poland where this type of ownership is only at the initial stage of development) in which banks play an important role, however, as a result of quite different processes (see, Table 3.). This combined configuration *par excelence* (typical of the new post-socialist mixed economies) is related to the privatization of large SOEs and has resulted in peculiar organizational forms. It represents, therefore, a high share of national assets and economic activity.

The emergence of an interwoven ownership form in Hungary is linked to the 'spontaneous privatization' process, which started in 1988, in the last two years of the former 'reformed' socialist system, as noted by [UN ECE, 1994]. In some cases, large SOEs contribute some of their assets in kind, which are pooled together with other capital from foreign investors, into new companies, and the remaining part of the SOEs continues to operate (see, Figure 3. by Stark) [Stark, D., 1993, 1994]. But the basic form of 'spontaneous' privatization is the 'transformation' of large SOEs into a group of new companies, each with its own factories, plants and even administrative departments, which then distribute the assets of the public enterprise among themselves. The former public enterprise center (head company) keeps the controlling shares of the new companies [Stark, D., 1994]. In these public holding companies ("corporate satellites" according to Stark) foreign investors, state-owned organizations, such as banks and other enterprises (mainly business partners - suppliers and customers) also participate in share ownership.

So, it is not 'privatization' in the strict sense of the word (hence our expression 'quasi-public' or 'quasi-private'), even if some private investors, mainly SOEs managers buy shares of new companies, who establish their own private firms and integrate them in the holding as suppliers or customers.

As Stark noted, "the fastest growing new property form is a limited liability company owned by other liability companies, owned by joint stock companies, banks, and large public enterprises owned by the state [Stark, D., 1994]. The notions of "inter-enterprise ownership networks" and "recombinant property", developed by Stark on the basis of socio-economic analysis of transformation in Hungary deserve special attention (see, Figures 1., 2., 3.) [Stark, D., 1993, 1994].

The transformation of SOEs was directly motivated by the changing economic and political environment at the end of the 1980s. Firms were on the verge of insolvency and badly needed additional capital, due to the restrictive economic policies including the cut-back of subsidies. After 1989, the post-socialist depression made the insolvency problem more acute. In the case of enterprises placed in a difficult financial position, corporatization (the transformation of an enterprise into a corporate company with juridical personality) offered the possibility of a debt-to-equity swap with banks or other creditors (state, local authority, suppliers). Quasi-public and quasi-private holdings are then linked to each other by ownership ties -"recombinant" according Stark-often through their own subordinated limited liability companies (Kft) (see Figure 3). Thus, in Hungary, property relations are complex and interwoven between public (for the major part) and private organizations.

In the Czech Republic, the emergence of an interwoven ownership form is the unexpected result of the voucher mass privatization. During the first wave of privatization, some 72% of all available voucher points of citizens were concentrated in the Investment Privatization Funds (IPFs). Most Czech enterprises are now controlled by a group of IPFs which, however, in most cases are controlled by the major banks which were also privatized within the voucher scheme, the state remaining, again however, their biggest shareholder with approximately 40% of shares in its hands (see Figure 4). Moreover, the state, through the Fund of National Property (NPF), holds significant stakes in 160 companies on a permanent or temporary basis [Mladek, J., 1993].

Thus, after the first wave, the major commercial banks, controled by the state, are the co-owners of many Czech companies through their IPFs; they mutually hold some shares in other banks' capital and in some cases banks are indirectly owing their own shares. For example, the Czech Investicni Banka owns 17% of its own shares and many shares of other banks [Mladek, J., 1993]. This emerging unique structure of property relations with major banks holding the controlling position was called "financial capitalism" by Stark [Stark, D., 1993] and Mertlik [Mertlik, P., 1995], and "bank-based system" by Klacek [Klacek, J., 1995], illustrated in Figures 4 and 5. The close relations between state, banks and industry with the core role played by the state have been defined by Mertlik [Mertlik, P., 1995] as a transition "from public ownership to public ownership"*[9].

To put it in a nutshell, all large and also a majority of medium-sized enterprises are, with some exceptions, controlled by IPFs, the IPFs in turn, with a few exceptions too, are controlled by the major Czech banks, which again in turn are mostly controlled by IPFs, thus closing the circle. Such a complicated ownership structure, in which it is far from clear "who owns what?", seems not only to have slowed down the hardening of the SOEs budget constraint and the restructuring at the enterprise level, but also was the main source of the recent bank crisis in which 11 small banks collapsed and the nation's fifth largest one was driven to the brink of bankruptcy*[10].

In Poland, the transformation of property relations requires a more careful assessment. An interwoven ownership form is not yet clearly emerging, but it may be a possible future scenario. On the one hand, at least to date, only a very small part of the SOE sector has been really privatized. The mass privatization programme decided in late 1994, in which about 450 enterprises were involved, is likely to change the ownership structure with the participation of new actors, the National Investment Funds, and with an increasing role of banks. Though weak interwoven ownership forms are emerging between public and private partners, what is striking here is the vitual absence - or low development, at least - of cross-ownership relations between enterprises.

On the other hand, banks seem to be reluctant to invest in industrial firms. But the development of debt-equity swaps within the framework of the Law on Financial Restructuring of Enterprises and Banks (adopted as early as March 1993), if really put into practice, is likely to increase the share of industrial equity holdings in the banks portfolio. However, the progress so far seems to have been rather slow.

Moreover, bad debts and scarce finance have led to the emergence of industrial giants with complex interwoven property relations. In breaking up the big monopolies, the government created firms too weak to survive, which then became prey to foreign and domestic investors. Elektrim, a former state-trading monopoly for electrical goods became Poland's biggest domestic investor in 1993; at the end of 1993, it had stakes in 87 companies, a majority of which were former customers put up for sale by the Privatization Ministry.

Liquidation under the Law on SOEs (i.e., real bankruptcy and the subsequent sales of assets) has been the main method of privatization. The most common technique is the leasing of the liquidated firm's assets by its own workers. Workers' buy-outs are the second most popular method of transformation of the liquidated enterprises. As early as October 1993, liquidations of SOEs had led to the creation of around 700 workers' companies employing 220,000 people [UN ECE, 1994].

In any case, it could safely be said that the privatization of SOEs in Poland has been so far carried out in three basic methods and steps: transformation into joint-stock companies (commercialization) and selling of shares in them; privatization by liquidation, i.e. contributing their assets to new companies; and liquidation proper which takes place in the case of SOEs in financial diificulties. So far 1,021 state-owned enterprises were transformed into joint-stock companies, of which only 146 companies have been sold; 26 though public offering, the rest to strategic investors, including foreign ones. The remaining 875 joint-stock companies are 100% treasury-owned, but 514 of them are included in the Mass Privatization Programme which started in autumn 1995. In this respect Poland could probably be included among such countries with delayed privatization as Bulgaria and Romania. Progress of privatization has been mainly due to the the fact that a great number of small companies were privatized by the liquidation methods. It seems that a "dual" structure of coexistence of a large SOEs sector with the mushrooming small private firms, including numerous grass-roots ones, has already locked-in.

(3) A Few Words on the Emerging Configuration of Coordination Modes

The classical problem of coordination modes in economic systems has been approached in different ways. An extreme position sees the market as the only existing or desirable coordination mode, which seems quite unacceptable. Other theories refer to dual models: horizontal market coordination and vertical bureaucratic coordination, including both direct administrative and indirect (parametric) ones, most notably as proposed by J. Kornai [Kornai, J., 1983], or markets and hierarchies (firms of different types and size). Recent discussion conducted mainly by economic sociologists stresses the importance of other types of coordination modes in economic and social life as networks [Thompson, et al., 1991]. Without getting involved in the discussions proper, let us limit ourselves here to saying that the emerging pattern of coordination modes in TEs could not be dealt with even by the dual models mentioned above, in so far as there seems to be working a complex mixture of coordination mechanisms including the state, networks, hierarchies and markets. Here the standard view of 'marketization' seems too narrow and reductionist to cover the 'mixed' picture of coordination modes in the post-socialist phase.

It should also be noted that, in the 'reformed' socialist economies as Hungary or Poland in the 1980s, the mix of coordination modes had been moving from the traditional system, and was evolving in the direction of the future post-socialist configuration, though, of course, the importance of the 'break' (rupture) should not be underestimated. In the almost 'un-reformed' Czecho-Slovakia, no transition through a 'reform' period took place, so the elements of 'continuity' were less important, though not totally absent, as could be seen in the emergence of macro-economic - notably monetary - policy as noted by Bulír [Bulír, Alles, 1995].

The Uncertain Consequences of the Post-Socialist 'Mixed' Economy

(1) Possible Outcome

Institutional and organizational transformation trajectories in CEECs (and Russia) may become locked up into 'inferior' paths of development or, conversely, atypical capitalist (capitalism-like or imitated) forms may become institutionalized and then may prove to be somehow efficient.

One question facing these TEs now is whether small private enterprises will be able to grow and evolve into medium and large-sized enterprises. In this field, Japan has accumulated a rich experience in the course of its post-war reconstruction and development. SMEs stemming from large SOEs (sub-contracting firms) tend to face difficulties of growth because of a narrow specialization related to the needs of large 'head' companies.

But scarce finance may be the most serious problem. So far the small private sector seems to be prospering without proper access to credits. Most SMEs finance their investment out of profit and by trying to evade the corporate income tax. Service firms, which now dominate the private sector, anyhow need less capital investment than do manufacturing ones. Do-it-yourself finance may work when firms are small, but if they want to grow into medium-sized companies, scarce finance will be a major barrier. Moreover, as the author has suggested earlier, no small number of small private enterprises, supposedly the best guarantee of a shift towards the market economy, are not real market actors but hybrid ones still pervaded by the socialist heritage. Some of them will undoubtedly become real market actors, others will disappear, but some survivors may tend to direct private sector evolution to inferior development paths, especially by getting involved in the grey or even black mafia economies, Russia being the typical case.

In Poland, as noted earlier, the conflicting interests between the political actors, management and workers' collective seem to have considerably slowed down the privatization process and led the Polish authorities to place much of their policy emphasis on the growth of the new private sector. More than any other CEECs, a 'dualism' could be observed in Poland between the large state-owned firms, which have been corporatized but not yet privatized and are in an uncertain situation under the formal control of the State Treasury, on the one hand, and a dynamic and prolific small private sector on the other.

However, the share of the private sector in total investment has been relatively less dynamic, and the gross profitability ratio seems to have been lower in the private sector than in the state sector for most branches of the economy [UN ECE, 1994], though, of course, this assessment may not give the full picture, as small private firms tend to overstate their costs and understate their profits in order to evade tax payments. The 'dualistic' aspect of the Polish economy is also the counterpart of the weaker development of the interwoven property forms which in other CEECs includes a lot of private SMEs.

(2) Ownership and Control

The Czech trajectory now seems to be locked-up by the major role of the banks, which seem to have secured themselves an important control over the whole economy. Some comcern may reasonably arise from the links observed between the State, banks and industrial enterprises, caused by the 'permissive' banking attitude, the artificial survival of non-profitable enterprises, collusion risks, the limitation to the entry of new firms and the exit of outdated ones (Grosefeld, Irena, 1994). Unexpected conflicts may also arise between a bank's will to initiate bankruptcy of firms and the interests of its investment fund that holds substantial shares in them (Svejnar, I, 1994). The interwoven property relations tend to create a situation in which managers are controlled neither by shareholders nor by employees of the enterprises. Similar risks could be conjectured in the emerging institutional framework in Hungary.

It should be noted, however, that the standard theories of corporate governance stressing the importance of direct or indirect control of owners (shareholders) on enterprise management, mainly modeled on the American case, have limited explanatory power when applied to such capitalist countries as Germany, France, Italy or Japan in the first place, and/or to other emerging capitalist institutions in East Asian countries [Tamborini, R. and Targetti, F., 1994] [Schaede, U., 1994]. 'Managerial or corporate capitalism'*[11] is more frequent in the contemporary world than 'proprietary capitalism' - a model inherited from the 19th century which has little relevance to capitalism today, at least as far as the large enterprise sector is concerned.

In other words, if some disturbances arise in the relations between owners and managers of capital, they will perhaps be due not so much to the distance they can maintain between themselves and the questionable normative model of efficient corporate governance, as to the specific conditions of these transforming economies mentioned above. The recent bank crisis in the Czech Republic is a typical case in this respect.

Faced with these difficulties, there are trials and arguments in some CEECs which favor the enhancement of a 'private' character of the ownership structure of enterprises, but the author wonders whether they would lead to a satisfactory solution under the present institutional set-up of these economies. 'Fraud management' is often seen not only in countries where private ownership has long been put on a firm basis (see the recent scandals in France and Italy), but also in Japan where ownership structure is characterized by 'cross-ownership' between big corporations. There is no ready-made answer to the problems of corporate governance in which the choice is probably not between 'perfect' and 'imperfect' solutions, but between the degrees of imperfection. Perhaps the solution may be found rather in raising the 'transparency' of enterprise performance and assets, than in trying to improve things in a simplistic way, based on the 'ownership obsession' quite commonly seen in CEECs in the first years of transformation.

At least for the last 5 years, the relationship between ownership changes and enterprise behavior has appeared rather indeterminate, namely, ownership changes are not correspondingly reflected in the changes of enterprises' behavior [Sato, T., 1995], except in the positive cases of foreign involvement. While a diversification of managerial attitudes had been observed, for instance, in Poland even the late 1980s within the then prevalent state-owned sector [Beksiak, J., 1989], the variety of behavioral responses to the new framework, seemingly, has not yet been clearly connected with privatization. Active restructuring could be observed in a number of still public enterprises, while the behavior of many privatized (or formally privatized) ones have not undergone many changes. Firms 'afloat' or 'adrift' [Estrin, S., Gelb, A, and Singh, I., 1993] could be found in different property rights' configurations. In a period of weak systemic coherence and of institutional uncertainty, such enterprise-specific factors as managers' personalities and abilities when confronted with many new constraints and difficulties, seem to be quite decisive, along with the necessary competitive environment.

(3) Coordination and Ownership

The strong link between ownership forms and coordination mechanisms has been stressed in a neo-Misesian perspective by Kornai [Kornai, J., 1990, 1992], who asserted a strong 'affinity' between private ownership and market coordination on the one hand, and state (public) ownership and bureaucratic coordination on the other, with other combination as state ownership cum market coordination ('market socialism') displaying a weak 'affinity'. The author, while highly appreciating the positive side of this argument (i.e., it stressed the necessity of a 'bold' expansion of the private sector in order to secure a well-functioning market mechanism, the more so as it was written as early as the end of 1988, thereby forestalling the approaching systemic transformation), now is of the opinion that such a reasonable view is rather dichotomic and seems not based on rigorousely developed theoretical argument. Even if the negative systemic consequences of 'dominant' public ownership could easily be inferred from many historical and empirical experiences, the fact remains that various economic theories have not given a satisfactory answer to the question of 'why private ownership is important and decisive' [Grosefeld, I., 1993].

The Misesian approach or the theory of property rights school seem to be confronted with difficulties when dealing with managerial or corporate forms of capitalism, and with the variety of relations between the ownership and management of capital observed in contemporary economies, as well as with their coordination and dynamic efficiency consequences. The rather limited applicability of this standard approach could also be seen when applied to the uncertain institutional set-up in TEs. An 'intermedidiate' level and body of institutional and evolutional analysis of various patterns of the links between capital ownership / management and coordination modes in contemporary capitalism, emerging capitalist economies of East Asia and in post-socialist economies remain to be done. At least in post-socialist transformation, the emergence of interwoven forms of ownership seems to point to the important role of new network modes of coordination, or of these 'hybrid forms' which are neither market nor hierarchy stressed in recent versions of socio-economics.

(4) Future Selection and Evolution Processes

Post-socialist transformation is associated with an enormous increase in the degree and extent of vague organizational and institutional diversity. A wide number of new small private enterprises coexist dynamically with a more restricted number of large firms undergoing different patterns of adaptation, restructuring or, most importantly, survival strategies. Some of the big old firms are becoming fragmented or gradually reduced in scale, while some SMEs are growing or trying to expand, but with no small difficulties. The danger of detrimental segmentation of firms seems to exist in CEECs: once formed, many private firms do not expand, so that, as Busse [Busse, M., 1994] rightly noted, "a shrinking large firm sector combined with an insider-dominated, small-firm sector could leave many in long-term unemployment."

The increase in diversity is also an increase in complexity with various economic and social consequences. Which type / model or pattern of stabilized order will emerge, with different viability or growth properties, remains to be seen. A dynamic and competitive economy, although possible in the long-run, could not be expected as an 'automatic' product of transition.

Selection processes taking place in CEECs are not unambiguous either. They have taken place mainly through the differential growth and decay of enterprises and industries rather than by actual bankruptcies. The number of bankruptcies is still limited, though the situation varies among countries. In the Czech Republic, the growth in the number of bankruptcies has been very slow and has essentially been concerned with private enterprises. In Hungary, the new Bankruptcy Law on January 1, 1992, has resulted in the reaching of agreements between debtors and creditors, including state-owned commercial banks and other state or central institutions (tax, customs, social security offices etc.). In Poland, we have noted that liquidation of enterprises in poor financial situations has been used as the most popular method of SMEs privatization. The balance-sheet of the detrimental and the creative aspects of on-going changes still remains unclear in the medium-term. At least, it is rather dubious whether the on-going selection process simply favors the 'fittest' enterprises.

Post-Socialist 'Capitalism' - What Kind of?

In place of an abstract and simplistic notion of 'transition to a market economy', we have seen in CEECs the emergence of various path-dependent post-socialist mixed economies. They represent a type in some sense close to managerial capitalism or a peculiar corporate economy, with combined and fuzzy ownership and a composite corordination set-up. Hybrid or interwoven ownership forms are quite common. Though the private sector has become important everywhere, it is imbricated with the public sector (Hungary), or in a dualistic relation with it (Poland), or it has itself a dualistic structure - large (quasi-) privatized enterprises alongside small greenfield (grass-roots) or privatized ones (Czech Republic). The above distinction between the three CEECs should rather be seen in relative terms, because, first of all, new important developments are now going on everywhere - the process which could be termed as 'post-privatization redistribution of property rights' in which managers' 'buy-outs' of enterprise assets is playing a big role, which may lead to the attenuation of these distictions, and secondly, as Karel Kouba [Kouba, K., 1996] told me, the most important is the "hidden, invisible transfer of economic power" linked to the strong 'lobbies' working behind the political scene.

As Lavigne rightly noted [Lavigne, M., 1995], while observing that "a country in transition is a mixed economy, whether it likes or not", "what is missing in the countries in transition is a clear perception of the role of the state at large."*[12] This also raises the question of the role of the state in economic coordination again. As Köves [Köves, A., 1995] frankly noted, the state "should not rely solely on the market and market mechanisms, but influence the progress of the economy by direct government intervention as well." With very much the same thought in mind, I have also stressed that "excessive reliance on the market forces in immature transition economies may result in serious 'market failures' and bring about critical, social and political consequences" [Sato, T., 1996], the most vivid demonstration of which we have just seen in the political spectrum of Presidential elections in Russia in June / July this year 1996.

These peculiar features of a 'post-socialist mixed economy' have been recognized and emphasized by several authors not refered to earlier*[13] including myself, who was prompted to say in more general terms that "no one is entitled to say that transition to a market economy should always be a process infinitely approaching the Anglo-Saxon model, as is often explicitly or implicitly suggested by many neo-classical mainstream economists" [Sato, T., 1995]*[14].

While an evolutionary approach, stressing path-dependency gives some clues to the emerging shape of post-socialist 'capitalism', the medium and long-term dynamic perspectives of these economies remain uncertain and open. The same applies to the question of models /variants of capitalism to be shaped in CEECS in future: so far we have to restrict ourselves to agreeing with Stark [Stark, D., 1994], who said that the analysis of 'recombinant property' "suggests the emergence of a distinctvely East European capitalism that will differ as much from West European capitalisms as do contemporary East Asian Variants." To add to this right observation, the author would like to say that the most unlikely outcome would be an Anglo-Saxon type of capitalism.

A Few Concluding Remarks

The 'creeping approach to a mixed economy' in the course of the 'third wave' of economic reforms in the late 1980s was interrupted by the 'political revolution' of 1989 (or 1991). The political change coincided in time with the revival of the post-war Hayekian negative assessment of interventionist policies and tendencies towards a 'mixed economy', which the author has considered from the outset as a not very happy coincidence. There was a strong convergence of the free-market orientation of new governments (often with the active participation of economists who had been until the late 1980s proponents of radical reforms of the 'socialist' economy) and the influence from international economic organizations - notably from the IMF -, the leading experts of which strongly and repeatedly assessed that a model of a 'mixed economy' should be avoided to guide the 'transition'.

The refusal of a 'mixed economy' was at that time part of the political struggle of pro-market forces against neo-communist or social-democratic tendencies (both trends being often confused and identified with the same in political debates) in these countries. International influences worked generally in the same direction, even though critical assessments of this trend were made by numerous economists early in the process.

Economic liberalism criticizing or refusing in principle the notion of 'mixed economy' has obscured both the nature and diversity of contemporary capitalism as it 'really exists' (including its West European, Japanese or emerging East Asian brands), and the challenging specific problems of systemic transformation in the post-socialist world. The concept of a 'market economy' understood as a kind of pure system reducible to a single universal coordination mode is misleading. In place of a rnonocausal pure system, we find combined or mixed economies in which various forms are present and different principles are at work.

The same applies to post-socialist transformation, which, quite contrary to earlier expectations, has produced until now complex developments in the economy which cannot be reduced either to marketization and privatization as general trends, or to simple obstacles and delays encountered on the way to this goal. Such heterogeneity does not boil down to the simple 'transitory' nature of economies moving from one alleged pure system to aother one.

Quite recently, to the author's happy surprise, our views seem to have been joined by an U.S. economist, who usually might not be very enthusiastic about West European idea of a 'mixed economy'. Martin Spechler (Indiana University), under the challenging title "Privatization Is not the Key to Successful Transition"*[15], wrote that "it appears that the most prudent course for Eastern Europe and the former Soviet states would be to accept mixed forms of ownership in a competitive environment so as to encourage growth and political support" [Spechler, Martin, 1996]

[Postscript] The author wishes to thank Professor Hiroyuki Okada who gave some valuable comments on my paper and other conference discussants, first of all Professor Ivan Berend who found my line of thinking quite close to his own and said, "we belong to the same church."

Notes

In choosing this subtitle I had in my mind the admirable article by the late Professor Jan. Tinbergen " De Convergentietheorie - Balans na 20 Jaar" ("The Convergence Theory - Balance after 20 Years", published in 1980 [Tinbergen, Jan, 1981], in which he gave a self-critical reassessment of his famous article [Tinbergen, J., I960]. Had he written it a few years later and witnessed the on-going changes in the course of the "Third Wave" of economic reforms in Hungary and China, he might have written it in a slightly different tone.

2 Also interesting enough is the fact that the term 'socialist mixed economy' was coined by U.S. institutionalist economic-sociologist [Nee, V., 1989] who paid great attention to the Chinese economic reforms in the 1980s. However, please note that here the author does not use the term of 'market socialism' (which is a separate question), but plainly 'mixed economy', though these two notions are sometimes confused. The latter is more or less a common feature of contemporary capitalism, especially of its West European and Japanese variants, where some portion of public enterprise sector is still retained, though naturally in an environment dominated by the private sector, and active regulation over the market is exercised by the government. No one would call Austria a 'market socialist country' on the grounds that there is "a comparatively greater proportion of various kinds of public ownership" [Nowotny, Edwald, 1996, p. 1], although this portion is gradually declining.

3 [Sato, T., 1990]

4 The same idea of 'continuity' and 'discontinuity' is also found in Chavance [Chavance,Bernárd, 1994].

5 The same term is also found in Chavance [Chavance, Bernárd, 1992,1994].

6 To the best of my knowledge, the term 'path-dependence' as applied to transition economies was first used by Stark [Stark, David, 1992].

7 Komai noted, "In the official economics of the socialist countries the idea was dominating for a long time that the system proceeds towards the exclusivity of the state-owned sector (the sector in 'general social ownership') and even within that towards the state-owned large firms... The reality of the socialist economy never agreed with this idea... In my view, the present Hungarian economic system may be called a 'mixed economy' of a socialist type, in the sense that it relies on the symbiosis of different kinds of ownership, and this entails a diversity of organizational and institutional forms."

8 See this writer's paper [Sato,T., 1995].

9 See very interesting article by P. Mertlik [Mertlik, P., 1995], in which he wrote that what has happened is " very far from the simple ideas of private ownership of the neo-liberal economic ideology... Instead of the responsible individual owner, a new,... or perhaps quasi-new hierarchiai structure has emerged." (p. 329)

10 Siegfried Mortkowitz and Ladka Bauerová wrote in their contribution to a Czech weekly that " a combination of free-market overexuberance, rapid privatization, lack of experience and inadequate legistration has produced a chaotic Czech banking sector that has seen 11 small banks fail and the nation's fifth-largest bank driven to the brink of collapse" *(The Prague Post,* Sept. 25-Oct. 1,1996).

11 In this respect critical analysis of 'corporate capitalism' and 'cross-ownership' between enterprises in Japan by Hiroshi Okumura is quite interesting. See "Take-overs and the Market Economy: The Japanese Case", a paper presented at the 4th EACES Conference in Grenoble, 12-14 Sept., 1996.

12 The same views are to be found in different expressions. "the paradox of the present situation is that the transition to economic liberalism requires a strong state... To maintain, integrate, and enhance markets along with the transition process, state intervention of the right kind and in the right areas is indispensable." [Bravant, J. M. van, 1994]. Bravant, Principal Economic Affairs Officer at the Department of Economic and Social Information and Policy Analysis, United Nations, N.Y., also strongly argues for the "role of industrial policy during the transition".

" First of all, there was a dominant conception of transition as a process whereby the state simply withdraws from the economy leaving room for private agents. This conception, prevalent in most of these countries, was reinforced by the initial attitude of the international economic organizations and by the conditions that they attached to the granting of loans and other forms of aid and assistance." [Dallago, B., 1995]

13 For example, Nuti, D. M., who once wrote a very interesting

article "Market Socialism: The Model that Might Have Been, but Never Was" [Nuti, D. M., 1990], four years later spoke about " a temporary state of forced market socialism" [Nuti, D. M., 1994], which is mainly the outcome of the slow process of privatizing state-owned assets.

14 Ronald Dore, a British sociologist, strongly arguing against the application of a single success criteria of 'efficiency' which seems to favor the U.S. model, has emphatically stressed that "one's judgement of success or failure clearly differs if [another - T. S.] objective function [for example, preventing widening inequality - T. S.] - is adopted." [Dore,D., 1996]

15 Most outspoken arguments against the notion of privatization conceived as the only way to a 'free market economy' are to be found both from the traditional German [Gesellschaft, 1993] and British [Gray, John, 1994] perspectives.

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