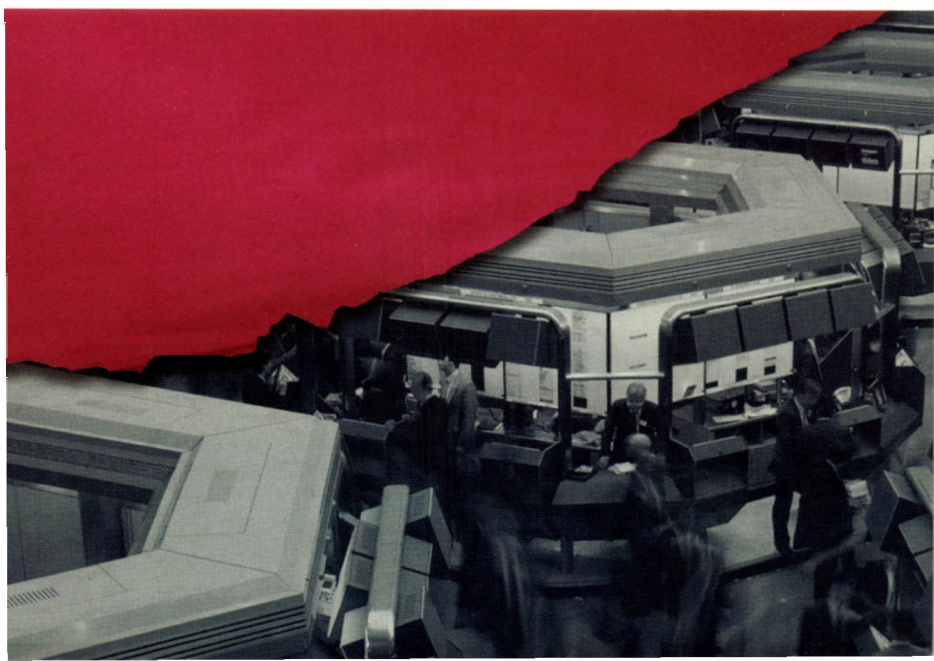


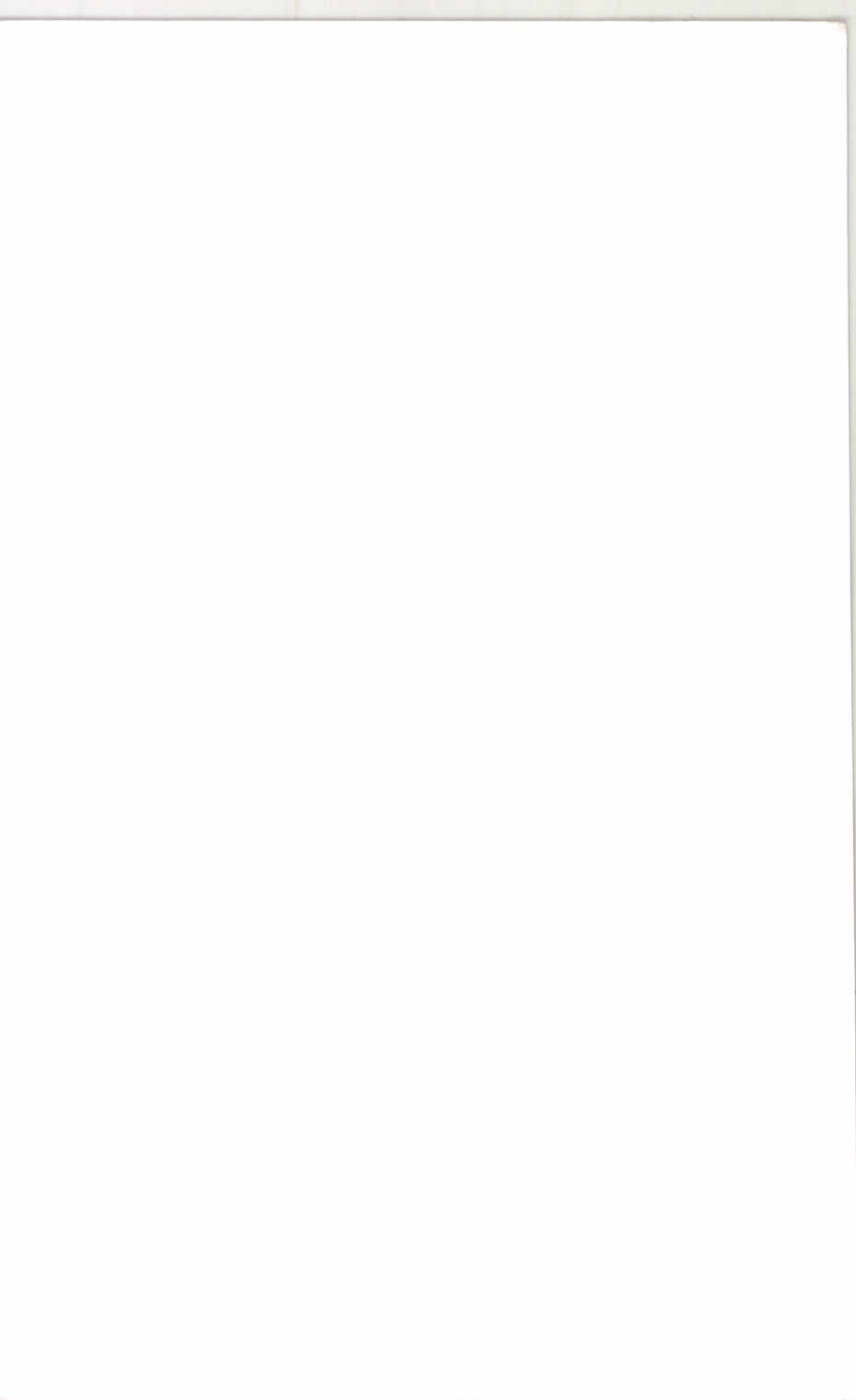


CENTRE FOR POST-COLLECTIVIST STUDIES

JÁNOS KORNAI

FROM
SOCIALISM TO
CAPITALISM





From Socialism to Capitalism:
What is meant by the 'Change of System'?

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Introduction

The main purpose of this study is to help to clarify some concepts often employed these days, such as 'system', 'change of system' and 'democracy'. These words are often heard from politicians and television commentators and constantly seen in the newspapers. This study does not approach them from the side of everyday politics. The discussion goes beyond the bounds of commenting on the current situation, by attempting to address these essential categories on an international plane and a historical scale. The statements I make serve theoretical purposes. That means they include generalisations and some abstractions from the many specific features of social reality.

The study builds on elements of three kinds. I have already said I aim to provide a conceptual framework for describing and examining the events and changes. At the same time I recommend some analytical instruments. Truth is not the criterion to apply to either of these. The sole criterion for judging them is whether they work. The study also contains some propositions. In their case we must certainly ask whether they are true or not. They have to stand the test of comparison with the facts.

Finally, the study includes evaluations of certain phenomena or processes. These are connected with the system of values to which I subscribe. Other analysts may evaluate the same occurrences in different ways. I will draw special attention to the places where I make such evaluations.¹

Two systems

According to the conceptual framework presented step by step in this study, there are two systems that can be said to have dominated the 20th century: the capitalist system and the socialist system. (The term 'communist system' can be taken as a synonym for the second.) Traces have remained in this century of residual pre-capitalist systems; these will be disregarded here.

The statement 'two systems' is not a self-evident one. It usually encounters three objections.

The first is that it is exaggerated and unjustified to mention the socialist system alongside the capitalist system, almost in parallel with it. In terms of world history, the socialist system was a brief interlude, a temporary aberration in the course of historical events.

That could well be the view historians take in two or three hundred years' time, but it is not the way we who live in the 20th century see things. The establishment and existence of the socialist system have left a deep and terrible scar on this century. So has the collapse of part of the communist world and the survival of the rest. The socialist system persisted for a very long time, and still persists in the world's most populous country. Its rule extended, at its height, over 26 countries and a third of the world's population. The Soviet Union was considered a superpower, possessed of fearful military might. The socialist system weighed not only on the hundreds of millions who were subject to it, but on the rest

of the world's population as well.

The second objection questions whether there were only two systems. Is it not possible to talk of a third system that is neither capitalist nor socialist?

The history of this century has not produced any third system of this kind. I am not enquiring here into the question of whether it might be desirable to establish some kind of third system. That is not the subject of this study. I will not even offer a long-term forecast; I do not know what the 21st or 22nd century may bring. All that can be said for sure is that the 20th century has not given rise to a third system.

The third objection delves further into the second, from a different direction. Why do I speak of a single kind of 'socialist system'? The socialist system in the Soviet Union was different under Stalin and different under Khrushchev. János Kádár's Hungarian socialism differed from the Polish socialism of Gomulka, Gierek and Jaruzelski. On the other hand, is it correct to use the same expression, 'capitalist system', for the arrangements in today's United States and today's Sweden? There are as many systems as countries and phases of history. Those who take this line of argument say the plural should be used: we should talk of socialist systems and capitalist systems.

This brings us to a fundamental problem of interpretation. I suggest using 'system' as a generalised, comprehensive, aggregate concept, and agreeing that each system exists in specific historical manifestations of various kinds.² This proposal becomes acceptable provided the following assertions can be confirmed.

The specific manifestations of capitalism have something

in common, so that they can legitimately be interpreted as variants of the same system. It also has to be shown that the specific manifestations of socialism have common features, that they too constitute variants of the same system. Furthermore, it has to be shown that the common features identifiable in each great system are important ones that deeply influence the realities of society, politics, the economy, culture and daily life. Finally, it has to be shown that these essential criteria provide a basis for clearly distinguishing between the two great systems.

Figure 1 on pages 6–7 shows the characteristics of the two systems. Although the capitalist system appeared first historically, the socialist system represents the historical antecedent for those living in the post-socialist region, and so I have placed it first. In diagram form, the upper part of the figure represents the main features of the socialist system, and the lower part those of the capitalist system.

Those familiar with my book *The Socialist System: The Political Economy of Communism* (1992) may recognise the upper part of the figure, which is taken from Chapter 15.³ I use here the same approach to describing the concept of the socialist system as I used in the book. I do not start out from a normative definition. What I term socialism is not the imaginary social organisation that sincere believers in socialist ideas wish to apply. I do not deal with the question of whether the socialism we knew ‘merits’ the name socialism. What is given is a historically established formation that existed in 26 countries and called itself the socialist system. The subject is what was customarily called in our part of the world ‘existing socialism’. The question to decide is what ac-

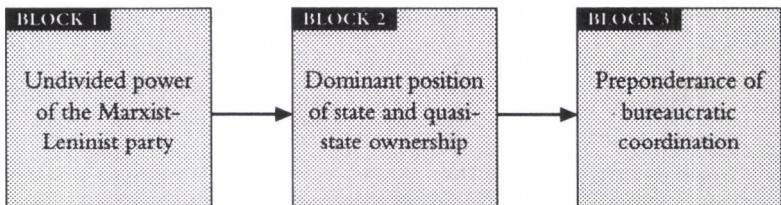
tually were the main observable features of that actual formation. These features have been incorporated into the blocks of the diagram. The book I mentioned attempts at some length to confirm that the features summed up tersely in the diagram really were the most decisive of the system's various features.

Similarly, I take a positive, not a normative approach to trying to characterise the capitalist system. Instead of summing up the characteristics deemed desirable by advocates of capitalism, I try to answer the following questions. What characterises the other societies of the 20th century, the world that lived outside the socialist system? The lower part of the figure shows these main, observable traits of 'existing capitalism'. While the upper half of the figure has been confirmed by the author in a work that gives a detailed analysis of the socialist system, the lower half consists largely of conjectures. There is no comprehensive book to back it. However, it can be said that the characterisation contained in the blocks of the diagram agrees with most literature on the operation of the capitalist system and with direct observations in daily life.

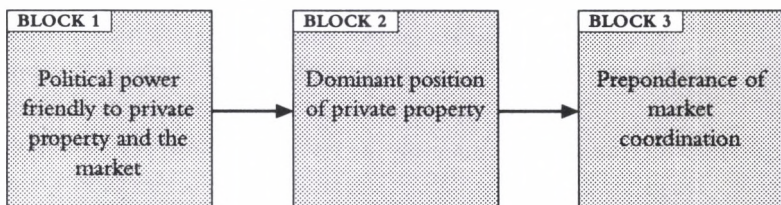
The characterisation of the two systems is aimed at providing more than an incidental, arbitrary definition. It is not enough to simply say there are as many arbitrary definitions of capitalism and socialism as researchers into them. I have tried to distil out of all the various partial observations the main characteristics that are necessary and sufficient for a system to operate as socialism or capitalism ('existing', historically observable socialism and capitalism). I have not attempted a rich, 'flesh-and-blood' description, but a 'parsimonious',

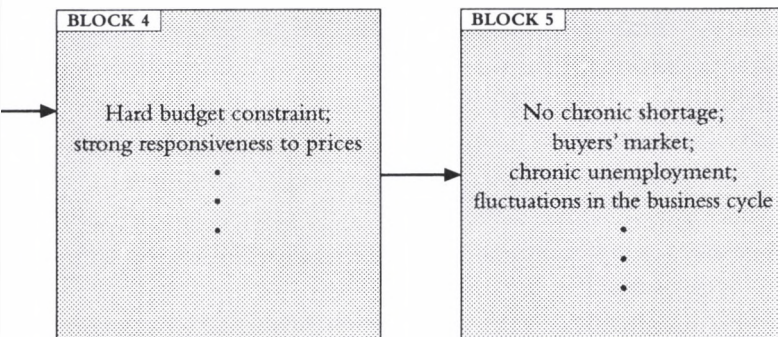
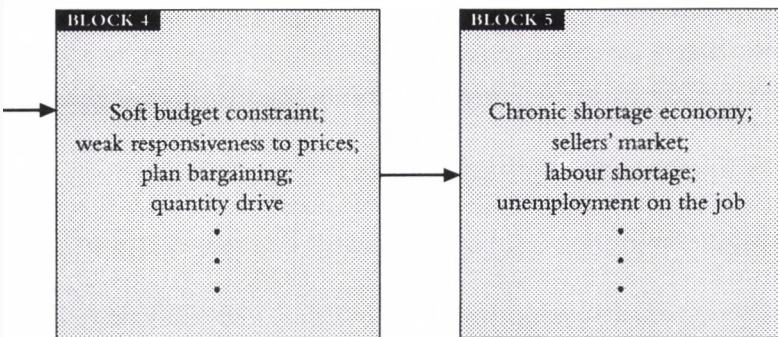
FIGURE 1

Model of the Socialist System



Model of the Capitalist System





'minimal' characterisation. I try to underline as few features as possible, confining myself to the ones essential to distinguishing the two systems clearly.

The first three blocks of the diagram sum up the fundamental features of each system: what characterises political power, the distribution of property rights, and the constellation of coordination mechanisms. Once these are in place, they largely determine the fourth block – the type of behaviour typical of the economic actors – and the fifth block – the lasting, typical economic phenomena. (The figure shows only a few of the behavioural regularities and lasting economic phenomena typical of each system. The three bullets beneath the examples denote that the list could be continued.)

To express the relations in terms of 'cause and effect', the first three blocks can be seen as the 'cause', and the fourth and fifth as the 'effect'.⁴ The first three represent the deeper characteristics of the system and the fourth and fifth the more superficial ones.

The causal relations between the first three blocks, and the historical sequence of development among the features characteristic of the system, are not identical. They differ according to countries and periods; in other words, according to the various historical manifestations of them. This study does not make any attempt to classify or analyse these important and interesting relations. I simply offer some observations here.

For the system to develop fully and the features described in blocks 4 and 5 to appear as well, it is not enough for typically 'capitalist' or typically 'socialist' characteristics to appear in just one of the first three blocks. There has to be a coinci-

dence of 'capitalist' or 'socialist' characteristics in blocks 1-3. They have to appear together before the causal relation can develop fully. For instance, although there might be a high proportion of state ownership in Austria or a strong role for bureaucratic coordination in France, that did not mean these countries had moved over to a socialist system. The transformation did not occur because the features in the other fundamental blocks remained characteristic of the capitalist system.

Let us look at the lower half of the diagram more closely, starting with block 1. Many people may be shocked not to see the word 'democracy'. I believe in democracy, and I return to the question of it later in the study, but the diagram is not intended to represent my political beliefs. It sets out to make a positive approach to characterising the capitalist system. Democracy is not a necessary condition for capitalism to function; it can operate under dictatorial regimes as well.

It eases and expedites the development of capitalism, and then helps it to survive and grow, if the political powers actively protect private property, promote free enterprise and freedom of contract between individuals, and provide legal guarantees to enforce fulfilment of private contracts. However, even if the political powers do less, the spontaneous force of capitalism will still apply and a market economy based on private property will take root, provided they do not obstruct private property, free enterprise or freedom of contract. Rhetoric does not count for much here. (Hitler, for instance, railed against the plutocracy.) The essential factor is the actual behaviour in the political sphere, by the government and the party or coalition in power. The authorities

must not carry out mass confiscation or undermine private property in other ways. They cannot introduce regulations that seriously, systematically and widely damage the economic interests of the property-owning strata, for the benefit of other strata. They cannot lastingly banish market coordination from most of the economy. The minimum required of the political sphere is less than active support of private property and the market. That is what the diagram's phrase 'favouring private property and the market' is intended to convey.⁵

The wording of block 2 calls for dominance of private property. It need not rule absolutely. Modern capitalism is a 'mixed economy', where state-owned, or non-state, non-profit organisations can also play a role. There is no need to set a precise numerical limit. It is enough to say that non-private organisations must not gain a dominant role.

Similarly, the wording of block 3 calls for a preponderance of market coordination. This does not rule out the presence of other coordination mechanisms, above all bureaucratic coordination, or even a strong effect from them. However, it states as an essential feature of capitalism that the main mechanism of coordination is the market, through mutual, decentralised adjustments of supply, demand and prices.⁶

The change of system

Surveying the main features of the two systems provides the means of interpreting the change of system. This process starts when society shifts away from the fundamental characteristics of the socialist system described in blocks 1, 2 and 3, and finishes when society reaches the configuration of blocks 1, 2 and 3 characteristic of the capitalist system. And it does not simply have to arrive there. The new state of affairs has to establish roots and become irreversible. Countries differ according to when the change begins, which block it begins in, and what reciprocal effects the changes have. They also differ according to when each block acquires the characteristics of the capitalist system.

First, let me trace the course taken by my own country, Hungary. It merits special attention in any case, as the place in Europe where the transition from one system to the other occurred most gradually, over a period of several decades.

In Hungary's case, marked changes began in block 3, and to some extent in block 2 – the coordination mechanisms and property relations – when the 'new economic mechanism' was introduced in 1968. However, these could not be completed, to make a real change of system, until 1989–90, when the radical, revolutionary change ensued in block 1, the political sphere. Under the new political regime, every party publicly stated it did not wish to retain the earlier socialist system and backed full development of a market economy based on private ownership. The monopoly of the

official communist ideology ceased; the notion of privatising state property became acceptable. These events, along with many 'capitalism-friendly' regulations introduced by the government and the legislature, speeded up the emergence of the fundamentals of the new system.

By now, the foundations of the new system (blocks 1, 2 and 3) have more or less been completed, or will be so within one or two years. The period of the change of system is ending.⁷

Everything that occurred in block 1, the political and ideological sphere, retrospectively presents the changes that occurred in 1968–89 in a different light. It cannot be stated (or denied categorically) that the process of reform in the economy and the political erosion of communist power would have led inevitably, by internal forces alone, to the political turning-point of 1989–90. A large, maybe decisive role was played by radical changes in the external environment, particularly by the weakening and disintegration of Soviet power. The Soviet Union was no longer capable of repeating the sequence of events in Budapest in 1956, Prague in 1968, or Afghanistan in 1979, by sending in tanks to defend communist power. There were certainly other possible outcomes of the changes in blocks 2 and 3. Think of Vietnam, for instance, where reforms very similar to the 'new economic mechanism' occurred, and the reorganisation of property relations may even have progressed further than it did in Hungary up to the end of 1989. However, hardly any change befell block 1, whose basic features were almost unaffected, so that the features described in block 1 of the upper half of the diagram remain largely the same. There is certainly no

'change of system' occurring in Vietnam. The final interpretation and evaluation of the changes in blocks 2 and 3 (a 'change of system', or simply greater or lesser adjustments of the socialist system) can only be made subsequently. A change of system takes place if the necessary political change in block 1 occurs; if not, the system remains a composite formation, patched and darned over long periods of history.

This line of argument reflects a recognition that block 1 has special importance. My outlook contrasts sharply with the Marxist view of history in this respect. I do not wish to propose a universal formula, valid for every change of system in history, and I doubt whether any such formula could be found. I risk making the following assertion solely in the context of a change from capitalism to socialism, and then from socialism back to capitalism.

The primary role in both kinds of change of system is played by the political sphere. This ties in with the fact that the socialist system does not arise by natural means: the system does not originate from the intrinsic, internal forces of the economy – it does not develop spontaneously. The socialist system is imposed on society by the communist party that gains power. This the communist party can do because on assuming power, it liquidates its political opponents and breaks up any opposition to introducing the new system. The communist party that comes to power has a vision of what society, economy and culture it wishes to create – of a system that eliminates private property and the market, replacing them with state ownership and planning. This vision has an ideological monopoly. Any statement of sympathy with capitalism brings reprisals.

However, when the 'genetic programme' of the socialist system has been implanted in the living organism of society, spontaneous forces begin to operate in it as well. The system completes itself, and rejects the institutions and organisations incompatible with itself. It has followers, in no small numbers, who issue and execute the commands to realise the grand design.

To use Marx's terms, it is not the 'base', the property relations and coordination mechanisms, that shape in their own image the 'superstructure': the political structure and the dominant ideology. The reverse applies: the 'superstructure' builds a 'base' beneath itself. The confusion in the metaphor shows that the Marxist system of concepts cannot be used to describe what happened during the creation of the socialist system.

What happens on the 'return journey'? Again it can be said that it is not the changes occurring at the 'base' that cause the new 'superstructure'. It was not the narrow, legal private sector and second economy spawned by the Kádár system that erected over itself, as its representative, the political regime that came into being after 1989-90. The new political structure attained power through various factors, not least the disorientation and confusion within the Kádárite political elite, the organisation of opposition democratic forces, and the change in the external conditions. Once it had taken power, it quickly removed the barriers to the spontaneous forces of the capitalist economy. Certainly the regulations introduced by the new political authorities, committed to private ownership and market coordination, speeded up the progress towards the development of

capitalism. However, since the intrinsic, internal forces in the economy were already turning the development in this direction, the essential alteration occurred in block I, as it had on the 'outward journey'. Removing the barriers to capitalism includes providing constitutional safeguards for private property, officially encouraging free enterprise, promoting privatisation to a government programme, instead of the earlier, covertly performed acts of privatisation, legalising advocacy of pro-capitalist ideologies, and so on. Capitalism does not need to be imposed on society; there is no need for a genetic programme artificially implanted by a political party. If nothing else had happened but removal of the barriers, capitalism would still have developed fully sooner or later, although the process would obviously have been much slower.

How should this expression 'imposed on society' be understood? I realise there is no consensus in the social sciences about this. While Hayek emphasises that the capitalist economy evolves as a spontaneous order,⁸ Karl Polanyi underlines that the market is alien to human nature and has to be imposed on society by state means.⁹ It would exceed the bounds of this study to go into the debate in detail. My own view is closer to Hayek's, which I feel is justified especially for the period of history that concerns this study, when the socialist system began to erode and then collapsed, and the development of the capitalist system accelerated. It was quite clear at the beginning of the period that the seeds of capitalism were germinating in a still predominantly socialist environment not as a result of state force, but in spite of state bans and restrictions. Furthermore, there is no need to impose anything on society, simply to remove the barriers and pro-

vide encouragement, for private ownership and the market to start developing at breakneck speed once the communist party has lost power.

In any case, experience supports the assumption that there cannot and will not be a complete change of system, without a radical turn of events in block 1.

Attention in the previous paragraphs was focused on the process in Hungary. In my view, the same analytical apparatus is applicable to the change of system in other countries as well, and to the turning-points in this change. The strongest contrast to Hungary is offered by Czechoslovakia. Until the change of political system, it had one of the most ossified regimes in the socialist region, resolutely resistant to change and repressing all opposing opinions. The institutions of the economic and the political sphere made the leap from one system to the other in a very short time. Elimination of the command economy, liberalisation of prices, and lifting of the foreign-trading restrictions came almost concurrently with the change of political regime, or with only a slight delay. All the changes happened within a very brief space of one or two years. Privatisation of the state-owned enterprises was also conducted at high speed. So the dynamics and speed of the process differed substantially in every block. However, Hungary and Czechoslovakia coincide in the main characteristics of the old, initial state and in the new, final state at the end of the transitional period. Both countries correspond fully with the diagram's model of socialism before the change of system and capitalism after it.

Table 1 on page 17 examines when two important points in the chronology of their transition were passed in several

Table 1 **Elections and privatisation in Eastern and Central Europe**

<i>Country</i>	<i>Dates of free parliamentary elections</i>	<i>Private sector's share of GDP (%)</i>
Albania	1991, 1992, 1996, 1997	75
Armenia	1995	
Azerbaijan	1995	
Belarus	1995	
Bosnia-Herzegovina	1990, 1997	
Bulgaria	1990, 1991, 1994, 1997	
Croatia	1990, 1992, 1995	
Czech Republic	1990, 1992, 1996	75
Estonia	1992, 1995	70
Georgia	1992, 1995	
Hungary	1990, 1994	70
Kazakhstan	1994, 1995	
Kyrgyzstan	1993, 1995	
Latvia	1993, 1995	60
Lithuania	1992, 1996	65
Macedonia	1990, 1994	
Moldova	1994	
Poland	1989 ^a , 1991, 1993, 1997	60
Romania	1990, 1992, 1995	60
Russia	1993, 1995	60
Slovakia	1994	70
Slovenia	1990, 1992, 1996	
Tajikistan	1995	
Turkmenistan	1992, 1994	
Ukraine	1994	
Uzbekistan	1994-5	
Yugoslavia (Serbia and Montenegro)	1992	

Notes: The right-hand column only gives data for countries where the private sector's proportion of GDP reached or exceeded 60% in mid-1996.

Sources: Column 1: The data up to and including 1995 are taken from the article by L. Holmes (1997, pp. 157-65). The 1996 and 1997 data are based on communications by Attila Ágh and Sándor Kurtán. Column 2: Report by the EBRD (1996).

^a The 1989 elections were only partly free. There were contests for only 161 of the 460 seats in the parliament. The rest were allocated under communist party direction.

post-socialist countries. When were the first (in some countries the second) free, multi-party elections held, and when did the private sector become dominant in the economy?

Those who accept the system of concepts described so far gain the following tools of analysis. Blocks 4 and 5 of the diagram refer to regularities and lasting economic phenomena that are system-specific. The budget constraint on a state-owned enterprise under the socialist system is soft, whereas the budget constraint on a private firm under the capitalist system is hard. Or to take another example that does not feature in the figure, the large organisations in all economies show a propensity to expand. Only under the socialist system does this propensity turn into a ubiquitous, intensive, constantly recurring investment hunger. The latter is a system-specific pattern of behaviour, and as such belongs in block 4. All economies experience disequilibria – departures from the idealised Walrasian equilibrium. That is one thing, but the chronic, general shortage economy characteristic of, and only characteristic of, the socialist system is another. The latter is a system-specific economic phenomenon, and as such belongs in block 5.

That leads on to another important distinction: between systemic and non-systemic change. It is all the more important to note this because the distinction between the two types is often blurred, in political parlance and in professional jargon, with the same term, 'reform', being used for both. Devaluation of the currency is not systemic; the introduction of currency convertibility is systemic. (The latter belongs in block 3; the former belongs in none of the blocks.) A reduction in the number of hospital beds, ordered from above, is

not a systemic change; privatisation of the family-doctor service is a systemic change. (The latter belongs in block 2; the former belongs in none of the blocks.) I distinguish between the two types of change by applying a simple test. I ask myself whether Erich Honecker would ever have introduced the change, as one of his reforms designed to 'perfect' the socialist system in East Germany. If he might have done so, it is not a systemic change. Only systemic features can be entered in the blocks of the diagram.

The distinction says nothing about the importance of the change. A non-systemic change may be extremely important, inescapable and pressing, while some systemic changes may be minor, and not of great import in themselves. Nonetheless, the distinction is vital, because it is a whole sequence of systemic changes that effects the change of system.¹⁰

With the help of the analytical framework expounded so far, I would like to take issue with a commonly advanced view. It is argued that there has not been a change of system at all, because there are still the same people on top, in the upper positions of society, as there were before. Some people apply this argument in political speeches or in scholarly articles. Some quote the old joke about the birds sitting in the tree. A gun is fired. They all rise in the air, and then land again. Each bird may be on a different branch, but the whole flock is back sitting in the tree.

How far has the change of system gone? Is the end getting near? The answer does not depend on the degree to which the elite has been replaced. Several researchers have tried to estimate the degree of such replacement statistically.¹¹ Iván Szelényi and other authors found that in Hungary, a few

years after the political turning-point, well over half the economic elite had also belonged to the pre-1989 economic elite. Similar proportions have been found in Poland and Czechoslovakia. So judging from the aggregate figures, there has been a significant degree of continuity, although the turnover has not been negligible either.¹²

The degree of turnover among the elite is in itself an important problem. The characteristics of the change of elite influence features of the development of the new formation, such as its social stratification, the relative strengths of social groups, and the norms of coexistence.¹³ But whatever the findings, they cannot be equated with the change of system, according to the line of argument in this study. It was established earlier that the first three blocks, the fundamental ones, more or less determine the contents of block 4, the patterns of system-specific behaviour by the economic actors. Even if the factory's present owner was once its communist-party secretary, his present behaviour will reflect a desire to earn profit and enhance the value of the firm, not to win the approval of district and county party secretaries. Part of the reason why new behaviour patterns appear in block 4 is because the same people change their behaviour: a member of the former economic elite acts differently after entering the new elite. On the other hand, it is partly because the old system-specific selection mechanism gives way to a new, likewise system-specific selection mechanism. Old friendships may gain the former cadre a job for a time, but if he fails to meet the requirements, he will not have a successful second career and will probably be weeded out sooner or later. This is a long-lasting process, and a stochastic one as well. Not

every incompetent functionary, unable to adjust, is dropped from the new stratum of business managers. Even so, a market economy based on private ownership is able to select according to its own requirements and rules of the game with quite a high degree of certainty.

Detour: 'mixed' cases

So far I have contrasted with each other, as in a model, the pure cases of the capitalist and the socialist system. History has also given rise to impure cases, to social formations in which certain components of the two pure cases are mixed to some extent.

There is clearly a 'mixed' system in place during the transition. That was the case during the transition from capitalism to socialism, in the countries where socialism eventually evolved. The transition ended with the components of the capitalist system being removed. There are some countries (such as Chile or Afghanistan) that never reached the mature stage of a socialist system, because it was overthrown by force and development returned to the earlier path.

Similarly, there is a 'mixed' system in operation during the transition from socialism to capitalism, until the transition in the opposite direction is complete.

It is worth noting that several countries, mainly in the Third World, conserved specific 'mixed' systems for a long time. The socio-economic structure in these countries, or more precisely, in these countries in specified periods of history, showed simultaneous, mingled capitalist and socialist elements. The prime example of such a 'mixed' case was India. Bureaucratic coordination gained a big role in block 3, a much bigger role than it has in most capitalist countries. Some elements of bureaucratic central planning appeared. Nonetheless, it must be said that India's economic structure

never reached the stage of a full, comprehensive, Stalin-type command economy.

Socialist features are also apparent in block 2. The weight of state ownership was very great, at least in the modern sector of the economy – much greater than in most capitalist economies. However, state ownership did not become predominant in the production of GDP; there was not the rising trend in the proportion of state ownership that applies in countries changing consistently from capitalism to socialism.

As for block 1, the Congress Party held a strong preponderance of power. However, apart from a brief suspension of democratic rights and freedoms, there existed throughout a legal opposition. The fundamental political rights of freedom of the press and freedom of assembly applied. The party that was dominant for decades did not possess a monopoly of power laid down in the constitution. Although the ideology of the Congress Party showed some socialist features, it was not a Marxist-Leninist party. This can be said of its economic principles: although it adopted the idea of a planned economy, it did not include in its programme the elimination of private property or the market. It can also be said of its political principles: it did not include in its programme the retention of power at all cost. India never displayed in block 1 the features that are decisive, according to my line of argument, in determining whether a country's social structure can be classed as a 'socialist system' or not.

India was halfway between the capitalist and the socialist system. There were forces in India that would have gladly seen it advance further towards a socialist system. Now India seems to have turned back towards the capitalist system. India

today shows the basic features of the capitalist system more plainly and clearly than it did ten or twenty years ago.

Combinations similar in many respects can be found in certain periods of the history of other developing countries, although they vary from country to country. It is too early to reach a final judgement, but study of these episodes so far suggests that the 'mixed' cases are only temporary and countries tend to return to the path of capitalist development afterwards.

To avoid any misunderstanding, let me add that this analysis employs the expression 'mixed system' in a much narrower sense than the expression 'mixed economy' is usually given in mainstream economics. The latter applies to practically all modern capitalist economies, in which state intervention plays an appreciable role, principally in monetary and fiscal policy, and in which the state performs certain welfare functions. According to the terminology of this study, such 'mixed' economies clearly operate within the frames of the 'capitalist system'. I refer to India and certain other developing countries, in certain periods of their history, as 'mixed' systems because they went beyond the capitalist bounds of a 'mixed economy', and began to cross with one foot into the frames of a socialist system.

To sum up: although I am aware that 'mixed' systems exist, I think I am justified in retaining the dichotomy that is central to my study: the contrast between the capitalist and the socialist systems.

Democracy and the change of system

Let us return to block 1. Many would like the block to specify not just a regime 'friendly to private property and market coordination', but a democratic political structure. Before discussing the issue in depth, let us clarify the concept of democracy.

As with the interpretation of earlier concepts, I will avoid giving a normative definition. The starting-point will not be what we 'expect' of democracy – what characteristics are possessed by a regime that merits the name of a democracy. Instead I would like to offer a positive, descriptive and explanatory definition.

The starting point is the observation that there exists a well-delineated group of countries, described as democracies in Western political parlance during a specific historical period – let us say, in the 25 years after the end of the Second World War. Let us confine ourselves to the ones over which there was more or less full agreement; to the countries of Western Europe and North America where democracy was in a consolidated position. The question is what essential common features these countries share in their political system. In other words, the characteristic marks of democracy can be identified by empirical observation, by 'distilling out' the common features from the countries described as democracies.¹⁴ Democracy is a conjunction of the political

organisations, institutions, social norms and confirmed forms of behaviour that provide the following operating conditions for society in these countries:

1. The government can be dismissed, and the dismissal takes place in a civilised way. To us Eastern Europeans, it is quite clear what is meant by dismissing ruling figures or groups in an uncivilised way: they are murdered, victims of a coup d'état, executed or imprisoned after dismissal, removed by an uprising, and so on.
2. All democracies use a tried method of 'civilised dismissal': an electoral procedure controlled by laws complemented by conventions. This procedure lays down how the legislative and executive powers shall be chosen. The electoral procedure also reflects the political sympathies and antipathies of the public to some extent. I abstain from putting it more strongly by saying it 'expresses the will of the majority' or 'the will of the people'. The transmission that connects the preferences of citizens with the composition of the parliament and government produced by the electoral process, and the governmental activity produced by the combined activity of the legislative and executive powers and the bureaucracy, is rather complicated. This transmission is certainly not free of frictions or distortions. However, it does ensure that the government cannot keep itself in power by force, that it cannot resist over a period of several parliaments the will of the electors who determine the composition of the legislature.
3. In a democracy, there is no political power or political

ideology that has a monopoly secured by state force. The political process rests on competition: parties, movements and political groups vie with each other for votes and other political support. Consequently, every democracy operates as a multi-party system.

4. Democracy does not simply enact the political freedoms, it guarantees them in practice. It should be specially noted that the state cannot forcibly obstruct freedom of expression, freedom of the press or freedom of association.¹⁵

The presence of these four characteristics does not depend simply on the good intentions of the legislators and government of the day. They are guaranteed by a range of institutions that act as checks and balances: the democratic constitution, parliament, which scrutinises government and legally authorises the state budget, and the judiciary, independent of the other branches of state activity. Also included among them are powerful organisations of state whose independence from the government is legally guaranteed, such as the central bank or the state audit office.

Democracy, according to this description, is not 'rule of the people'. The meaning of the word is more modest, but more comprehensive: a conjunction of procedures and rules, some enshrined in the law and some embodied in customs and conventions instead. As Samuel Huntington writes, 'Elections, open, free, and fair ... [may produce governments that are] inefficient, corrupt, shortsighted, irresponsible, dominated by special interests, and incapable of adopting policies demanded by the public good. These qualities may

make such governments undesirable but they do not make them undemocratic.¹⁶ So democracy is not an ideal system. It does not preclude incompetence, dishonesty, or greater or lesser abuses of power. All that democracy rules out is a political monopoly, so ensuring that the government does not retain power by force.

Based on this empirical definition, it can be established which of the present-day post-socialist countries already qualify as democracies, and which have not yet completed the transition to democracy. To use a simple and easily verified criterion, democracy can be considered to have consolidated to some extent once there have been free elections on two occasions, and on both occasions there was a realistic chance of dismissing the government from office. That criterion clearly classifies, for example, the political regimes of the Czech Republic, Hungary and Poland as democracies.

Democracy can be assessed from two points of view. One is its instrumental value, for other objectives. For instance, if the purpose is to develop the economy and achieve the fastest possible lasting growth, then democracy is a doubtful means of attaining it. It has advantages, but it also has drawbacks in this respect.¹⁷ Observing the rules of democracy may make it more difficult to introduce desirable changes, impose general and proportionate sharing of taxation, and develop the macro proportions best for the economy. There exist highly efficient autocratic regimes (Taiwan and South Korea in the early decades after the Second World War, and Singapore today) and there exist sluggish democracies (India in the same decades).

The other criterion for assessing democracy is to decide

its intrinsic value. Even if it is not the most efficient instrument, does it not have value simply because it guarantees political freedoms and prevents tyranny by a government intent on keeping itself in power by force? My subjective answer is yes. To my mind this has great intrinsic value. Other people who judge by other sets of values may give a different response.

Having clarified the concept of democracy, let us see how it relates to the market economy.

It can be stated that every democracy is a capitalist market economy. In terms of the earlier diagram, the features in the lower, capitalist model for blocks 2 and 3 form a necessary condition for recording in block 1 that a country has a democratic political regime.

This assertion can be confirmed by experience. There has been no country with a democratic political sphere, past or present, whose economy has not been dominated by private ownership and market coordination.

However, as I mentioned earlier, it cannot be said that a market economy based on private ownership is a sufficient condition for the emergence of a democratic political regime. I have already given several examples of countries with non-democratic, autocratic, even thoroughly tyrannical political regimes, whose economies have been dominated by private ownership and market coordination. This combination is certainly viable in the short term, and even in the medium term.

What happens over a longer historical period to the political regime of countries where private ownership and market coordination are dominant in the economy over several

decades? One familiar hypothesis states that a capitalist market economy requires democratic political forms, and even imposes them sooner or later. There seem to be several historical examples to confirm this, of democratic transformation in Southern Europe, and of several Far Eastern and Latin American dictatorships.¹⁸

Observing the course of history is not the only source of arguments to back this hypothesis. Others can be found by speculative analysis of the relations between politics and the economy. The smooth running of private ownership and the market mechanism benefits from the security and reliability of a constitutional state, as opposed to tyrannical rule, where the whims of a dictator make events harder to forecast.¹⁹ The inclination to invest gains strength from the political stability of consolidated democracies.²⁰ A further argument relevant to the problem has arisen in the most recent period: freedom of information flows. In an age of computers, photocopiers, fax machines and the Internet, the prohibitions of dictatorships restrain the spread of inventions, innovations and business news, which curbs participation in the global business network. The last of these may prove to have the strongest effect. A country that tries to place political constraints on communications will inexorably fall behind in the global economic competition; sooner or later, the technical revolution induced by computers will force countries to lift the barriers to freedom of speech and freedom of association. Time will tell whether this forecast is correct.

This all seems convincing, but only further historical experience can provide real evidence.

Types of transition

The question posed earlier is not simply an exciting intellectual problem. It has great practical political significance when forecasting events in countries that are reforming their economies, but remain under communist control.

In terms of the political nature of the transition, three types of change from the socialist system to the capitalist system seem to emerge.

In type 1, the communist dictatorship is replaced by an anti-communist dictatorship. That happened in 1919, when the fall of Béla Kun's Hungarian Soviet Republic was followed by a period of White terror. Allende's rudimentary, immature, semi-complete socialist system in Chile fell to a military coup under Pinochet, who imposed a reign of terror for several years, so that political power was democratised (not wholly consistently) only after capitalism had returned and consolidated. Similarly, the dictatorship imposed by the Soviet Union on Afghanistan gave way to an anti-communist, theocratic dictatorship.

Type 2 is exemplified by several of the Eastern European countries now undergoing transformation. They underwent a 'velvet revolution'. There was no phase of anti-communist terror. Instead, a democratic system rose out of the ruins of the old political regime. These countries have either developed the institutions of democracy, or taken appreciable steps towards doing so.²¹

China (and possibly Vietnam) may represent a transition of

type 3. The communist party is transforming from within, through a change from a sharply, mercilessly anti-capitalist political force into one that is covertly, but ever more openly pro-capitalist. There is interpenetration among the communist party, central and especially local state power, and the leading stratum of private business. A layer of cadres who have become bourgeois and capitalist is emerging. It is common for a party functionary to go into business while retaining office in the party. Where that does not happen, a wife, brother, sister or child may do so instead, so that political and commercial power are literally 'kept in the family'.

The progress of this process cannot be confirmed with statistics. However, numerous tales about the phenomenon are told by those capable of observing the changes closely, as insiders.

Let us suppose that this process continues in the next few years. There are several possible courses that the change of system may take. One is for the communist party's monopoly of power to remain. In its rhetoric it will continue to call itself communist, but in fact it will have become clearly pro-capitalist.²² In that case the criterion in block 1 of the diagram has been fulfilled. This kind of China would have turned to a capitalist system. In that system, a group calling itself communist exercises a political dictatorship, but in practice it is no less friendly to private ownership and the market mechanism than Pinochet or the post-war South Korean dictators were.

Another possible course is for the germs of democracy steadily to appear. There emerge opposition political groups hostile to the communist party, and the institutions of

political democracy develop, steadily or by fits and starts.

Other courses are also conceivable. I would certainly not like to offer political prophecies. My only purpose in these comments is to show that the various potential courses the Chinese transformation might take can be accommodated within the conceptual framework of this study.

Two certain results

Many people were under illusions about the results to be expected from the change of system. That applied not only to ordinary citizens, with less detailed knowledge of historical and international events, but to many highly qualified members of the intelligentsia. In my view the simple fact that the change of system occurred has two certain results.

The first I mentioned just now. The predominance of private ownership and market coordination are indispensable to democracy. This advantage is suitably appreciated by those who understand the connection well, and who attach a high value to democracy in their own deep-felt, subjective scale of values. Those who disparage democracy – because it was never important to them, or they have forgotten how it felt to live, shorn of political freedoms, under a tyrannical government imposing its rule by force – can never be convinced of its merits by any rational argument. Even those who set great store by it need to realise that the plain fact of the change of system does not guarantee democracy. It simply establishes one of the necessary conditions for it.

The other advantage of the capitalist system is that technical development is faster, it is more inclined to pursue innovations. This ties in with the fact that it clears the way for enterprise and initiative in the economy. This capitalist entrepreneurship makes more effective use of human and physical resources than the socialist system. This means that measured over longer historical periods, it is faster at increasing pro-

duction and labour productivity, and thereby the material welfare of human beings.

Let me refer here to an author seldom cited these days: Vladimir Ilyich Lenin. He announced, right at the start of the introduction of the socialist system, that the race between the capitalist and socialist systems would ultimately be decided by which could ensure higher productivity. The real significance of the turning-point in 1989–90 is that the socialist system lost the race. This is clearly confirmed by comparative statistics showing the two systems' economic results, taken over a long time-scale. (See Tables 2 and 3 on page 36.) It is noteworthy that the GDP of the socialist countries in Table 2 grew much more slowly than that of the capitalist countries at a similar level of development in the base year of 1950. At the same time, the last column shows clearly that workers in the socialist countries spend much longer at their place of work. In Table 3, Austria is taken as the basis for comparison. This is historically justified, because until the end of the First World War Austria, Hungary and the territory that later became Czechoslovakia constituted the Austro-Hungarian Monarchy. Indeed, part of present-day Poland also belonged to the Monarchy. Austria was always the most developed country in the group, but the lag by the other countries increased further under the socialist system.

The result of the race shows dramatically in the case of the divided countries: compare East and West Germany before reunification, or present-day North Korea, on the brink of famine, with prosperous South Korea.

This stronger performance proceeds from the basic characteristics of the two systems. The capitalist system's

Table 2 **Growth and labour costs, 1950-1989**

	<i>GDP per capita</i>		1950 = 100	<i>Annual no.</i>
	<i>in 1950</i>	<i>in 1989</i>		<i>of hours</i> <i>worked</i> <i>per capita</i>
Czechoslovakia	3.465	8.538	246.4	936
Hungary	2.481	6.722	270.9	839
Soviet Union	2.647	6.970	263.3	933
Greece	1.456	7.564	519.5	657
Ireland	2.600	8.285	318.7	524
Portugal	1.608	7.383	459.1	738
Spain	2.405	10.081	419.2	591

Note: The table shows the figures for the three European socialist countries that appear in the relevant tables to be found in the source. These are compared with those for the four European capitalist countries that were least developed in the base year (1950). GDP per capita, reported in the first and second columns, is measured in US\$ at 1985 US relative prices. *Source:* A. Maddison (1994), pp. 22 and 43.

Table 3 **Increase in the lag behind Austria**

(Percentages: Austria = 100)

	1937	1960	1970	1980
Czechoslovakia	90	91	78	70
Hungary	63	56	51	52
Poland	53	54	47	45

Note: Although the table ends in 1980, it is clear from other sources that the lag behind Austria has continued to increase in recent years.

Source: P. Marer (1989), calculated from É. Ehrlich (1987).

advantage in this respect infallibly applies, although different periods elapse in different countries before the advantage emerges. In some it takes years and in others perhaps decades.

I have spent several decades comparing the two systems, and my conclusion is that these two, and only these two results follow inexorably, as a cast-iron rule, from the different system-specific features of capitalism and socialism. The change of system is good news for those who rate these two advantages highly. No other results follow from the simple fact that the change of system has occurred.

Alternatives

Of course, the new society that emerges will have several other features which will have a marked effect on people's lives. As I said earlier, socialism and capitalism can each assume a variety of historical manifestations that may differ in the following respects:

1. How democratic or dictatorial is the political regime?
This has already been discussed in some detail. I merely mention it again to complete the review of the alternatives.
2. How open or closed is the country in its relations with the outside world? How freely can capital, labour, goods and information flow between the country in question and other countries? How far is the country integrated into a grouping of several countries, and to what extent is it 'globalised' – or on the other hand, how far is it cut off from the trends towards integration and globalisation?
3. How active a role does the state play in the economy? To what extent does it intervene in market processes, through legislative regulation, restrictions on enterprise and freedom of entry, targeted (rather than neutral) fiscal policies, regulation of certain prices, and an active income policy?
4. There is a fourth question that partly overlaps with the third: how active is the state in redistribution? What part does it play in providing welfare services, and supplying

and financing pensions, health care and education? How intensively does it act as a 'welfare state'?

These points cover four dimensions suitable for characterising countries that belong to the capitalist system. There are other dimensions I have not mentioned, but the ones just listed are certainly some of the most important. All capitalist countries can be placed at any time within the space defined by these four (or more) dimensions. However, a country's exact position within that space is not determined by the simple occurrence of the change of system.

It is not possible, using the conceptual system applied in this study, to attach any interpretation to a statement by some political movement that it seeks a 'social market economy' instead of capitalism. Let us take as an example the West German economy that developed after the Second World War, which many politicians are inclined to refer to as a 'social market economy'. According to the concepts applied in this study, there was a capitalist system operating in West Germany – a variant marked by a high level of state intervention in the fourth dimension mentioned ('welfare state', redistribution).

Let there be no misunderstanding: I find nothing objectionable in qualifying the attribute 'social' with the word 'market', if the intention, for example, is to stress that an unfettered market generates a distribution of income that is found ethically unacceptable. It is one thing to say that capitalism requires institutional correction, and another to give the impression that a 'social market economy' and 'capitalism' are two different social systems, between which it is possible to choose.

According to the argument in this study, there is no alternative to the 'capitalist system'. However, there is an infinite number of variations within the capitalist system. A country can move away from its present state through the four dimensions listed (and through other dimensions). There is no complete determinism; there are choices. Various parties and movements give different responses to these questions. The direction, scale and speed of the shift depends on the responses and actions of present and future generations.

The requirement of clear analysis

The two great advantages offered by the change of system require time to unfold, and great sacrifices as well. The various troubles and losses that arise during the post-socialist transition need to be examined specifically, of course. I will confine myself here to offering a few bases from which to analyse them. It is not immaterial what causes the problems and losses. Nor is it immaterial whether trouble appears unexpectedly, as a surprise, or whether it might reasonably have been predicted.

Although one or two of the thoughts I express here may also prove useful to outside observers and analysts of the post-socialist transition, I address them primarily to the citizens of the countries concerned.

1. One possible cause of the problems is that the country's level of development has fallen far short of the leading countries. There are many historical causes of this backwardness and relative poverty, one of them being the low efficiency of the socialist system. Nonetheless, at present this is a feature that did not originate from the change of system.

The degree of backwardness differs from country to country. It is doubtful whether all post-socialist countries will ever manage to catch up with all the countries

currently ahead of them. It is also worth pondering whether certain countries at present behind them may not overtake one or other of them later. Comparisons with more developed countries are a source of bitterness to all citizens in the region. There is no rapid way of overcoming the problems deriving from backwardness. They can only be alleviated by lasting growth.

2. The capitalist system, like the socialist, possesses some intrinsic, system-specific disadvantages. It has to be said that it is far from an ideal society. Both its radical opponents and its objective advocates are equally aware of its darker sides, involving waste and injustice of various kinds. Just as the socialist system suffers from chronic shortage, so the capitalist system is normally accompanied by chronic unemployment, from which it breaks free only temporarily, under exceptional circumstances. The wage levels developing in a labour market controlled by the market mechanism, coupled with the existence of capital incomes and the system of inheritance deriving from the right of free disposal over private property, generate inequality. One feature of a 'buyers' market' is excessive advertising, as sellers try to win buyers by every possible means. It is not worth registering repeated surprise at these occurrences, or at other detrimental features specific to the new system. Appropriate government policy can ease these problems, but it cannot prevent their occurrence altogether.

Everyone can carry out a 'cost-benefit analysis'. Let the people of the post-socialist region decide, according to their set of values, whether the two big advantages

mentioned, which follow from the introduction of the capitalist system, compensate for the intrinsic problems that also accompany it.²³ If they do not compensate, let them declare themselves in favour of the previous system. If they do compensate, let them acknowledge once and for all that these are undesirable, but inevitable side-effects of the change of system. The ultimate logical conclusion from the first position is a revolutionary rejection of capitalism, and from the second a stance of working for reforms within capitalism.

3. I mentioned in the previous section that at any moment in history, each of the various capitalist countries occupies a specific position in a space defined by four (or more) characteristic attributes. Those who criticise something or object to some undesirable circumstance may not actually want to throw out the capitalist system as such. They may simply want to see the country take a different position in the system's 'characteristic-space'. They might want the country to be more open or more closed in its foreign relations. They would like to live in a capitalist country where welfare spending and taxation to finance it were greater, or where they were less, and so on. The nature of the problem is somewhat related to the type discussed under point 2, but it does not coincide with it entirely. This type requires people above all to work out what political forces want to shift society in the direction they desire, and what forces oppose such a shift.
4. There are some problems that do not derive from an initially disadvantageous position (as in point 1), or from

lasting disadvantageous side-effects of the final state after the transition (point 2), or from the position in the system's characteristic-space (point 3). They issue from the change itself, from the difficulties of making the transition from one system to the other. These can be described in sentences that include the word 'still'. The new supply structure adjusted to demand has still not emerged. The expertise and experience for operating a market economy and a democratic political system are still lacking. The institutions of the new system have still not developed. These problems are temporary. There are grounds for confidence that we can overcome the problems of transition sooner or later. The main requirements are time, and development that is largely evolutionary in nature, although governmental measures can speed up the process of overcoming the transitional problems.

5. Finally, there are the errors and misdeeds committed by governments, officials, politicians, employers and employees, and parties and organisations. Dishonesty, corruption, negligence and incompetence exist. We have to fight against them.

I would certainly not like to see any abatement of the struggle against errors and misdeeds. Even so, there is no harm in considering with a measure of wisdom that errors and misdeeds are part of human existence.

I find it understandable that the citizens of post-socialist countries do not carefully analyse and distinguish the five kinds of cause just mentioned, and simply feel angered or

embittered by the problems. However, what is understandable in lay citizens becomes unacceptable, in my view, in researchers, highly qualified intellectuals, opinion-makers, and above all, politicians. These distinct groups cannot be allowed to get away even with well-meaning superficiality and ignorance, let alone with intentionally confusing the various causes of the country's problems, or with cheap demagoguery and populist agitation. What is required is calm analysis, and this study of mine was intended to contribute to this.

Notes

1 The article by Péter Gedeon (1997) provides an excellent review of the methodological questions affecting the literature on the change of system and the transition to a market economy. Among other things, his study helps to clarify for readers how the approach found in my works relates to the methodology of other authors and schools. The study by P. Murrell (1995) makes some thought-provoking comments on the subject.

2 In a similar sense, R. Skidelsky (1996) distinguishes between the 'mutation' (Soviet communism) and the 'species' (the 'collectivist-communist system').

3 I set out in this study to develop further the theory of the system expounded in my book *The Socialist System* (1992), by trying to apply its theoretical apparatus to examining the change of system.

4 This statement resembles the Marxist view of history inasmuch as regularities in the behaviour of social/economic actors are explained in terms of the characteristics of the system surrounding them. Of course this approach is not the sole intellectual property of Marx and his followers. Many other schools have a similar outlook, including that of modern institutional economics. Several schools of historians and sociologists take related approaches.

The characterisation of the relation between the fundamental blocks (1, 2 and 3) and the system-specific forms of behaviour and lasting economic phenomena derived from them reflects a concept close to Marx's. On the other hand, there is a sharp

difference from the Marxist view of history in the way the role of block 1 is interpreted.

5 John Mueller (1996, p. 121) describes the stance of the government as follows: 'Capitalism can be defined as an economic arrangement in which the government substantially leaves people free to pursue their own economic interests as long as they do so without physical violence (including physical theft). That is, capitalism emerges when it is legal and possible to make a profit nonviolently.'

6 The term 'market economy' often features in Western political parlance in the same sense as the expression 'capitalist system' appears in this study. Perhaps many people fear the word 'capitalist' is too closely associated with Marx or radical anti-capitalist ideologies. The post-socialist countries willingly adopted the same phraseology because it seemed more acceptable after many years of anti-capitalist propaganda. I see no reason to lay aside or avoid the expressive term 'capitalist' out of any kind of shyness.

7 János Kis, the leading Hungarian liberal political philosopher, reached a similar conclusion in an article (1996).

8 Hayek (1969; 1989).

9 Polanyi (1944).

10 Some comprehensive economic programmes, such as the 1990 Balcerowicz plan in Poland, the 1995 stabilisation and adjustment programme in Hungary, associated with the name of Finance Minister Bokros, or the 1997 Ciorbea programme in Romania, include both systemic and non-systemic changes.

11 See the study by Eyal, Szelényi and Townsley (1997), the forthcoming book by the same three authors, and the works by Böröcz and Róna-Tas (1995), Hanley, Yershova and Anderson

(1995), Róna-Tas (1994) and Wasilewski (1995).

12 There was a more radical degree of replacement in the political elite.

13 It would be easier to express this statement accurately using the conceptual framework that I introduce in the penultimate section of the study, entitled 'Alternatives'. There I explain that the specific, historical manifestations of the capitalist system can be described by placing them in a 'space' defined by four (or more) characteristic attributes. The degree of reorganisation in the elite has a strong influence on where the emerging capitalist system lies within the space representing its characteristics. This in itself will distinguish the societies and economies of this region from other countries at a similar level of development, but without a communist past.

14 Many political theorists have taken this approach.

Schumpeter's classic *Capitalism, Socialism and Democracy* (1947) is seen particularly as the pioneer (Chapter 21, and also p. 269).

According to Huntington's succinct description, this approach starts from 'empirical, descriptive, institutional and procedural definitions', in contrast to other theories, which apply utopian, idealistic definitions of democracy (Huntington, 1991, pp. 5-7).

Such 'empirical-descriptive' interpretations are also applied in the well-known works by Dahl (1971) and Lindblom (1977), although different authors do not classify the main features in exactly the same way, of course.

15 To use the terminology of Isaiah Berlin (1969), these are negative freedoms. (The state cannot restrict freedom of expression or association.) The 'empirical' description of democracy in my study does not go further than this. Of course it would be desirable for the positive freedoms also to apply more

fully in every society, giving everyone access to a better, more fruitful life. It is generally agreed that this is not consistently the case in many countries normally termed democracies. As I said earlier, I will refrain from a normative definition to the concept of democracy.

16 See Huntington (1991), pp. 9–10.

17 For the tensions between democracy and the market, see C. Offe (1991), for instance.

18 Econometric calculations have been made to analyse the relations between democracy, market-economic institutions and growth, using long time-scales for large numbers of countries. (See Barro, 1991, 1996a and 1996b, and Tavares and Wacziarg, 1996.) Based on empirical examinations, Mancur Olson discerns a close relationship between the durability, the life span of both democracies and autocratic regimes, and property rights and security of contract rights in them (Olson, 1996, p. 38). In the end the research based on a sample of historical data is still not entirely conclusive. The hypothesis is neither clearly confirmed nor wholly rejected.

19 This connection is underlined by Mancur Olson (1996, p. 18).

20 Investors favour either the stability of a consolidated democracy or the stability of a dictatorship ruled with a firm hand. What repels them most is an unstable democracy.

21 Of course this cannot be said of all the countries of Eastern Europe or all the republics that replaced the former Soviet Union. Important elements of dictatorial rule have remained, for instance, in Yugoslavia, in certain Central Asian countries, and in Belarus.

22 The Congress of the Chinese Communist Party in the autumn of 1997 combined communist phraseology with practical

resolutions designed to further the spread of capitalism. This increases the probability of the scenario I have outlined.

23 In an earlier piece of mine (Kornai, 1980), I wrote ironically of those who look upon the range of systems in history as a supermarket. It is as if we could push a trolley round and pick full employment off the socialist shelf and technical development and an abundance of goods off the capitalist shelf. History, I wrote at the time, offers package deals with fixed contents, labelled as alternative systems. Each package contains the system-specific advantages and drawbacks of the formation chosen.

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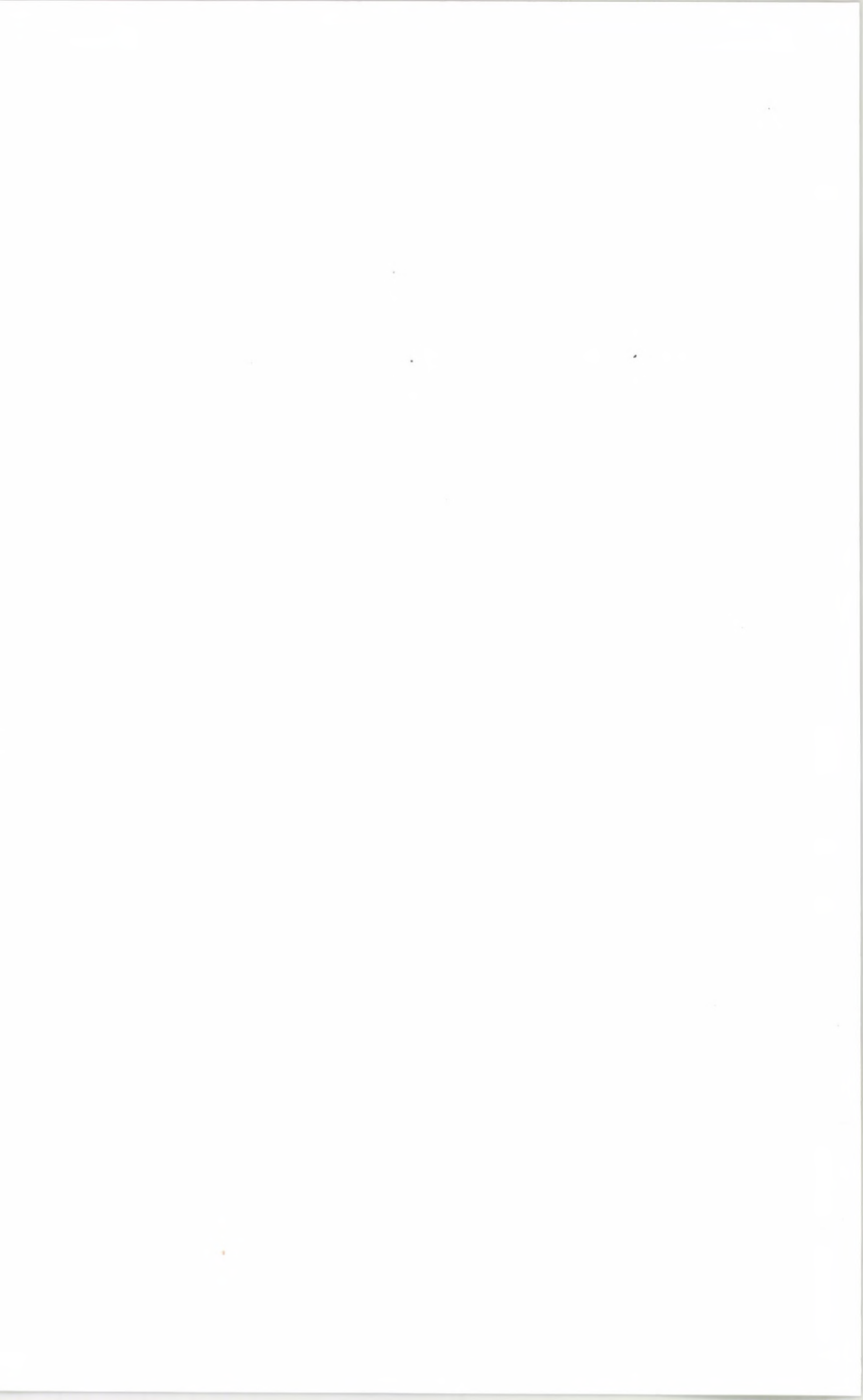
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