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## **UNCTAD X**

### **High-level Round Table on Trade and Development: Directions for the Twenty-first Century**

#### **THE HISTORICAL CONFLICT OF SOCIALISM AND CAPITALISM, AND THE POST-SOCIALIST TRANSFORMATION**



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#### **THE HISTORICAL CONFLICT OF SOCIALISM AND CAPITALISM, AND THE POST-SOCIALIST TRANSFORMATION\***

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\* The views expressed in this paper are those of the author and do not necessarily reflect the views of the UNCTAD secretariat.

## **Executive Summary**

The essential interaction between socialism and capitalism emerged during the nineteenth century. Socialism had different related meanings: it represented an intellectual trend based on the critique of the developing bourgeois society; it was the expression of a political and social movement aiming at reforms, influence or power; and it referred to an ideal economic and social system intended to replace and overcome capitalism and its perceived flaws. While highly diversified in these three domains, socialism in general became influential worldwide, especially between 1848 and the first world war. During the twentieth century, the relationship between capitalism and socialism was given a new dimension with the emergence of real historical “socialist systems”, which, by the middle of the century, included almost one third of the world’s population. This new development, and the co-evolution that resulted between the two families of historical national economies – the capitalist and the socialist – deeply influenced and modified the three other dimensions (intellectual, political and normative) of socialism inherited from the previous century. When most socialist systems eventually disappeared at the turn of the 1980s and 1990s, a great cycle in modern economic and social history came to an end. A significant aspect of modern social sciences developed against the background of the relationship of capitalism and socialism. This paper analyses the confrontation of the two systems and draws some initial lessons from the experiences of the past few decades.



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# **THE HISTORICAL CONFLICT OF SOCIALISM AND CAPITALISM, AND THE POST-SOCIALIST TRANSFORMATION**

*Bernard Chavance*

## **I. ARGUMENTS FOR CAPITALISM AND SOCIALISM**

Fundamental arguments by advocates of both capitalism and socialism were developed in the nineteenth century. The experience of the twentieth century led to an adaptation and a strengthening of these arguments. Advocates of capitalism, which is understood as a system based on private ownership, market allocation and entrepreneurship, have generally stressed the efficiency and rationality of the capitalist development process. In their view, private interests may spontaneously fall in line with the common good, and the population's standard of living may systematically be improved on a long-term basis through the virtues of competition. Distribution based on the market process is approximately fair, as individuals get, in principle, revenues proportional to their productive contributions. Hypothetical or existing socialism is considered economically irrational and inefficient as it destroys the institutional and spiritual bases of the "good economy". Moreover, it is contrary not only to economic, but also to political liberty.

Advocates of socialism, which is defined as a system based on social ownership and planned coordination of the economy, have often used similar normative criteria as their opponents, but with opposite conclusions about historical realities. They view capitalism as an irrational system resulting from market anarchy, which leads to high social waste and suffering (notably through crises and unemployment). It produces large inequalities and works in favour of a wealthy minority, both within capitalist societies and at the level of the capitalist world economy. Ideal or existing socialism, on the other hand, is seen as allowing consciously planned rational development, which does away with such capitalist flaws as recurring crises, waste and unemployment; it fosters social equality and may promote a higher form of liberty where a united society comes to master its own progress.

This sketch is, of course, a caricature, as both intellectual families included many differences, oppositions and evolutions. But the two families did exist and structured the ideas of the twentieth century. On both sides, we find a widely contrasting approach, as well as a distinction between the historical realities of the favoured system – that, admittedly, may have been full of concrete imperfections or mismanagement biases – and the ideal model that was deemed to give, by its very nature, a secure direction for future improvement (Chavance, 1994a).

So the systemic contest was founded on a similar set of proclaimed values or objectives: rationality, efficiency and equity on a general level, and modernization, growth and an improved living standard for the majority on a more concrete level. While the relative weight given to these values varied, as a whole they provided the normative standards of economic modernity.

*Table 1*

*Contrasting views of the two systems based on similar values*

<p><i>The good system (capitalism or socialism)</i></p>	<p><i>The bad system (socialism or capitalism)</i></p>
<ul style="list-style-type: none"> <li>• Rationality and overall efficiency</li> <li>• Possibility of steady and long-term growth</li> <li>• Social justice, potentially realized</li> <li>• Economic development and modernization for latecomers</li> <li>• Liberty ensured (individual or social)</li> </ul>	<ul style="list-style-type: none"> <li>• Irrationality and waste</li> <li>• Instability, endogenous fluctuations</li> <li>• Unequal distribution of wealth and income, or power</li> <li>• Obstacles to genuine development, dependency vis-à-vis the great power(s)</li> <li>• True liberty denied</li> </ul>

**II. COMPARISON OF THE TWO SYSTEMS**

**A. General similarities and institutional arrangements**

Most interpretations of capitalism and socialism as economic systems were based on a model which emphasized their contrasting features (Sternberg, 1958). But on a general historical and theoretical level, there were important similarities, pointing to a kind of brotherhood, or even twin character of both families of system, that obtained throughout the process of their co-evolution. Capitalism and socialism alike are highly diversified monetary and wage-labour systems, based on an extended division of labour within the economy and within large organizations. They both face the problem of finding sustainable forms or regimes of capital accumulation and income distribution. Coordination of the division of labour in a complex and monetary economy, and reproduction of the wage-labour nexus – that presupposes structural tensions in production and distribution – need to find proper and consistent institutional mediations. Such mediations would allow growth and development as conditions of systemic sustainability, and provide legitimacy for social domination (in a Weberian sense). As national economic systems represent complex configurations of numerous interdependent institutions – some designed and others evolved (and, most often, a combination of both design and evolution) – they are faced, in a dynamic perspective, with the contrasting necessity of coherence and stability, on one hand, and of flexibility and adaptability, on the other.

## B. Some qualifications

Conclusions based on the actual historical experiences of the national systems belonging to each of the two families seemed less sharp than in those delineated within the general contrasting models of each system. While some positive features of the preferred system seemed enhanced in particular periods or in specific countries, some flaws also became visible in different periods or countries. Significant regularities observed in countries belonging to each of the really existing systemic families led to a comparative assessment where favourable, and adverse trends were mixed on both sides, making objective economic comparison more difficult (see table 2).

*Table 2*  
*Two great historical systems*

	<i>Capitalism</i>	<i>Socialism</i>
<i>General commonalities</i>	<i>Division of labour, monetary-wage labour economies</i>	
Political regime	Diverse (democratic or authoritarian)	Monoparty regime based on Marxist-Leninist ideology (dictatorship)
Dominant forms of ownership and coordination	Private ownership Market coordination	State ownership Vertical mediations in coordination
Type of structural disequilibrium	Surplus economy (demand-constrained system)	Shortage economy (resource-constrained system)
Dominant employment trend	Unemployment	Labour shortage
Accumulation regime	Diverse: extensive, intensive, mixed	Predominantly extensive
Stability of growth	Weak, important fluctuations, business cycles	Weak, important fluctuations, investment cycles
Stability of prices	Generally low	Generally high
Technological change	Generally fast, endogenous	Generally lagging, often imitative
Degree of social security for wage-earners	Generally low, tendency for historical increase	Generally high
Income distribution	Unequal	Fairly equal (for official incomes)
Consumer gains from growth	Significant	Limited
Relationship of national economy with the international economy	Generally strong	Generally limited

### III. MAIN PERIODS OF CO-EVOLUTION AND MUTUAL PERCEPTIONS

The Great Depression had a deep impact on both defenders and critics of capitalism. At the end of the 1940s, the memory of the 1930s, and the extension of socialist systems to a significant part of Europe and Asia, gave credence to the pessimistic or sober views of capitalism's future. Also, the search for modernization and development by newly independent countries strengthened the attraction of the socialist model. Economically, the third quarter of the century was a kind of "golden", or rather, "silver" age for both systems, marked by significant overall growth and structural change in many countries belonging to each systemic family. During the 1960s, the challenge of "catching up", repeated by Khrushchev in 1961, was taken seriously by prominent Western leaders, and an emphasis on productivist criteria as a measure of success and a cult for growth were shared by both systems.

The period apparently confirmed some of the virtues attributed by each ideological family to its preferred system. At the same time, the economic flaws imputed to both capitalism and socialism seemed to diminish during the period of high growth (the judgment was different as far as political and geopolitical trends were concerned). Actually, an optimistic theory of systemic convergence developed during that period. Macro-management by the interventionist State and the extension of planning by giant firms on one side, and the reduction of centralization and renewed interest in monetary and profit categories, on the other, were pointing, so it was argued, to a possible evolution of both systems towards an intermediate and similar "industrial society". But while some socialist countries managed to introduce positive economic reforms, most reformist experiences were disappointing or short-lived. Moreover, the political element in the institutional base of these systems was the ultimate obstacle to genuine adaptive reform (though China later represented an interesting exception).

Most tenets of the classical socialist system were gradually qualified for practical and theoretical reasons (Kornai, 1992), and advanced economic reforms reduced the contrast with the capitalist system. Central imperative planning based on physical targets, that allowed fast initial structural change, soon came to be viewed as engendering critical rigidities and obstacles to endogenous technological and organizational change. Attempts to reintroduce market coordination were made progressively, first as an "instrument" for planning, later as a complement or corrective and, eventually, in advanced reformist countries such as Hungary, Poland and China during the 1980s, as a dominant mode when compared with traditional central planning. Market socialism, understood as an economy combining State ownership and market coordination, never managed (outside China) to become a credible alternative, let alone acceptable to most ruling *nomenklaturas*. The crisis of the central planning alternative to market coordination (Brus and Laski, 1989) eventually led to the collapse of the notion of the superiority of social ownership over private ownership. Social ownership had been postulated as the necessary basis for ending competition and anarchy and as the condition for unified management of large national economies, based on the model of a huge enterprise extended to the whole society.

Thus, most socialist reforms eventually failed in terms of durably improving the functioning and performance of the economy. By the end of the 1970s, the European and Soviet socialist economies were entering an era of "stagnation" (to use Gorbachev's term), while the capitalist economies faced a new great crisis with the end of high and rather stable growth, the

acceleration of inflation and the return of unemployment. Old critical arguments were revived, and uncertainty loomed on both sides. Each of the two competing and opposing systemic families was faced with a specific, endogenous and major adaptation crisis, with both crises interacting at the international level.

The 1980s marked the real turning point. In the West, the conservative shock started by Margaret Thatcher and Ronald Reagan accelerated the gradual shift away from the post-war Keynesian compromise and resulted in proposals of structural adjustment policies for developing countries. In the East, the structural crisis spread and lasted (with the exception of gradually reforming China), while the whole geopolitical edifice of Soviet hegemony started to crumble with Gorbachev's new policies. Between 1989 and 1991, the communist political regimes collapsed, resulting in an immediate dismantling of the systemic coherence of socialist economies. While it had been maturing in some socialist countries during the 1980s, the transition to capitalism proper began.

#### **IV. INSTITUTIONAL ARRANGEMENTS AND DEVELOPMENT STYLES**

The objective of “catching up and overtaking” capitalism played a central role in the formation and evolution of socialist systems, sometimes combined with a nationalist motivation, as in Asian regimes (Riskin, 1985). This objective was reiterated by Lenin, Stalin, Khrushchev and Mao Zedong. Most countries entered the socialist family from a low or intermediate level of economic development. Capitalism was conceived by Marxist-Leninist ideology as contrary to economic and social modernization and liberation in backward countries, while socialist institutions and systems were deemed to allow unfettered growth, structural change and welfare improvement.

The growth style in the initial phase was based on a specific disequilibrium strategy and stressed a list of priorities: industry over agriculture, heavy over light industry, and in general production over consumption (Nove, 1969). The strategy crystallized in institutions and behaviour of economic agents, which gradually became a rather inflexible development mode, manifestly resistant to subsequent reformist attempts to modify it (Chavance, 1994b). The building of new industrial structures was imitative of productive patterns typical of the previous period of capitalist industrialization. In the quarter century following World War II, the Fordist regime that came to prevail in the advanced capitalist world was very different, being based on a rather virtuous interaction between productivity growth, investment and the increase in mass production and consumption. The tensions that grew out of the relative success of these two models became manifest in the 1970s. Both systemic families responded differently to their mounting structural crises.

The eventual failure of socialist economic systems was relative rather than absolute. Its significance is to be found in the standards that communist political regimes had set themselves for comparison with capitalism (“catching up and overtaking”, in productivity, global production and consumption). Moreover their final dismantling was not the result of economic factors alone,

but of the interaction of the latter with geopolitical contradictions within the socialist sphere and on a world scale. The structural economic crisis of the 1980s was only the background of a process that was triggered by Gorbachev's reforms, and eventually by his decision not to use Soviet force and not to back repression in countries where protest movements against communist regimes were again developing. This economic background also explains that the very tendencies that Schumpeter (1942) saw as pointing to a decay of the capitalist system during the inter-war period were ironically at work during the last decade of East European socialist societies, e.g. the "crumbling walls", the "devitalization of ownership", the growing criticism from intellectuals, and the loss of confidence of the ruling class in its own system and its own future.

### **Change, innovation and adaptation**

Systemic evolution in capitalism rests on permanent technological, organizational and institutional change. Such change proceeds sometimes incrementally and sometimes by rapid and wide-ranging shifts. The internal movement of the capitalist economy was stressed by Marx and Schumpeter alike, who shared the idea of the ambivalent effects of such perpetual change, that appeared as both creative and destructive (although they differed as to its causes and in their evaluation of the balance between creation and destruction). Competition between national economies and polities, and competition and social conflicts within capitalist nation-States have been historically essential in this "whirlwind of creative destruction".

The creation of socialist systems appeared as a gigantic experiment in organizational and institutional innovation that met with significant initial success in achieving some important development targets set by communist regimes (other objectives, like consumption increases or popular participation having early been deliberately sacrificed or postponed). However, their capacity to adapt to internal and external change eventually proved limited indeed when seen from a long-term perspective. A kind of systemic lock-in made itself increasingly felt, owing to the "coherence of the classical system" (Kornai, 1992) and to the strong restraints set by the "institutional base" (mono-party communist regime combined with domination of State ownership) on genuine technological, organizational and institutional adaptive change. These constraints were compounded by the limited sovereignty of countries within the Soviet-dominated sphere (Berend, 1996). We observe that only two socialist countries – Yugoslavia and China – went fairly far in reforming their economies, but they had slipped out of the Soviet domain.

## **V. THE PROCESS OF TRANSFORMATION AND THE TRANSITION DOCTRINE**

Post-socialist transformation started with the disintegration of the socialist institutional base. In Central Europe and in the Soviet Union this happened when the political pillar of the base collapsed – end of the mono-party regime (Kornai, 1998) – while in Asia (China and Viet Nam) post-socialist transformation gradually opened through the progressive erosion of the ownership pillar – end of domination of classical State property (Chavance, forthcoming in 2000). Transformation represents the shifting process whereby national economies move from the socialist to the capitalist family through wide-scale institutional and organizational change. It is like a passage from one systemic species to the other, within the common genre of monetary-wage labour systems. The ending of the process of co-evolution of the two rival systemic families has far-ranging, but ambivalent, consequences for the remaining, and now unique, capitalist species. The arms race is over, but the pressure for accommodating social tensions within capitalist societies and within the world capitalist economy as a whole has been significantly reduced.

In the former socialist countries of Eastern Europe and the Soviet Union, the transformation process began under the auspices of a specific transition doctrine adopted by most new Governments after the collapse of what remained of the communist ideologies, and under pressure from international organizations and Western States. Its main components were the prevalent neo-liberal theories and the Washington Consensus. Stabilization, liberalization and privatization were presented as the main objectives for this unique historical experience. The highest priority was the fight against inflation, and speed was seen as essential for privatization. The “shock therapy” applied in Poland gave a model for the objective of building a market economy within a short historical period (Balcerowicz, 1995). Macroeconomic stabilization would bring back growth, while liberalization and privatization would put the incentives right and stimulate the needed restructuring of productive capacities.

### **A. Depression and other surprises**

As the process of transformation advanced, many unexpected developments took place. This was, so to speak, foreseeable, considering the scale and complexity of such an epoch-making change, but among these developments figured important surprises from the viewpoint of the transition doctrine. A severe crisis developed everywhere in Eastern Europe and the former Soviet Union: GDP plummeted, investment collapsed, industrial production fell, real wages decreased, inflation reached high levels and unemployment appeared and grew everywhere (Lavigne, 1999). During the same period, the gradually reforming socialist countries of Asia – China and Viet Nam – following completely different methods than the transition doctrine would have implied, experienced high and prolonged growth. Numerous negative trends developed as a result of the post-socialist depression and transformation strains. A general rise in social inequalities and poverty (Kolodko, 1998) was reflected in demographic indicators. Criminality and corruption spread and the parallel economy expanded. Privatization proved more difficult than expected, and often had unforeseen effects: State ownership actually appeared to be somehow resilient, “insider” privatization became widespread (Uvalic, Vaughan-Whitehead, 1997), complicated cross-

ownership links developed, and no clear relationship emerged in the first decade between privatization and the multifaceted process of enterprise and industry restructuring (Estrin, 1998) (with the exception of foreign ownership, which in most cases concerned only a minority of former State enterprises).

In view of such a great number of surprises that soon became apparent in the first transformation period, and following controversies over policies implemented and their theoretical background, a qualified transition doctrine evolved in the second half of the 1990s. Such a doctrine partly admits to: an early neglect of institutions, especially of law and the role of the State; the importance of real growth as an objective that cannot result spontaneously from monetary stabilization alone; the significance of enterprise governance besides ownership changes; and the role of social dimensions of systemic transformation (World Bank, 1996, 1997; Zecchini, ed., 1997). These aspects had early been stressed by non-standard economic schools, especially institutionalist, Keynesian, Austrian and evolutionary authors of diverse backgrounds (e.g. Murrell, 1992; Stark, 1992; Amsden, Kochanowicz and Taylor, 1994; Ellman, 1994; Nove, 1995; Eatwell et al., 1995; Poznanski, ed., 1995). But the latter faced their own surprises, in the form of the contrasting effects of shock therapy on Poland and the Russian Federation, the actual importance of changes in formal rules (legislation), the possibility of some types of holistic social engineering (Ellman, 1997), the general acceptance of transformation strains by the populations concerned and the frequent advocacy of gradualism as a veil for slowing down the exit process from socialism.

Nevertheless, a significant number of such *heterodox* analyses have been confirmed, particularly regarding: the role of path-dependency and the heritage of the socialist past (Stark and Bruszt, 1998; Chavance and Magnin, 1997); the resilience of informal norms in social change (North, 1997a); the error of the monetary view of stabilization in neglecting the evolution of the real sphere (Delorme, 1996); the importance of the sector of newly created private enterprises; the comparative interest of the Chinese experience (Naughton, 1996); the role of institution-building; and the necessity to transform and develop the State, as opposed to the neo-liberal view of the minimal State.

The Asian crisis of 1997 and the Russian “*krach*” in 1998 accelerated a debate on the standard policies and theories, which had developed even within the Bretton Woods organizations (Stiglitz, 1998, 1999). While acknowledging the positive trend in the evolution of the transition doctrine, its limits should be stressed, as the neo-liberal core has not disappeared.

## **B. Diversity of transformation trajectories**

A striking differentiation in national paths of systemic and developmental change was another surprise and puzzle for the transition doctrine, with its uniform initial strategy and its underlying notion of convergence towards an idealized normative model of the “market economy”. While all post-socialist economies were obviously transiting to the capitalist family,

such a change was appearing to be less deterministic and much more path-dependent than in the teleologist view of “transition”.

At an intermediate level of abstraction between distinct national paths of change and the evolution of the whole post-socialist family, three distinct trajectories of transformation have occurred. In these trajectories, interdependent phenomena of political change, institutional shift, macroeconomic trends and social tendencies have generally reinforced each other and produced specific configuration of cumulative causation processes. Table 3 presents a stylized view of the three trajectories: Euro-centred social liberalism, dominant in Central Europe; depressive State crisis, typical of post-Soviet societies; and high growth gradualism, observed in Asian reforming economies. While some post-socialist countries are following an intermediate path between the first and second trajectories (as in the Balkans), the assessment of the three routes in the transition to capitalism seems fairly robust. Mono-causal explanations, based on pre-socialist or socialist heritage, on initial forms of political change, on strategies and policies followed, on external influences, or on cultural differences, all give a very partial account of the variety of transformation paths.

The numerous interdependent links of causality and feedback between the processes of change in the various spheres of society and economy that lay behind the diversity of national or regional trajectories point to the enormous complexity of systemic change. In such a process, all elements of the economic system, of the juridical sphere and of the political regime undergo profound transformations, while social differences are reshaped, cultural values are modified, and the international environment also changes. All these transformations take place in a concentrated historical period of about one decade, but their relative rhythms or temporalities differ. Traditional economic theory, based on equilibrium analysis, is poorly equipped to deal with such cumulative causation processes. Comparative institutional analysis, avoiding a reductionist, economistic approach, is needed to understand national, sectoral and local path-dependent processes of change.

At a more disaggregated level, significant and sometimes growing differences became apparent between national trajectories during the first transformation decade, even within the same group of countries (Chavance, Magnin, 1997, 1998; Elster, Offe and Preuss, 1998). The diversity of national and regional paths of change, leading to a significant variety of post-socialist emerging capitalisms (Magnin, 1999), illustrates the role of idiosyncratic and evolving institutional configurations that represent the very content of systemic change.

The historical background, initial conditions, but also systemic interdependence and specific national arrangements of institutions, explain why the same institutional reform or transfer, or a similar policy, can produce very different outcomes in different countries. Gradual reform, based on a dual price and planning system, led the Chinese economy to “grow out of the plan” (Naughton, 1996), but it was an important factor in the disintegration of the Soviet economy under Gorbachev (Chavance, 1994a); fast “large privatization” programmes produced dissimilar ownership and governance set-ups, as in the Czech Republic and the Russian

Federation; macroeconomic shock therapy had contrasting consequences in Poland and the Russian Federation;

*Table 3: Stylized trajectories in the first decade of post-socialist transformation: a comparison*

		<i>Euro-centred social-liberalism (Central Europe)</i>	<i>Depressive State crisis (former Soviet Union)</i>	<i>High growth gradualism (Asia: China, Viet Nam)</i>
<i>Politics and the State</i>	Mode of disaggregation of the institutional base (exit from socialism)	Sudden break (destruction of the political pillar)	Sudden break (destruction of the political pillar)	Gradual change (erosion of the ownership pillar, ideological accommodation)
	Political evolution	Democratic consolidation, alternating coalitions	Sham democracy	Authoritarianism (mono-party) with elements of informal pluralization
	Legitimacy of the State	Rather strong	Weak	Rather strong
	Administrative and tax capacity of the State	Rather strong	Weak	Rather strong
	Corruption, criminality	Extending, but still limited	High	Significant
	Regional differentiation	Limited (small countries)	Very high, tendency to fragmentation	High but no fragmentation
<i>Institutional and organiza- tional changes</i>	Institutional change (new formal rules, legislation)	Wide-scale and fast change ; rules rather hard but unstable	Wide-scale and fast; soft rules, very unstable	Wide-scale but gradual; semi-hard rules but limited formalism
	Privatization of the economy (privatization of States assets ; extension of new private enterprises)	Rather fast, reasonably legitimate	Fast, very low legitimacy	Gradual, no “large-scale privatization” of State assets
	Emerging ownership forms	Multiple forms: insider ownership, investment funds, banks, State. Frequent cross-ownership, fuzzy property rights	Insider ownership, financial-industrial groups	Large expansion of “non-State”, but not strictly private, forms, fuzzy distinction between private and public ownership
	Organizational change	Strong expansion of private SMEs (often micro-enterprises), restructuring of former SOEs	Limited expansion of private SMEs, slow restructuring of former SOEs	Strong expansion of “non-State” SMEs, slow restructuring of former SOEs
	Networks	Reshaped and transformed in the new environment	Resilient, expanded role as a coordination mechanism	Reshaped, but significant role in emerging capitalist forms

		<i>Euro-centred social-liberalism (Central Europe)</i>	<i>Depressive State crisis (former Soviet Union)</i>	<i>High growth gradualism (Asia: China, Viet Nam)</i>
<i>Macro-economic trends</i>	Growth	Initial depression of about three years, followed by resumption of fragile but lasting growth	Prolonged depression (cumulative reduction of GDP by about 50%)	High and lasting growth
	Unemployment	Fast initial increase, stabilization near “European” levels	Low registered unemployment (but actual level higher: 10–15%), and growing	High actual level
	Inflation	High initial surge in prices, followed by decreasing inflation rates, but still at relatively high levels	Prolonged mega-inflation followed by a decrease to unstable levels. High proportion of economic barter	Middle-range inflationary tendencies
	Opening to the international economy	Fast re-orientation of trade to the West (mainly EU). Significant FDI in manufacturing, but concentrated in advanced countries	Foreign trade strongly affected by depression. Low level of FDI, concentrated in energy sector	Gradual but intensive opening, strong expansion of foreign trade. High level of FDI in manufacturing
<i>Social tendencies</i>	Inequality, poverty	Big increase in inequality and poverty in the early transformation, followed by a relative decline	Explosion in inequality, high level of poverty	Increase in inequality, reduction in absolute poverty
	Demography	Decline in fertility, increase in morbidity (also deterioration in HDI in most cases)	Decline in fertility, increase in morbidity, sharp increase in mortality, decline in life expectancy (deterioration in HDI)	(Increase in HDI)
	Social protection for wage-earners	Socialized (externalized from enterprises). Significant level of protection, but decreasing	Still partially internalized in large enterprises. Low level of protection	Internalized in large enterprises, gradual externalization. Low level of protection
	Relationship between political and economic elites	Differentiation	Strong overlapping	Overlapping, partial differentiation

**Notes:** SMEs: small and medium enterprises.  
SOEs: State-owned enterprises.  
FDI: foreign direct investment.  
HDI: human development index.

the fate of bankruptcy laws differed among transforming economies; and the relationship between growth patterns and the evolution of distribution appeared quite diverse across countries and regions.

The variety of experiences explains why generalizations heard about “transition” may often be falsified by different national counter-examples. No absolute laws about such a complex, multifaceted and controversial historical process are likely to be found, but a few tentative historical and theoretical lessons can be drawn.

## VI. SOME TENTATIVE LESSONS

Capitalism is the only modern monetary-wage labour system that has proved to be viable in the long run. Socialism, as an alternative system, has proved to be sustainable in terms of decades, but not beyond (Kornai, 1992). Its failure is patent, when judged according to the very objectives and values that were basic to its promoters and advocates, especially the aim of overtaking capitalism in terms of rationality, efficiency and welfare, and of eventually replacing it as a more progressive historical economic system. If socialism is interpreted as a substitute for capitalism in countries that had missed the first industrial revolution (as suggested by Robinson, 1960), the overall judgment is more mixed, but in a majority of instances (the Chinese being the exception, as already noted), the early reduction of the economic distance with capitalist countries at a similar initial level of development was followed by a growing gap during the last two or three decades of the systemic life cycle of socialist economies (Asselain, 1999).

Monetary-wage labour systems in general are confronted with permanent problems of evolution and change, resulting from tensions arising in the process of accumulation and development; these problems may or may not find temporary solutions through endogenous or imitative organizational and institutional change or innovation. Such problems become acute in periods of structural crises, and remain latent during relatively limited periods of stable and regulated growth. The family of national capitalist systems overcame three or four structural crises in the last two centuries; but the majority in the socialist family could not find a way out of their structural crises in the 1980s. A great crisis is essentially a crisis of *adaptation* for institutions and organizations, and this has meant, for the two systemic families during the twentieth century, an adaptation to their very process of co-evolution.

The ambivalence in capitalist development analysed by great theoreticians has in general been confirmed by historical experience: positive and negative, creative and destructive, beneficial and detrimental features are combined in this system, and their relative weights have been changing at different times and in different national and international contexts. Some (but assuredly not all) systemic flaws of capitalism as an economic system identified by critical theories or social movements since the nineteenth century have been confirmed by history – mainly instability, unemployment and inequality. Keynes (1926), or Kornai (1997) in the recent period, view capitalism in terms of inevitable dilemmas and necessary compromises between conflicting values. Actually, the most penetrating judgment about capitalism was made by Keynes, who

combined the criterion of efficiency with a normative evaluation: “For my part I think that capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative yet in sight, but that in itself is in many ways objectionable. Our problem is to work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life” (Keynes, 1926: 294). At the end of a century that allowed extraordinary progress and at the same time produced human destruction and suffering on an unprecedented scale, such an attitude seems wiser than “capitalist triumphalism” (Wiles, 1992), at a time when the challenge of socialism is definitively over.

Among general lessons is the importance of historical and contemporary diversity of national economic systems and trajectories within each great systemic family, and in the process of shifting from the socialist to the capitalist family (Chavance and Magnin, 1998). International and transnational relations have considerable influence, which has been obviously growing in the recent historical period. However, national institutional arrangements remain the decisive level where specific types of capitalism emerge and endure, as the State, politics and the wage-labour nexus all retain a national foundation (Boyer, 1999). Different configurations of capitalist economies coexist for long periods, new ones emerge, and no absolute convergence towards a hypothetical optimal (or sub-optimal) type can be expected even in a period of “globalization”, where interdependencies between nation States are redefined on a world scale (Berger and Dore, 1996).

The search for universal, but often conflicting, values of modernity (liberty, equality, rationality, efficiency and solidarity) will continue. It will be a search for different types of capitalism embedded in various socio-historical contexts, and as a process of unending adaptive reforms, triggered by the continuous change “from within”, specific to capitalism as an economic system.

### **Market, State and path-dependence**

The end of socialist systems strengthened the notion of the “market economy” central to the neo-classical tradition, as the accurate category to characterize modern developed systems. Such a view is based on the model of exchange, the figure of the real price, the concept of equilibrium and the notion of allocative efficiency; it stresses common elements or convergence between national economies, especially in the recent historical period; it defines the system by a coordination mode, namely the market (Boyer, 1997). But it is striking to observe that great economists or historians with different theories of capitalism – such as Marx, Schumpeter, Keynes, Polanyi (1944), Braudel (1979) – have all contrasted capitalism as a concept to the real or normative representation of the market economy. In this view, production is given greater importance and the problem of change through tensions or conflicts is underlined; adaptive efficiency comes to the fore; the role of institutions and history is emphasized, the variety of national trajectories is questioned; and the system is defined by a monetary category – capital. Contemporary history confirms the greater relevance of such alternative approaches.

The remarkable contrast between the Russian trajectory of change and the Central-European and Asian paths provides some theoretical lessons in the field of systemic transformation about the role of the State, path-dependence and irreversibility. The cumulative weakening of the State's capacity and legitimacy in the Russian Federation was accelerated by the very rapid and corrupt privatization programme; by deliberate policies of drastically curtailing budget expenditure in a period of severe depression – leading to wage and payments arrears in the public sector, that undermined the whole tax system and accelerated the demonetization and fragmentation of the economy; by moves such as the “loans-for-shares” operation in 1996, that reinforced the growing power of oligarchic financial-industrial-media groups over the Government and the economy; and by the rapid liberalization of the financial markets in conditions of a fragile banking system and growing systemic risk (Sapir, 1998). A cumulative causation process emerged, where interdependent changes in formal and informal institutions and agents' behaviour produced a perverse lock-in that became typical of the post-Soviet trajectory. In Central Europe, on the other hand, many of the States managed to reshape and rebuild their capacities. This proved decisive in forming a fragile, but eventually positive, cumulative process of systemic change and growth (Sgard, 1997 ; Kolodko and Nuti, 1997). The role of democratic consolidation and the prospect of integration into the EU has obviously been instrumental here. The Chinese trajectory, however, where these factors are absent, also points to the decisive role of State capacity in the virtuous growth path that accompanied gradual and uneven institutional reforms over a period of two decades (as exemplified in the agricultural reforms, the open-door policy, the transitional dual-track regime in industry and the change in the fiscal system – Chavance, forthcoming in 2000).

Path-dependence in post-socialist transformation signifies that the heritage of socialist institutions and behavioural patterns is still present in most societies, as institutional analyses have rightly shown; and it will remain so for some time to come. But the weight and the consequences of such a heritage are extremely diverse in different fields and in different societies, and they are evolving during the very process of systemic change. While inertia in informal rules often has been underestimated (North, 1997b), such rules have sometimes also changed very fast, for better or for worse, in given contexts. The dynamic interaction between changing formal and informal rules has thus appeared to be very complex and context-dependent, and the interactive learning processes of economic agents reveal many specific patterns in different sectors, regions and societies. The change of rules in general – institutional and organizational rules, constitutional and ordinary rules, and formal and informal rules – represents the essential content of systemic change, hence the decisive role of law and the State in the process. However, the relationship between emerging and evolving arrangements of interdependent rules and the overall process of economic and social development is very uneven, as can be seen from the variety of national trajectories already mentioned. Comparative institutional and systemic analysis remains the only way to address the question of diversity and draw some tentative lessons of history.

A decade of post-socialist transformation has represented a wide-scale historical experience, where theories and policies have been put to a test which has been, in many instances, cruel. The transformation process is not over, but it has already entered a new stage where it

becomes directly part of the general challenge of redefining economic development in a globalizing and growingly unequal world.

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