In This Issue

Ellerman's 'Privatization in Post-Socialist Economies'

David P. Ellerman has hands-on experience with privatization in Russia, Slovenia, Poland and Croatia and intimate knowledge of problems and difficulties in most other countries of Eastern Europe. He is proposing a practical, post-socialist version of the management-employee buy-outs (MEBOs), as a more suitable and more practical way of privatization. The speculative, naive and mass privatization schemes of governments of ex-communists are now failing all over Eastern Europe.

Ellerman considers mass privatization schemes, often based on populist voucher plans (like the one in Czech Republic) to be based on 'a bizarre combination of primitive communism and Hollywood images of private enterprise'. The reality is much worse: crime, corruption and extortion are their driving forces, human naïveté, inexperience and blind trust in the media are their fertile milieu.

Also the so-called 'stock exchanges', i.e., pathetic mockeries full of idle computers, silent telephones and bewildered young men in red suspenders, are part of these hollow gestures and cultist bows extended to the mythical Heaven of 'Wall Street' – there is little to sell or to buy at these 'exchanges'. Ellerman refers to them and similar phenomena as 'cargo cults', i.e., similar to the Pacific islanders who used to build mock runways and wooden airplanes in their attempt to coax the great birds full of cargo to return from Heaven.

This 'Look ma, no hands – only a stock exchange!' attitude is going to destroy the remaining vestiges of manufacturing, crafts and other productions, replace them with empty speculation and redistributive activities – just before the inevitable crash of their economies.

Decentralized MEBO-oriented privatization plans are based on the private insider ownership by relevant agents (those with hands and brains), not on the public absentee ownership of speculators (those with pieces of paper only).

Ellerman's paper concludes with an outline of a rapid MEBO-oriented privatization program that could be customized to different conditions and transformation stages of countries of Eastern Europe. It is an excellent program – if it could be started on a 'green field' of state ownership. But, every day, hundreds of potentially productive companies are being sold abroad, carved up by speculators, divided among the populace, stolen by mafias or brought to bankruptcy by their current managers or directors. There might not be much left for any real privatization within a year or two.

Meltzer's 'Transition to Market Economy'

Some first principles of the transition to a market economy are finally becoming discernible. Professor Allan Meltzer of Carnegie Mellon University is arguing against the prevalent but inconsistent combination of fixed exchange rates and wage controls, adopted by most countries of Eastern Europe.

The extreme example of such inconsistencies can be found in the Czech Republic: a rigid, state-controlled and IMF-financed dollar exchange rate of the crown, combined with the widespread wage controls in both state and private (!) enterprises.

Meltzer also emphasizes the well-known, hard-earned experience: IMF and similar institutions impose principles, learned from the discredited theory of monetarism combined with the experience of developing countries. The role of institutions, the backbone of economics, is quite inexplicably neglected.

Some politicians point to the abundance of goods (behind the shop windows) in Eastern Europe. Meltzer points out that domestic production did not respond to market signals of price liberalization. Many of the goods that became available were imports. The response of production was slow and weak because state-owned industries had not been

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sold and, in most European countries, no plan or program had been adopted for selling such firms. *There was market without supporting market institutions.*

The Czech government, for example, is increasingly relying on non-market forces to revive the slumped domestic production and consumption. Its state and taxes-financed propaganda project 'Czech Made' is exhorting the population to buy Czech goods and services, in blatant violation of all free-market principles and consumer sovereignty.

All statistics, now declared unreliable by the ex-communist 'reformers', show declining industrial production in all countries of Eastern Europe. The facts are much worse than the statistics can ever show: the politics, corruption and manipulation of statistical data have now clearly won over economics.

Prof. Meltzer warns against wage controls, general or selective. Yet, that is precisely what governments of Eastern Europe are doing. Wages are controlled as part of the fight against inflation, eroding the credibiltiy of reformers. The market did not even get a chance in Eastern Europe.

Wage controls are inefficient and, in general, inconsistent with control of money or exchange rates. That is perhaps why they remain so irresistible to the current political adventurers in Eastern Europe.

Clague's 'Transformation of Socialist Economies'

Christopher Clague, from the IRIS Center of the University of Maryland, has prepared a self-contained analysis proposing to draw some early lessons of experience with the transformation strategies of post-socialist economies.

Communist economic organization was highly inefficient, exploitative and without any competitive perspective. Yet, it certainly did constitute a *system*. Some four years of 'shock therapies' have not yet created anything resembling a system in Eastern Europe. There is some dysfunctional chaos of the black-market type and some day-to-day 'dousing of fires'. No strategy, no long-term view and no autonomous society has emerged. The questions are: What next? Was all this necessary? Who is responsible? Why?

All the creative mess in Eastern Europe is accompanied by widespread declines in both production and consumption. Prof. Clague seems to support the position that such output declines are inevitable. This appears to be an empirical fact because all of the transforming countries have adopted the IMF-imposed restrictive shock therapy and none (with the exception of China) chose the way of growth, investment, expansion and education. It is therefore very difficult to speculate about 'what if' some of them went the other way. With the exception of China, this IMF-induced social experiment still proceeds with no 'control', nothing to check the results against.

Considering the incredible inefficiencies and wastefulness of communism, the only direction for a well-conceived transformation strategy would have seemed to be *up*, even if economies were simply left to default. Instead of playing-it-safe by creative default, extremely aggressive and historically unprecedented interventions of monetaristic social engineering were embraced by the ex-communist governments. Again, the question is: Why?

Prof. Clague has chosen three approaches to the strategy of transition: essentially comparing evolutionary approaches à la Von Hayek with the shock therapies of the Great Leap Forward type.

The issue of rapid price liberalization, which would be unwise in any environment of state-monopolistic domination (but favored by the state monopolists), remains unresolved. One obvious outcome has been the abundance of goods and clearing of markets, but under the conditions of unprecedented declines in demand, standards of living and the incredible 'tightening of belts' for most of the population – the very opposite of the conditions in China.

Competition is far more important than freeing of basic prices for the monopolists. Prof. Clague appears to side with the price liberalization as it has been carried out.

Shortages always disappear whenever people stop or cannot afford buying. Thus, there are no shortages in Eastern Europe today. Everything is available, even the tables in overpriced restaurants. But nobody (except for some 50,000 American expatriates) is buying, locals are staying at home.

Prof. Clague remains selectively optimistic: some will make it and some won't. What about the rest of us? The majority?

Vanek's 'Political and Economic Democracy in Russia'

Professor Jaroslav Vanek, exiled Czech economist and one-time teacher of Klaus, Dlouhy, Svejnar and others, is obviously most qualified to express his views of the ongoing transformations in Eastern Europe.

Needless to say that this lifelong anti-communist, Christian and Cornell economist has been actively ostracized, ignored or villified in the post-communist Czech Republic.

Why? Prof. Vanek clearly and frankly states his opposition to the Sachs-IMF cosmopolitan prescriptions and policies which are to him professionally and morally abhorrent. Most serious economists now, belatedly, share his opposition to this value-free and human-degrading doctrine. Only a few dare to express their moral indignation as Vanek does.

According to Vanek, policies tailored to benefit the rich (i.e., ex-communists) and hurt the poor (employees, citizens) cannot work in a world where there are no entrepreneurs (save for the mafias); where almost everybody is poor and where markets have not functioned for almost one hundred years (Russia). The likes of Chile, Bolivia and sub-Saharan Africa are not and never will resemble Central Europe. The prescriptions of price liberalization, coming from a world which practices monopoly price controls, is either due to lack of intelligence or a serious moral weakness parading as 'free-market theory'.

The right solution, according to Vanek, is *democracy* – in both the economic and political macro- and micro-spheres.

Vanek comes clearly on the side of profit sharing, decision and ownership participation by employees, paying for productivity and knowledge, and so on. All these aspects of modern capitalism and Christianity are now being programmatically rejected (and even labeled as 'bolshevism') in the more virulent neo-communist countries of dispersed, atomized absentee ownership 'by the masses'. This ownership 'by the masses' (like the mass-voucher experiment in the Czech Republic) is radically disempowering the employees, diluting corporate control and hastening the transfer of traditionally national assets into the hands of the Speculative Internationale of dirty money, mafias, assorted 'Attalis' and corrupt politicians.

Vanek concludes: 'Foreign advisors from the West and in particular experts from my own country promoting democracy, in their apparent pride, do not realize how imperfect our democracy is from the point of view of OPTIMALITY'. The notion of true optimality, multidimensional, multifaceted and designing, has disappeared from human strivings.

Mertlík's 'Product Slump in Czecho-Slovakia'

Dr. Pavel Mertlík of Charles University in Prague analyzes the recession and production slump of Czecho-Slovakia during the 1991–1992 period. In the meantime, since 1993, the country of his focus was broken up by the political interests of bickering ex-communist politicians in Bohemia and Slovakia. Voting populations of both constitutive nations were not consulted, even referendum was denied to them. Czecho-Slovakia is no more and the label 'Made in Czecho-Slovakia' is gone forever.

The dismemberment of his country makes Dr. Mertlík's analysis even more poignant: economic conditions and prospects have only gotten significantly worse in both parts of the region.

A particularly vicious strain of 'shock therapy' was imposed on Czecho-Slovakia from January 1991. The result was a deep two-digit recession. During 1991 (compared with 1990) the real GDP decreased by some 16 percent, accompanied by an eerie applause from IMF and most of the Western media. However, the main recessional phase is still to come, through the wave of bankruptcies of state-owned companies. This is being artificially postponed by repeated delays in the Bankruptcy Act.

Mertlík also comments on the Czech 'miracle' of low unemployment rate in 1993: it is still measured as a ratio of the number of unemployed to the number of all population in the 'productive age' (15–60 years of age). Imagine the similar numbers of the U.S. economy! Yet, the West is applauding.

Before the start of the economic shocks in 1991, more than fifty percent of Czecho-Slovakian industries were *perfect monopolies* (only one firm in a market). This could not stop the ex-communists from liberalizing prices overnight in order to maximize benefits to their old cronies in the management structure. Mertlík cautions: 'We inherited the specific monopolies of the Centrally Planned Economy and they have now started to live their new life in the liberalized markets – with charging markups and limiting production'. One could add: '... while being applauded by the West'.

The ex-communist managers of state-owned enterprises are rapidly establishing their own private firms and organizing contracts between them and their state-owned enterprises. This is called privatization, accompanied by mass distribution of worthless shares to the population, so that no real ownership control could be exercised. Most of these mass-distributed shares (vouchers) found their way into the hands of assorted 'investment funds' (like the infamous Harvard Capital Consulting, controlling over 50 best companies), riddled with corruption, mafias, espionage and openly criminal activities.

Mertlík predicts prolonged and persisting 'privatization agony' with a combination of no real owners, helpless and passive masses of absentee holders of vouchers and a virtually free hand for the ex-communist management: 'The voucher privatization may result in a large-scale and considerably long-run institutionalization of the absentee ownership', concludes this sober and clear-thinking Czech economist.

McIntyre's 'Failed Shock Transition'

Shock therapy in Eastern Europe represents: '... squandered foundations and capricious destruction', according to Robert McIntyre, of the Institute for Policy Studies in Washington, D.C. and Bowdoin College in Maine.

The all-destructive processes now taking place all over Eastern Europe, ranging from destroying production networks and natural resources, to degrading human capital and socio-economic fiber, can only politely be called capricious. Their initial design was purposeful, their implementation is relentless and their outcomes are essentially irreversible: a clear-cutting of the economic landscape.

However, McIntyre is quite aware of this or at least suspicious. He states, in reference to German 'privatizing' *Treuhandanstalt*: 'the oceanic scale of Treuhand incompetence becomes hard to understand as anything other than deliberate'. There can be no human incompetence as vast as the one demonstrated by assorted Treuhands of Eastern Europe: it *must* be by design.

There are clearly-defined small classes or groups which obviously benefit from this 'creative' destruction: speculators, criminals, corrupt politicians, ex-communists, black marketeers, prostitutes and over-night millionaires. There are few benefits to people, workers, farmers, intelligentsia or craftsmen. The destruction of Eastern Europe *is* deliberate and its main culprits are highly visible, not so hard to identify.

No free-market civilization would voluntarily allow its most precious human and natural resources to be so exploited or degraded. Yet, many of the same civilizations actively support and finance such devastation, even at the huge costs of political and social destabilization, in the very heart of Europe.

Prof. McIntyre observes that serious public discussion of economic policy choices is now strongly discouraged by the new ruling elites. Anglo-American economic systems are themselves very remote from the jungle mentality which their self-appointed proponents advocate in Eastern Europe.

Those who want to speculate with state properties want to buy them at their lowest possible price levels: they are therefore eminently interested in further deepening their near-bankrupt status. Those with 'dirty money' to launder are eminently interested in buying through unregulated public auctions for cash. Those eminently corrupt are interested in further diluting public control of enterprises through the unprecedented voucher-based, maoistic 'privatization to the masses'.

While in America the movement 'Not for Sale at Any Price' is gaining its momentum, the same people advocate or turn the blind eye to the officially sponsored 'For Sale at Any Price' of the ex-communists in Eastern Europe. The economic and moral distortions of such double-standard policies are bound to backfire.

People who did it or supported it will be judged and brought to justice. Their failure, for sure, will not be 'just incompetence'.

Turnbull's 'Democratic Capitalism'

Shann Turnbull has undertaken to explore democracy, democratic institutions and democratic structures within a capitalistic enterprise. He argues that countries of Eastern Europe should have adopted growth-oriented, decentralized, bottom-up reforms, similar to those carried out in China and other Asian countries.

Instead, Eastern 'shock therapies' are characterized by top-down decree-oriented administrative approaches which are destroying their economies and perpetuating communist-propaganda-based politics.

Turnbull also does not see much use for the IMF and World Bank debt-oriented approaches, which are feeding corruption and inefficiency in the Third World for some forty years. Self-financing, self-reliance, self-indebtedness (if any), combined with employee-management ownership and national capitalism of the ESOP-type are much more suitable and effective approaches. The World Bank should distribute knowledge of self-financing development processes, not debts – no matter how much easier it is to make loans.

Foreign debt is not a way to reform any economy; it is a sure way into dependency and bankruptcy. It is so much easier to make money from interest alone than to produce a quality product or service. That's why some people only loan money, preferably other people's money, and never work, produce or organize a project.

Turnbull compares the self-reliant governance and financing structure of Mondragón and compares it with traditional Anglo-Saxon governance structure. Clearly, the latter is declining, unable to compete, avoid corruption or maintain employment. Alternative governance structures are emerging all over the world, many of them very successful.

Capitalism cannot keep producing so few capitalists and such masses of hirelings, non-capitalized and non-owning employees. Capitalism must produce and sustain as many capitalists as possible, ownership classes of employees and managers who are fully involved in the enterprise. Eastern Europe has just squandered an excellent opportunity of making, in a very short time, every employee a capitalist. Instead, they have masses of absentee paper-holders, hirelings, speculators and foreign mafias doing with their economies – well, what such groups usually do to and with (other people's) economies.

Democratic capitalism is not an older or declining form of capitalism, but its knowledge-era and knowledge-worker embodiment for the 21st century. The only remaining challenge: how to neutralize or remove the label of socialism, which has been so successfully slapped on national and democratic capitalism by the cosmopolitan community of absentee speculators.