

EUROPEAN REVIEW

INTERDISCIPLINARY JOURNAL OF THE ACADEMIA EUROPAEA

- * Scientific Advice Seen from the Perspective of
a Minister of Science
 - * New Uses for New Phylogenies
 - * A European Canon of Literature?
 - * Information Flow in the Nervous System
 - * The Ulysses Out-of-Ecliptic Mission
 - * Postsocialist Transition: an Overall Survey
-

FOCUS—Migration

- * Intercontinental Migration as a World
Historical Process
- * Immigration and Integration in Germany since
1945
- * Migration and Decolonization
- * European Migration at the End of History
- * The Economic Effects of Immigration

VOLUME 1 NUMBER 1
JANUARY 1993

EURREK 1(1) 1-116 (1993)
ISSN 1062-7987





EUROPEAN REVIEW

EDITOR-IN-CHIEF

Arnold Burgen
Department of Pharmacology
Tennis Court Road
University of Cambridge
Cambridge, CB2 1QJ
UK

ASSOCIATE EDITORS

Robert Cahn

Cambridge University, Department of Material Sciences and Metallurgy, Pembroke Street, Cambridge, CB2 1QZ, UK

Alexis Jacquemin

16, Avenue Ptolemee, 1180 Brussels, Belgium

Henri Korn

Institute Pasteur, Laboratoire de Neurobiologie Cellulaire, Inserm U.261, 25 rue du Dr Roux, 75015 Paris, France

Henk Wesseling

Institute for the History of European Expansion, PO Box No 9515, 2300 RA Leiden, The Netherlands

Barbara Wright

Trinity College, Department of French, Arts Building, Dublin, Ireland

AIMS AND SCOPE

The *European Review* is an *Interdisciplinary Review Journal* of the *Academia Europaea*. The contents reflect the broad range of disciplines included within the *Academia*, as well as its comprehensive European membership. The review will thus include articles covering a wide range of topics written so as to make them accessible to readers from other disciplines. Each issue will include a special section focused on a particular topic. The articles will be by authors mostly located in Europe and some will relate to specifically European questions.

The Editors welcome submissions to the Review.

ACADEMIA EUROPAEA

The *Academia Europaea* was established in 1988 to bring together scholars from across Europe, East and West, of all academic disciplines. It has already proved to be an admirable medium for tackling problems on a Europe wide basis and especially on an interdisciplinary basis—bringing together scholars from disciplines that would be unlikely to meet otherwise. It organizes symposia at annual meetings which move around Europe and which have covered subjects like the Rights of Minority Groups, the Image of Science, the Study of the Human Genome, Population Migration, and the Search for Meaning in Contemporary Life. It has also established study groups, the first of which has published its findings in a book on 'Schooling in Contemporary European Society', other studies are in progress on Psychological Problems of Youth in a Changing Europe, Energy Forecasting, Higher Education, and Risk Assessment in Relation to Atmospheric Changes.

It can be seen that the *Academia Europaea* has a wide perspective and this is reflected in its new journal the *European Review*.

The *Academia* is an independent organization based in London.

Advertising: For details contact—

U.K. and Europe: Michael J. Levermore, Advertisement Sales, John Wiley & Sons Ltd, Baffins Lane, Chichester, Sussex PO19 1UD, England (Telephone 0243 770350).

North America: Dora Castiblanco—Advertisement Supervisor, John Wiley & Sons Inc., 605 Third Avenue, NY 10158 (Telephone 212 850 6289, telex 12-7063, fax 212 850 6088).

To subscribe: *European Review: the Interdisciplinary Journal of the Academia Europaea* (ISSN 1062-7987) is published quarterly by John Wiley & Sons Ltd, Baffins Lane, Chichester, Sussex, England. 1993 subscription prices: US\$175.00, bona fide personal subscriptions to UK £47.00; elsewhere US\$85.00; members subscriptions US\$60.00. Application to mail at second class postage rate is pending at Jamaica, NY 11431. Air freight and mailing in the U.S.A. by Publications Expediting Services, Inc., 200 Meacham Avenue, Elmont, NY 11003. Orders should be addressed to: Subscriptions Department, John Wiley & Sons Ltd, Baffins Lane, Chichester, Sussex PO19 1UD, England. Copyright © 1993 by John Wiley & Sons Ltd. Typeset in the U.K. by KEYWORD Publishing Services Ltd., London. Printed and bound in Great Britain by BPCC Wheatons, Exeter. Printed on acid-free paper.

U.S.A. POSTMASTER: Send address changes to *European Review: the Interdisciplinary Journal of the Academia Europaea* c/o Publications Expediting Services Inc., 200 Meacham Avenue, Elmont, NY 11003.

| | |
|---|-----|
| Editorial | 1 |
| Scientific Advice Seen from the Perspective of a Minister of Science H. RIESENHUBER | 3 |
| New Uses for New Phylogenies P. H. HARVEY and S. NEE..... | 11 |
| A European Canon of Literature? D. FOKKEMA..... | 21 |
| Information Flow in the Nervous System A. BURGEN | 31 |
| The Ulysses Out-of-Ecliptic Mission R.-M. BONNET | 41 |
| Postsocialist Transition: an Overall Survey J. KORNAI | 53 |
| FOCUS—Migration Intercontinental Migration as a World Historical Process P. C. EMMER..... | 67 |
| Immigration and Integration in Germany since 1945 K. J. BADE | 75 |
| Migration and Decolonization J. L. MIÈGE..... | 81 |
| European Migration at the End of History D. J. VAN DE KAA | 87 |
| The Economic Effects of Immigration J. L. SIMON..... | 109 |



Postsocialist transition: an overall survey*

János Kornai

The lecture outlines a conceptual framework for the analysis of changes in those countries going through the transformation from a socialist economy to a market economy. It takes a positive predictive approach. It describes seven tendencies which are very likely to apply.

- (1) Marketization replacing the command economy.
- (2) The evolution of the private sector—a broad new middle class will develop.
- (3) Reproduction of macrodisequilibria. The inherited imbalance, namely chronic and intensive shortage will be eliminated, but inflation, budget deficit, unemployment and foreign indebtedness will remain in various configurations.
- (4) Development of a constitutional state.
- (5) Development of democratic institutions.
- (6) The redefinition of a national community—which tendency might be accompanied by severe tensions and conflicts.
- (7) Unequal increase of welfare.

Finally the paper discusses the role of academics in the process of transformation.

The flow of information on the postsocialist transition has swollen into a flood. Apart from the reports in the daily press and the media, there are hundreds of studies and books appearing and a large number of scientific conferences devoted to assessing the changes and outlining the tasks. I cannot go into all the details of particular aspects of the problem here. Instead, I would like to offer some help in processing and systematizing this great mass of information. I will outline a conceptual framework that I hope will be useful in analysing the changes.

The author is the Allie S. Freed Professor of Economics at Harvard University, Department of Economics, Cambridge, Massachusetts 02138, USA and Research Professor at the Hungarian Academy of Sciences, Hungary.

* The First Erasmus Lecture delivered at the Budapest meeting of the Academia, 17 June, 1992.

Instead of dealing with the specific situation in some country or other, I will attempt to arrive at a broad generalization, to put forward statements that apply to the postsocialist region as a whole. I will, however, refer sometimes to the Hungarian experience as an example.

I have taken into consideration the fact that this paper is not addressed to people who specialize in studying the issues of the postsocialist transition, but instead a broader audience of intellectuals, of any profession, who are taking part in the transformation of Eastern Europe, or are at least interested in it.

There are various possible kinds of approach, of which three are particularly worth mentioning. One is to conduct a methodical survey of the desires, hopes and expectations. Another approach

is to summarize the suggestions put to politicians and governments, endorsing some proposals and arguing for the rejection of others.* Finally, there is a third kind of approach that represents an attempt to process the experiences with the transition so far and on that basis arrive at a prediction. I will try to take this third, positive-predictive approach. Rather than explain what kind of future Eastern Europe I would like to see, I will examine how it is likely to be according to my conjectures, irrespective of whether I am pleased with that image of the future or not.

I do not have a crystal ball for foretelling the future. The prognosis draws on three kinds of source of experience. There are three countries that are ahead in the postsocialist transition: Hungary, Poland and Czechoslovakia. Many elements in the processes taking place in them will certainly appear in other countries as well. Important knowledge can also be gained from the recent history of Spain, Portugal and certain Latin American countries. I am referring here to countries that never had a socialist system, so that the economy did not alter radically, but they did undergo a profound political transformation, because dictatorship was replaced by democracy. Finally, there are some notable lessons to be drawn from the more distant past as well, from the period when the capitalist market economy was developing in the framework of the pre-capitalist society and economy.

A high degree of caution is advisable; the most that should be attempted is stochastic prediction. Several alternative outcomes are possible for each process, and great courage is needed even to make statements about the relative likelihoods of the alternatives.

This paper describes seven tendencies, advancing the prediction that these tendencies are very likely to apply. The word 'tendency' conveys that we are dealing here with the flows and directions of movements in society and the inner propensities, inclinations and trends among those taking part in the process, not with absolute

certainties that can be determined in detail beforehand.

Seven tendencies

Tendency No. 1: Marketization

Under the socialist system, the integration of economic activity was mainly supplied by the mechanism of bureaucratic coordination.³ The most important means of coordination is the command. A superior authority gives an order to a subordinate leader to carry out a certain task, and not only provides a material and moral incentive to perform it, but uses administrative compulsion if need be.

There also exists a market mechanism within the socialist system, but in the period before the reforms it is confined to a very narrow field and largely operates underground. Later, but before the great political change, somewhat wider scope is opened up for the market by the reforms.

The marketization tendency speeds up to a radical extent after the political change and becomes irresistible. The command economy is wound up, at a stroke in some countries and by degrees in others. Sooner or later, at a faster or slower pace, the prices hitherto set by the state are freed. Bureaucratic allocation of products and resources is replaced by voluntary commercial contracts between producers and users, buyers and sellers. Competition develops, including competition between domestic production and, more or less, liberalized imports.

A variety of yardsticks can be used for measuring how far marketization has gone. One of the most expressive measures expresses the proportion of GDP traded at free prices. Once this part of goods turnover has become dominant, once it accounts for an overwhelming proportion of turnover as a whole, the economy concerned can rightly be called a true market economy, at least in this respect. Now, by this measure Hungary can already be classed as a market economy. It can be predicted that the tendency towards marketization will apply strongly in all the postsocialist countries.

But, let no one think that we are witnessing a triumphant advance towards perfect competition. (So-called 'perfect competition' is not

* I summed up my own economic-policy proposals at the beginning of the postsocialist transition: my book¹ was the first to appear in this field. I will not return to my earlier proposals in this paper, my exclusive aim being a prediction of future development. An excellent summary of the normative literature and also of the practical experience gained in the first two years can be found in the report of the UN Economic Commission for Europe.²

characteristic of most of the markets of the developed capitalist countries either, come to that.) Large state-owned monopolies remain for a long time, and new monopolies emerge alongside them (or out of them, where state-owned monopoly firms are privatized). Foreign investors often move in with the express intention of gaining a monopoly position. Free competition is still curbed by numerous economic and administrative factors, even where the curbs are economically undesirable.

The state in the new democracies cannot find its rightful place. It is hyperactive when there is no reason to be so and passive in areas where there is a great need for state regulation or control, or occasional or constant state intervention.

Marketization relates closely to another phenomenon: the transformation of property relations.

Tendency No. 2: The evolution of the private sector

There cannot be a smoothly operating market without a predominance of private ownership. By definition, it is an indispensable feature of the market that the actors in it make voluntary contracts with each other. But that requires real autonomy, in other words decision-makers not acting on the instructions of the authorities. This independence can only be guaranteed by private ownership.

A warning about this connection was given by Ludwig von Mises long before the socialist system was actually applied. This idea was later brought up very emphatically in the work of Friedrich von Hayek.^{4,5} Despite the admonishing signs, there developed an influential intellectual trend bent on implementing 'market socialism', whose guiding principle can be summed up like this: 'let us combine the state ownership and the market mechanism'. An attempt to apply the concept was made in socialist countries that took the road of reform, for instance in Hungarian practice under János Kádár or later in the Soviet Union under Mikhail Gorbachev's leadership.

The reforms inspired by the ideas of market socialism failed to live up to their advocates' expectations. They certainly helped to loosen the old Stalinist system and prepared many participants in the economy for accepting the mentality

of a true market economy, but they did not achieve their purpose, which was far more ambitious than that. There was no creation of a kind of 'Third System' that would prove its economic superiority over Stalinist socialism and modern capitalism alike, and be capable of stabilizing and standing on its own feet.

The ideas of 'market socialism' have not disappeared and must be expected to revive over and over again. But I can add that even if these ideas gain influence once more, they are only doomed to failure again.

A further prediction: the postsocialist countries will be marked for a long time to come by a dual economy. The state and the private sectors will exist side by side.

One of the most important factors deciding the pace is the enterprise developing in the private sector. A swift evolution has started among the small and medium-sized firms. The growth of the private sector is extremely fast in the services, domestic and foreign trade, building construction and the financial sphere, but the weight of the private sector also grows in manufacturing.

Depending on the size of the country concerned, there are tens or hundreds of thousands of 'start-ups' of new private enterprises. We see the emergence of *large* domestic investors, rarely to start with and then more frequently—investors who draw on the domestic accumulation that has taken place already. A broad new middle class develops, in a society from which the socialist system had almost eliminated the middle class and halted, or reversed, the process of embourgeoisement. This new middle class includes a new 'business class' of entrepreneurs, owners and managers, a broad stratum of 'burghers'.

This process is accompanied throughout and reinforced by the influx of foreign capital, which in many cases involves big reputed firms and banks and multinational corporations. The new 'business class' becomes involved from the outset with economic life outside the national borders.

The private sector that develops in this way presents, even today, a very varied picture. Side by side and mixed up and entangled with each other, we can find small, medium-sized and large firms, backward, 'Balkan-style' workshops and modern super-factories, legally, semi-legally and quite illegally operating enterprises. The process taking place can be compared most closely to some

kind of cellular proliferation or the growth, at lightning speed, of a thousand-and-one kinds of vegetation in the jungle.

Meanwhile the shrinking of the state sector continues until it reaches the modest scale customary in the developed capitalist countries. The shrinkage takes place in various forms. Some of the state sector passes into private hands, either in its original form or after reorganization. This change of ownership may take place through the sale by the state of its property or through free distribution of it to specific groups in the population (for instance, to employees in the firm concerned, to those taking part in schemes to compensate them for property previously confiscated, or to all citizens who join in a campaign of almost gratis privatization). The various privatization schemes may be used side by side or in combination.

However, the contraction of the state sector takes place in other ways besides 'privatization' in the strict sense. Some state-owned firms close down; others remain, but on a permanently reduced scale, with some parts being sold or wound up. 'Decapitalization' takes place in many firms as they gradually use up a substantial part of their assets. We are faced with another phenomenon as well: the theft of some of the state's wealth, particularly its 'intellectual assets', human capital, and its valuable business network and goodwill, which, in most cases informally, exploits the gaps in the provisions of the law. The dwindling of the state sector takes place slowly, accompanied by much loss and human suffering, and in more than one respect in a quite shameful way. Meanwhile, the surviving section of the state sector operates with very low efficiency. It is to be hoped, but by no means certain, that after a while the remains of the state sector will improve its efficiency under the pressure of the private economy around it.

Two kinds of calculation can be made on the basis of what has been said. One refers to the pace of privatization in the strict sense: the proportion of the initial state sector that passes annually into private hands. This process is likely to last for a long time. But there is another calculation that has a broader basis, and in my view, a much greater importance. Having measured the growth of the private sector, including both the new 'start-up' undertakings and the privatized ex-state-owned organizations, we then compare the private sector

with the contraction of the state sector, by whatever means this contraction has taken place—privatization, liquidation, decline in production or expropriation of assets. These two processes, with their opposite signs, can lead together, after a few years, to the weight of the private sector becoming greater than that of the state-owned sector. It is conceivable, for instance, that the private sector in Hungary will attain predominance in the next few years. In other countries the pace will be different, but the length of the period of history required for development of the private-enterprise economy will primarily depend everywhere on the dynamics of these two processes in relation to each other.

Governments can do much to speed up these processes or, on the other hand, to make the transformation of property relations slower and more painful through their clumsiness or incompetence. But ultimately it is most unlikely that any government policy blunder can 'block' the change of ownership. The strength of capitalist development derives not least from the fact that, fundamentally, it takes place of its own accord, not by state command.*

Tendency No. 3: Reproduction of the macro disequilibria

The new regime after the political turning point inherits serious macro imbalances from its predecessor. The following four kinds of disequilibrium appear most of all: chronic shortage, open or repressed inflation, budgetary deficit, and foreign debt. Of the four problems listed, two or three, or perhaps even all four may be afflicting the structure of the economy at once, reinforcing each other. (An analysis of the macro situation of the Eastern European region and a broad survey of the literature on the problem appear in the United Nations survey mentioned before.²)

The macro disturbances in certain of the

* There is a debate taking place among the economists and sociologists dealing with the postsocialist transition over the nature of marketization and the processes transforming property relations. For my part I agree with those who stress that a profound transformation of society in the area of coordination mechanisms and property forms cannot be brought about at a stroke, by aggressive state measures, that they necessarily take place as an integral development by evolutionary means. Similar views can be found in the writings of P. Murrell⁶ and K. Poznanski.⁷

postsocialist countries are so grave that there is no choice but to introduce a package of concurrent stabilization measures that causes a severe jolt in society. The government in other countries can choose between a more radical and swift or a gradual, slower stabilization strategy; the latter is usually chosen, for fear of political resistance.

Most experts would agree with the following forecast.

There are good prospects of overcoming one of the most painful symptoms of the socialist system—chronic and general shortage. The remedy for this is reached by a combination of a whole range of measures: the swift growth of the private sector, free enterprise and import liberalization allow the excess demand to be satisfied quickly from the supply side. At the same time, demand is curbed by the freeing of prices, restrictive monetary policy, stronger financial discipline, and perhaps controls on wage rises. It can already be said of Hungary, for instance, that it can no longer qualify as a chronic shortage economy; at most there are partial shortages in one segment or other. Many other countries in the region have yet to reach this stage, but they are all likely to be able to overcome the shortage economy in the not-too-distant future.

There is far more reason for pessimism over inflation and the main factor inducing it, the budgetary deficit. Halting or even radically reducing inflation requires dramatic measures: a tough cut in public spending, restriction of credit, and a brake on the growth of nominal incomes. It may be possible to achieve temporary results and to cut back the rate of inflation substantially, but this is usually accompanied by a fall in production, associated with the appearance and steady increases of unemployment. As a consequence, there is constantly renewed pressure on monetary and fiscal policy-makers to take measures to combat the recession, restart growth and relieve unemployment, but these can generate inflation again. So there remains a constant danger that the inflation which has once been slowed or halted altogether will accelerate again and again.

If the government, on the other hand, should issue bonds instead of financing the budget deficit by inflationary means, i.e. by printing money, it can squeeze private investors out of the credit market, which postpones the recovery from the recession. There is another source open—to

finance the budget debt with foreign loans—but that increases the foreign debt.

The problem of unemployment has already been touched on several times. Whatever other grave difficulties the previous system occasioned, it did manage to sustain full employment, and in fact there was a permanent shortage of labour. One of the most painful concomitants of the change of economic system is the alteration that takes place on the labour market: excess demand turns into excess supply—labour shortage into unemployment. This is the combined consequence of various factors. As I have mentioned, a fall in production can be caused by the anti-inflationary policy. A cut or a complete halt in production at many factories is evoked by the adjustment to the structure of domestic demand, coupled with the realignment of foreign trade, induced partly by the collapse of Comecon, the organization that chained the socialist countries together. Privatization, and the stronger profitability demands made on the state sector, oblige managers to tackle unemployment on the job by showing the door to a high proportion of their workforce. Each of these factors can lead separately to unemployment, which is then exacerbated by the spillover effects. A production fall in one place produces a simultaneous fall in demand that leads to a further fall in production at another point, and so on.

Two predictions can be made from what has been said. One is that the chronic labour shortage ceases and a measure of structural unemployment consolidates as a result of the transformation of the economic structure. The other is that an extended recession must be expected, and this is likely to result for several years in a level of unemployment higher than the future long-term average, the 'normal' unemployment rate.

Economic policy-makers in the advanced industrial countries are repeatedly faced with a difficult dilemma during the fluctuations in the business cycle: efforts to tackle unemployment can generate inflation, while the suppression of inflation can raise unemployment. This is still a grave problem even if the rate of inflation is relatively low when it arises. The postsocialist countries are afflicted by the same problem, but under far less favourable circumstances, because the economy, even at the point of departure—the time of the political turning point—suffers from grave open or repressed inflation. Society is caught in some very

cruel traps: whichever of its grave problems it tries to resolve, it may exacerbate the others. So, the prospects for macroeconomic stability and equilibrium are not favourable. There is a danger of governments being deterred even further from the requisite tough, consistent policy that requires sacrifices from society, by the tensions within that society, which, in fact, derive precisely from its economic problems. Governments are more likely to prefer a policy of 'muddling through', deferring measures to resolve the problems. That means the macro-disequilibria will continue to afflict society for a long time to come.

Tendency No. 4: Development of a constitutional state

A market economy based on the predominance of private ownership cannot operate without a requisite legal infrastructure. The safety of private property must be guaranteed, the observance of private contracts enforced, and enterprises and citizens protected from arbitrary interference from the bureaucracy. At the same time, many segments of the economy need state supervision or regulation, particularly in fields where the application of private contracts and the activity of private enterprise have external effects that go beyond the parties directly involved in the transactions. The state has numerous tasks of this kind, ranging from supervision of banks and insurance institutions, through enforcement of anti-monopoly legislation, to protection of the environment.

There seem to be grounds for the following forecast: the legal infrastructure of a modern market economy will undoubtedly be erected in the postsocialist countries, because the transforming economy demands it. But the process will be quite protracted. In analysing this phenomenon, a distinction can be drawn between three levels of state activity.

The first is legislation. This also promises to be a lengthy process. Dozens of earlier pieces of legislation must be replaced with new ones under circumstances in which lawyers versed in the regulation of a modern market economy are still only emerging, and the members of parliament themselves are inexperienced in the job of being legislators in a constitutional state. But, in spite of

these difficulties, the lion's share of this task can be undertaken within a few years.

The second level is enforcement of the law. This promises to be even harder. Judges, prosecutors, attorneys and company legal advisers must relearn their trades. Those dealing with commercial justice and litigation are already overstretched; the protraction of trials and civil proceedings undermines respect for the law and contracts.

The third and final level is the alteration of the mentality of citizens. This may prove to be the hardest and most protracted task of all. The previous illegitimate system destroyed people's honest respect for the law; instead they were influenced only by fear of erratic repression. Respect for private contracts was similarly lacking; it was considered almost natural in economic life not to keep one's word or pay debts. Those who cleverly circumvented some regulation or other were really admired, since that was one way of surviving. It will be a long time before public morality improves in this respect, before a stage is reached where a breach of the regulations, betrayal of public trust, tax evasion, business dishonesty or corruption is condemned.

Tendency No. 5: Development of democratic institutions

Everyone is familiar with the superficial slogans that present the connection between the market economy and democracy in simplistic terms, whereas in fact the interaction between them is quite complex. I would like to present three observations.

First observation. One necessary condition for a transition from the socialist system to a market economy based on private ownership is the elimination of the communist party's political monopoly. This concerns a special version of the one-party system, not totalitarian or autocratic political forms in general. It is a system in which the ruling party that enjoys a monopoly of power puts forward an anti-capitalist ideology and programme. Its anti-capitalism is not some kind of secondary or tertiary element in the ideology and programme, but an embodiment of its prime purpose. Let me quote the testimony of an authoritative source, the *Communist Manifesto*: 'The theory of the Communists may be summed

up in the single sentence: Abolition of private property'.⁸ This is the simple explanation why all the reforms before 1989–1990 were incomplete and inconsistent. The fundamental condition required for building up a market economy based on private property was provided by the abolition of the communist party's political monopoly. Once that condition was fulfilled, removing the main obstacle in the path of the transition towards a market economy, the process of transformation began with full assurance in an inescapable way. (See the remarks under Tendencies Nos. 1 and 2 in my line of argument.) It is worth considering this connection when analysing the prospects for Chinese reform. The reform process there may yield results, but will sooner or later come up against the main obstacle, the sole rule of the communist party. The private sector will need political representation. It would be logically and historically absurd to presume that the establishment of capitalism could be completed successfully under communist-party leadership.

Abolition of the communist party's monopoly opens the way for the development of democratic institutions: rivalry between parties, free elections, creation of a parliament with real power, government based on a parliamentary majority, and so on. But the full development, maturity and stabilization of the democratic institutions is not guaranteed by the elimination of the sole rule of the communist party. I will return to this question in a moment.

Second observation. All parliamentary democracies are market economies based on private ownership. There are no exceptions to this. No parliamentary democracy without a market economy based on private ownership exists. However, the economies of the various parliamentary democracies may still differ from each other in many respects. The public sector, for instance, may be greater in one than in another, but in none of them does the public sector become the economy's dominant, preponderant sector. The role of state-controlled redistribution may be greater in one than the other, but in all of them the market remains the main coordinator and integrator of economic activity.

For the democratic institutions to be stable, there must be guarantees of individual freedom and autonomy. Among the most important of these are the right to own private property and the defence

of private contracts. Where the state sector predominates or achieves an almost exclusive role, the individual employee loses the chances of 'exit', since in the last resort there is only one employer: the state. Comprehensive state ownership inevitably leads to a totalitarian political system.

But what is the position with the opposite statement? Is every market economy based on private ownership a democracy? That is clearly not true.

Third observation. Not all market economies based on private ownership are democracies. This economic form is compatible with many versions of dictatorship and other autocratic forms. You only have to think of Hitler's Reich, the Latin American military dictatorships, or South Korea in the early decades after the Second World War. In fact some dictatorships can be combined with very efficient and fast-growing economies.

The consequent argument is quite frequently advanced in the postsocialist region (if not in print, at least in private conversation).

It would be expressly advantageous for the transition from the socialist system to a capitalist market economy to be guided by an autocratic political regime. The transition is accompanied by anarchy, and so there is a need for 'law and order', which can only be provided by a stern government. The transition brings about social tensions, but for the success of the transition it is important not to flinch from an economic policy that demands sacrifices. This is another argument in favour of a tough administration that can break any resistance on the part of the masses by force. The paragon for those advancing this view is the Chile of Pinochet.

I do not want to deny that there is an element of rationality in this argument. Particularly at a time of great revolutionary social transformation, there can exist a trade-off between the rate of growth on the one hand and the spread of democracy on the other. It is not certain that this trade-off exists under all circumstances; let us hope that as few countries in the Eastern European region as possible are confronted by this bitter choice as rarely as possible, but the dilemma cannot be ignored. Let me make a personal confession here. If I had to make such a choice, I would opt for democracy, not just its present achievements, but further development of it, even if the price to be paid were economic achievements. A situation

may arise in which we all have to face up to this choice between basic values, and it is advisable to think out one's position on it in advance.

After the detour, let us return from a normative to a predictive approach. I have not put forward the last four tendencies without reservations or with full confidence, but at this point I must express further reservations. Although there may be an unimpeded advance by some country or other towards the fulfilment of democracy, there is no excluding the possibility that the institutions of democracy will be smothered, that some partially or totally autocratic regimes will arise and dictatorships come into being. The longer the social tensions last and the sharper they become, the greater danger there is of this happening. Believers in democracy within every postsocialist country must be vigilant in defending democracy, and so must the international community.

Tendency No. 6: The redefinition of a national community

The national problem is stifled under the socialist regime. The problem existed under the old system as well, but it was never debated frankly and openly. At most it began to break out here and there as the dictatorship loosened up, but even then people could only half-express their opinions.

The communist system collapsed in Eastern Europe in 1989–1990, and most importantly of all in this respect, the Soviet Union first weakened substantially and then broke up. The first things to underline in this connection are the achievements. It is a fine and elevating experience to know that the national sovereignty of the Eastern European countries and the states of the former Soviet Union has been restored. After almost half a century of occupation, first by the Germans and then by the Soviets, there are now no foreign troops stationed in a number of sovereign states. (However, it must immediately be added that there are exceptions to this. There are still sizeable foreign forces stationed in the Baltic states, under the military control of the Commonwealth of Independent States, which took over some of the Soviet Union's functions. The frontiers of newly-formed states have become questionable during the warfare in the former territory of Yugoslavia. Taking the original borders as given,

there are foreign occupation forces inside several new states that consider themselves sovereign.)

The new situation which has emerged has several implications. Here, I will mention only the economic effects. Mutually conflicting tendencies can be observed in the advanced industrial countries and the postsocialist region. (For brevity's sake, although clearly inaccurately from the geographical point of view, let us call the OECD countries the West and the postsocialist countries the East.) In the West there has been a steady strengthening of the centripetal forces. The national economies are developing in the direction of community, harmonization and integration. The movement of goods, capital, money, labour and knowledge across the old state borders is becoming freer and freer. In the East, on the other hand, there has been a sudden and extraordinary increase in the centrifugal forces. Earlier larger, supra-national units have fallen apart; a movement can be seen in the direction of fragmentation and isolation. New, guarded state borders forming economic barriers exist where they never ran or had little validity before.

Assessing the latter tendency from a strictly economic point of view, there is cause for sadness. According to the criteria of a technocrat or an economist, large-scale integration is more efficient than fragmentation, disintegration and small national economies that reduce co-operation and more or less isolate themselves from each other. Like almost every other obstacle to the free allocation of resources, the new situation that is emerging will presumably reduce the efficiency with which economic resources are utilized.

But this paper is not intended to comment on the changes from this point of view. Its aim is to formulate predictions, not proposals. So, the main thing is to understand the changes going on around us.

It seems to be inevitable that the national communities should redefine themselves first. Only then can come the development of supranational units, or accessions to the ones that already exist. Accession to a supranational organization (whether a monetary union, a customs union, a scheme for free movement of labour and/or capital, or a fuller scheme of integration) can only take place voluntarily, after the legitimate government of some state knows it has the support of its own people. It would be a great mistake to

impose from outside centripetal forces and integration schemes of various degrees and types on any country that is only now beginning to feel it is truly sovereign.^{9,10} Think back over the history of recent decades. On the one hand, Comecon collapsed because it was imposed on the other Eastern European countries by the Soviet Union; the Soviet Union and Yugoslavia have fallen apart because in many respects they were artificial creations thrust with merciless oppression upon smaller communities that yearned for sovereignty. On the other hand, the European Economic Community has consolidated and managed to progress towards an even more comprehensive form of integration because it developed steadily and integrally from the very outset, with the legitimate governments of sovereign states relinquishing components of their sovereignty step by step and voluntarily.

It follows from what has been said that the tendency to separation and fragmentation will continue for a long time, and the tendency towards regional co-operation remain weak despite the rational economic arguments in its favour. But, within this general prediction, a variety of scenarios can be envisaged. The most favourable is for the mutual separations, divorces and exclusion to take place peacefully by civilized agreement. The most forbidding prospect is of local wars to redraw the maps. Even when there is no war, interstate tensions may be perpetuated by passionate debates between neighbouring countries, and protests at the inequitable treatment of national minorities in a neighbouring state eliciting heated rejection of such criticism and jealous concern for sovereignty. These phenomena, very familiar from the history of the Eastern European region down the centuries, will conserve the mutual distrust and undermine the chances for regional co-operation.

It would be desirable, in my view, for 'Europeanization' of the postsocialist Eastern European countries to speed up. This meeting of the Academia Europaea provides an excellent platform for me to put forward this opinion. I know I am not alone in it either among my compatriots or citizens of other Eastern European countries. This desire is shared also by many Western business people and politicians. But if I concentrate, in line with the general nature of this paper, on prediction rather than aspirations, I must say that I do not expect swift progress to be made.

There are objective difficulties. The European Community has a great variety of norms, ranging from legal regulation of economic activity to quality standards, customs tariffs and tax rates. It will be a long time before the legal system and economic activity of any postsocialist country can be harmonized with the European norms in every respect.

At the same time it must be clearly seen that there is appreciable resistance, undiscernible in the official public rhetoric, but apparent in veiled forms, cant and the application of brakes on real changes. Eastern Europe contains influential groups that stir up feeling against anti-national 'Westernization', spread doubts about 'foreign' capital, and appeal to national sentiment when international organizations make strict demands on the economic performance of particular countries. The antagonism is common in Western circles as well. Who wants free movement of labour across state borders if it entails raising the barriers to new migrations of peoples? The business world looks kindly on Eastern exports if they prove to be profitable, but is not keen to open its markets to imports from the East.

This all explains why I expect the progress towards 'Europeanization', organic integration into the European Community and its institutions on a basis of equal rights, to be sluggish.

Tendency No. 7: An unequal increase in welfare

How do the tendencies discussed so far affect human beings? The previous system produced a low standard of living. People suffered under chronic shortages. But these aspects were combined with full employment and a modest measure of social and economic security. Society was marked by a certain degree of equality. The privileged stratum was fairly narrow. Even if the other people did not all live in the same way, their material standard of living was confined within a range of grey mediocrity.

Now that the postsocialist society is being shifted out of its previous state by a great transformation, the average level of material welfare is likely to improve. But this does not occur right away; for a good while the economic problems discussed under Tendency No. 3 will tend to produce

stagnation or an absolute fall in the average material consumption of the public. All this, however, refers only to the average, which is a statistical category that the individual does not perceive as a direct experience.

Some people are already among the financial winners at the beginning of the transition. This applies to quite a broad stratum of society, particularly those whose activity as an owner, manager, or in many cases even as a simple employee, is tied to a private business. It must be added that a smaller group within this stratum becomes conspicuously rich very rapidly. Meanwhile, the living standards of very large bodies of people decline, in some cases slowly and to a small extent, and in others sharply and to a large extent.

The market economy is a system in which individuals' lives depend far more on individual performance and luck that they do under the socialist system. At the same time, a far smaller effect on individuals' lives is exerted by the state, which undertook a paternalist role under the socialist system. All those who judge the change of system decide according to their own systems of values whether the dramatic rise of the individuals' role and the fall of the state's role in deciding the fate of individuals is an advantage or a drawback, but as a tendency this alteration will certainly apply. This entails a far wider spread in the distribution of material prosperity, and is accompanied by a growth of inequality.

Every government and political party in the region underlines the need to maintain the social safety net or, where it has yet to develop, to create one. Some components of this system, such as a national health service and an unemployment-benefit scheme, already function in most post-socialist countries. But, it must be admitted that the net has plenty of holes in it. There is certainly no question of the socialist system bequeathing a mature welfare state. They are inconsistent, distorted, 'premature' welfare states that have committed themselves in their inherited legal systems to welfare tasks they are incapable of fulfilling to an adequate standard owing to their low level of economic development. The system of old-age pensions is very extensive, but the living standard provided by most of the pensions is one of penury; everyone is entitled to free medical care, but the health service is seriously backward. In the

Scandinavian countries, where the most highly developed form of welfare state can be found, a start was made to organize such institutions and legally enacting the state's welfare obligations only *after* several decades of unbroken economic development.¹¹ Fulfilment of the welfare tasks undertaken by the state in the post-socialist region, amidst recession, inflation and high foreign debt—in other words macro-disequilibrium, promises to pose a grave and persistent problem.

For all these reasons, deep dissatisfaction among broad strata of people over the stagnating or falling material standard of living, and the unemployment and social insecurity suddenly falling on them, must be expected for a long time to come. It will be hard under the circumstances to ask people to make further sacrifices. That is another reason why the rectification of the macro-disequilibria will be protracted, not to mention the dangers the discontent poses from the point of view of maintaining democracy.

Summarizing remarks on the tendencies of change

I have listed seven tendencies; these do not cover the sum total of the changes to be expected, but they do single out the ones I consider most important. As I stressed in the introduction, I have not devised fatalistic prophecies. I have outlined alternative solutions and dilemmas of choice and then said which choice I take to be most likely (which is different from saying which I would most like to see). Nor is the pace of the changes predetermined. The most one can say with much certainty is that the transformation will take a long time, requiring a complete period of history. If for no other reason, fatalism would be unjustified because the factors on which the direction and pace of change depend can clearly be seen in the following.

- They depend on the wisdom or stupidity, efficiency or incapacity of governments. Erasmus advised rulers and other officials to 'avoid such bad counsellors as ambition, wrath, greed and flattery'.¹² It remains to be seen how far they can resist these temptations.
- They depend on the opposition forces, on whether these are destructive and want to gain

power through populist demagoguery, or whether they are moderate and constructive.

- They depend on the social environment provided by the general public, whether they are disciplined and capable of making long-lasting sacrifices.
- They depend on help from the outside world, the scope of it and the forms it takes.

So, am I an optimist or a pessimist? As far as the immediate years ahead are concerned I am neither. There are too many uncertainties for it to be possible to say which combination of phenomena will arise out of the combined result of the seven tendencies listed in this lecture. In some countries the conditions will be bearable for the vast majority, and for a smaller group of people increasingly favourable, so bringing a chance there for a steady general improvement. In other countries, however, severe upheavals or even social explosions may occur.

In the long term, I am decidedly optimistic. The system that ultimately forms will not be a 'good society'. It will be full of shortcomings and display some repellent characteristics as well, but it will still be superior to the earlier socialist system, in its material achievements and safeguards for human rights. I am a long-term optimist because there are very strong spontaneous internal tendencies to guide the changes in this favourable direction even if the governance may not be in the best hands.

The role of academics

This paper is not addressed to governments; this would not be the appropriate forum for the purpose. I would like to add, in conclusion, a few words about the responsibility of academics.

Our Western colleagues are in a position to give practical help to the Eastern academic world in teaching and research. Invitations and scholarships to Eastern colleagues, acceptance of guest professorships in the postsocialist region, transfer of experience through joint research, books, periodicals and equipment donated to institutions in the East—these are a few of the many possible forms of support. We have already received much assistance, but even if it were multiplied several times over, it would still fall short of the requirements.

Both Western and Eastern academics often serve as advisers, to governments, parties, movements, federations representing specific interests, international organizations and the business world. This activity is greatly needed, but there may be no harm in my adding a warning. We must try to put forward our recommendations with due modesty. What if the idea we favour is inapplicable? What if it is inadequately adapted to local circumstances with which we are insufficiently familiar? Let us not be aggressive, pushing our own ideas through at all costs, for that may rebound by discrediting the work of advisers as a whole. Let us draw inspiration from Erasmus; it is good to retain a little irony about ourselves.

The role sometimes assigned to us by circumstances is one of a mediator rather than an adviser; our task is to try and reconcile conflicting ideas or social and political forces. Again there is inspiration to be gained from the ideas in Erasmus's work: let us try to argue for rationality, sense and moderation. Let us not shrink from the risk he took: those intruding with quiet words of sense between the rancorous shouts of antagonists may find themselves rejected and branded as heretics by both sides. Yet we must undertake to voice the conscience of society, issuing words of warning if human liberties are infringed, the young institutions of democracy attacked, and intelligence and patience overridden by passion.

I am convinced that we all—we members of the Academia Europaea and the whole European academic world alongside us—will take part in the work of making the postsocialist transition as peaceful and as free of pain as possible.

REFERENCES

1. J. Kornai (1990) *The Road to a Free Economy. Shifting from a Socialist System: The Example of Hungary*. New York: W. W. Norton [1989].
2. United Nations Economic Commission for Europe (1992) *Economic Survey of Europe in 1991–1992*. New York.
3. J. Kornai (1992) *The Socialist System. The Political Economy of Communism*. Princeton: Princeton University Press and Oxford: Oxford University Press.
4. L. von Mises (1920) Economic calculations in the socialist commonwealth. In *Collectivist Economic Planning*. Edited by F. A. Hayek. London: Routledge and Kegan Paul, 1935, 87–130.

5. F. A. Hayek (Ed) (1935) *Collectivist Economic Planning*. London: Routledge and Kegan Paul.
6. P. Murrell (1992) Evolutionary and radical approaches to economic reform. *Economics of Planning*, 25 (1), 79–95.
7. K. Poznanski (1992) Market alternative to state activism in restoring the capitalist economy. *Economics of Planning*, 25 (1), 55–77.
8. K. Marx and F. Engels (1988) Manifesto of the Communist Party. In *Karl Marx and Frederick Engels. Selected Works*. Moscow: Progress Publishers (1970), 35–63.
9. I. Illés, K. Mizsei and I. Szegvári (1991) Válaszúton a közép-európai gazdasági együttműködés (Central-European economic cooperation at the crossroads), *Európa Fórum*, 1 (2), 28–42.
10. P. B. Kenen (1991) Transitional arrangements for trade and payments among the CMEA countries. *IMF Staff Papers*, 38 (2), 235–267.
11. A. Lindbeck (1990) The Swedish experience. *Seminar Paper*, Dec. 1990, no. 482, Institute for International Economic Studies, Stockholm University.
12. D. Erasmus (1510) *Institutio Principis Christiani* (The Education of the Christian Prince).

Author's biography:

János Kornai is Professor of Economics at the Hungarian Academy of Sciences and Harvard University. He is a Foreign Member of the Royal Swedish Academy and Finnish Academy of Sciences, and a Corresponding Member of the British Academy. He is a former President of the European Economic Association. His recent books are 'Contradictions and Dilemmas', and 'Growth, Shortage and Efficiency; Non price control'.