The future of mass consumption society in the former planned economies: a macro approach.

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by

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Introduction

It is a generally accepted proposition among the majority of the economic profession, of politicians, historians and political scientists that a future of mass consumption societies of western type for the former communist countries is only a problem of continuing and implementing the right economic policies and that higher living standards for these populations will be a reality in the next coming years. It is a fact that the desire for products of western quality and performance is enormous in these countries, limited only by the ability to pay. Many think that over time, as the economies return fully to "normal market conditions and growth", the ability to pay will improve, offering to western enterprises the prospect of economies ready to duplicate the postwar pattern of growth of the West, with a dramatic increase in the consumption of consumer goods and opportunities for profits unmatched in saturated home markets. The kernel of this vision is the assumption that the transformation process of the former planned economies resembles quite closely other recent historical and economical phenomena like the reconstruction of the European economies after world war two, the reform process of Latin American countries in the eighties or of fascist Spain and Portugal in the seventies, all different instances of the same problem: the need of increasing the efficiency of economic systems which for different reasons have been hampered in their working by state controls, bureaucracy and inefficient markets (see M. Bruno 1993, L. C. Bresser Pereira, J, M. Maravall, A. Przeworski 1993, Temin 1990 who is the most astonishing example of historical blindness equating the nazi and the soviet economies).

Planned economies however have been totally different social and economic machineries that cannot be compared either to other authoritarian economic systems or to the post world war two defeated European countries who experienced deep economic reforms having already a capitalist structure, with private property, financial markets, entrepreneurs, institutions geared to private capital accumulation,
distorted only in some way or another by the authoritarian regimes which had ruled these countries.

The differences are not only quantitative but qualitative and ontological, so to speak. The process of change of these capitalist countries was called reform process and not transformation for the reason that they had not to build from scratch a capitalist economy; the ruling classes of these countries had only the task of freeing an existent capitalist economy from controls, excessive state intervention, together with a macrostabilization plan - the Dodge plan in Japan, the Herard measures in Germany, the Einaudi deflationary process in Italy. The need of a stabilization plan is the only feature the ex communist countries have in common with the above mentioned experiences.

In eastern countries the new rulers had to dismantle not only simple controls, but the entire servo-mechanism that for better or worse had been the coordination instrument of their economies: the planning machinery. They had to go through a painful redistribution of the entire stock of national wealth: plants, stores, houses, buildings and land. A redistribution therefore not only of income but of wealth on a scale never seen before in the history of any economic system. This process had the goal of creating the new class of private enterpreneurs, the middle class, taking however into account the egalitarian legacy of the communist regime (Scopfli 1993). This process, which is now at the very beginning in a catastrofi c economic enviroment for many eastern countries, is bound to create for years to come huge economic and social problems for these economies. It is this very feature that makes the transformation of these economies impossible to compare with other experiences of reform, and makes this economic process similar to an experiment of anthropological change on a very large scale.

The theoretical architects of the transformation process have been led by this false analogy, applying, at best, macro economic policies based on the previous experiences, without considering the peculiarities of former planned economies, with the result of a complete havoc of these countries. The optimistic vision that the
transformation process will lead in the near future to a mass consumption society or to a catching up process must be checked on the basis of the actual macroeconomic situation studying the existence of macroimpulses able to give a great pull to the process of growth.
The starting point of the transformation process.

Planned economies were quite peculiar economic systems which had the following distinguishing features:

1) Central planning - almost no private property.
2) Full employment.
3) Low efficiency in production compared to western standards.
4) Consumption levels lower than those of European countries; these consumption patterns were widespread in a substantial egalitarian way through all the population, apart from nomenklatura people.
5) A socialist welfare state which provided health, education, social services, a pension system to all the people, in such a way that the level of public consumption was much higher than the one provided by the less developed European economies, like Spain, Greece, or Portugal, leaving aside Latin American countries.

This was the economic and social fabric that had to be destroyed in order to reach the goal of a capitalist mass consumption society.

This table depicts the difference in the consumption pattern of Eastern countries and hence in living standards with the less advanced countries of Southern Europe before the regime fall in 1985, comparing them all with the living standard of Austria.
Consumption expenditure pro capite in eastern Europe and southern Europe in 1985

<table>
<thead>
<tr>
<th></th>
<th>Hungary</th>
<th>Poland</th>
<th>Usrrs</th>
<th>Greece</th>
<th>Portugal</th>
<th>Spain</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GNP</strong></td>
<td>47.2</td>
<td>37.1</td>
<td>63.5</td>
<td>53.8</td>
<td>51.1</td>
<td>69.7</td>
</tr>
<tr>
<td><strong>Consumption</strong></td>
<td>48.3</td>
<td>34.2</td>
<td>45.7</td>
<td>62.7</td>
<td>54.8</td>
<td>78.1</td>
</tr>
<tr>
<td>Food, drink</td>
<td>65.6</td>
<td>48.8</td>
<td>60.9</td>
<td>109.9</td>
<td>75.1</td>
<td>95.7</td>
</tr>
<tr>
<td>Tobacco</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cloth, shoes</td>
<td>32.1</td>
<td>25.7</td>
<td>41.9</td>
<td>46.7</td>
<td>38.7</td>
<td>42.5</td>
</tr>
<tr>
<td>Housing and electricity</td>
<td>60.2</td>
<td>39.6</td>
<td>49.5</td>
<td>42.9</td>
<td>72.7</td>
<td>118.8</td>
</tr>
<tr>
<td>Furniture, house appliances</td>
<td>46</td>
<td>36.6</td>
<td>29.8</td>
<td>62.6</td>
<td>52.8</td>
<td>71.4</td>
</tr>
<tr>
<td>Medical services</td>
<td>67.7</td>
<td>28.5</td>
<td>95.2</td>
<td>36.4</td>
<td>31.6</td>
<td>45.5</td>
</tr>
<tr>
<td>Transport and</td>
<td>23.8</td>
<td>15.0</td>
<td>19.4</td>
<td>70.2</td>
<td>38.0</td>
<td>65.2</td>
</tr>
<tr>
<td>communications</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Culture, loisirs</td>
<td>60.2</td>
<td>42.5</td>
<td>47.7</td>
<td>51.8</td>
<td>68.0</td>
<td>60.2</td>
</tr>
<tr>
<td>Miscellanea</td>
<td>42.2</td>
<td>21.4</td>
<td>43.1</td>
<td>49.5</td>
<td>28.7</td>
<td>93.2</td>
</tr>
</tbody>
</table>

As can be seen by the table the structure of the expenditure pro capite leaves little space to the consumption of goods if compared to a developed western country like Austria, but are closer to the consumption structure of countries like Greece or Portugal.

The relative overconsumption of food, the low expenditure for cloths, corresponds to a pattern we find in the southern countries of Europe. The eastern countries show a considerable delay in the transport and communication sector, reflecting the absence of modernization of the car and telecommunication industry, which are much more developed in the countries of southern Europe. Only the consumption of public services is greater in eastern countries, even if these figures are probably overestimated for the low quality of these services. This was the starting point of the transformation process.
The transformation process and its effects on GNP level and on consumption expenditure.

Two have been the key words of the socio-political movements which have swept away the existing regimes in eastern Europe and have shaped the transformation process itself: Europe and Market. These two words meant for the greatest part of the population a free democracy and an immediate rise in the living standards, hoping to imitate western Europe.

What the rulers of these countries have attempted launching the transformation process has been a new endeavour in the modernization of these countries which, a part from Tchecoslovakia, have always belonged to the periphery of the developed world, trying a new attempt to overcome their backwardness, in order to close the gap with the Western World.

The process of transformation of the planned economies of eastern Europe begun at the end of 1989, and more precisely with the implementation of the Balcerowitz plan in December 1989 in Poland. In this period there were widespread hopes among the government elites, hopes shared by the majority of the involved population, that this process would have been painful for some years to come - but not too painful; in the Balcerowitz plan the forecasted fall in output and income was 5% and 5% the unemployment rate - 5 as a sort of magic number; it seems more plausible that the brain trust of the Balcerowitz had not the faintest idea of what was going to happen in the coming years, and this figures were sold to the public in order to reassure the public opinion) ; in the third year of the implementation of the transformation plan, the rate of growth of the economy was estimated to be positive, opening a virtuous path of growth of income and living standards. All that was deemed necessary for the transformation from an economic point of view was the immediate destruction of the planning machinery, the introduction of private property and market mechanism together with the IMF style macroeconomic policies.
It is almost ironic to state that things went in a very different way; in particular what was not predicted was the tremendous fall in income, industrial output, the rise of unemployment from nearly zero to double digit figures, a huge general fall in the standard of living of the population. Quoting the last Economic Survey of Europe "In most east European transition countries, the cumulative loss of private consumption since 1989 was about 30%, and considerably more than that in the CIS countries. Moreover public services, health, culture, and education were also hit hard by restrictive fiscal policies. Accelerated income differentiation and the growing portion of population living below the poverty line has led to mounting social tensions in many countries of the region" (Economic survey of Europe, 1993). This state of affairs can be summarized in this table:

<table>
<thead>
<tr>
<th>European transition countries: Economic activity, 1989-1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Percentage change over same period of preceding year)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>NMP or GDP</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>89</td>
<td>90</td>
<td>91</td>
<td>92</td>
<td>93</td>
</tr>
<tr>
<td>Albania</td>
<td>11.7</td>
<td>-13.1</td>
<td>-30</td>
<td>-10</td>
<td>-3</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>-0.3</td>
<td>-17.5</td>
<td>-26</td>
<td>-22</td>
<td>-4</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>1.4</td>
<td>-1.4</td>
<td>-16</td>
<td>-8</td>
<td></td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>2.4</td>
<td>0.8</td>
<td>-19</td>
<td>-7.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Slovak Rep.</td>
<td>1.1</td>
<td>-3.8</td>
<td>-20</td>
<td>-6.3</td>
<td>-3</td>
</tr>
<tr>
<td>Hungary</td>
<td>0.4</td>
<td>-3.3</td>
<td>-12</td>
<td>-6</td>
<td>0</td>
</tr>
<tr>
<td>Poland</td>
<td>0.2</td>
<td>-11.6</td>
<td>-7.6</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Romania</td>
<td>-5.8</td>
<td>-7.4</td>
<td>-13.7</td>
<td>-15.4</td>
<td>-5</td>
</tr>
<tr>
<td>CIS</td>
<td>2.3</td>
<td>-3.4</td>
<td>-10.1</td>
<td>-18.5</td>
<td>-20</td>
</tr>
</tbody>
</table>

What is astonishing is that among the economists almost no one predicted the deep recession which followed the introduction of market mechanism according either to a shock therapy or to some other milder approach.
(In his last paper Kornai (1993) maintained that, as far as he knew, nobody had foreseen the depth of the recession and speaks of "transformational recession". This is generally true with some exception (Laski (1990), Caselli Pastrello (1990)).

Gomulka (1994), one of the author of the Balcerowtitz plan stated recently "... many of the experts and probably most of the people were initially unaware of the necessarily large social and economic costs of the transformation."

In all eastern European countries cumulative losses in G.D.P are likely to be between 10% and 40% which would make them comparable to the output losses suffered by western economies during the great depression. Quoting again the economic survey of Europe: "Even if there is a return to overall growth in 1993 (only Poland had a positive rate of growth in 92 and 93, which according to the last official forecast of the I.M.F will go on in 1994, while there are some hopes for the recession to end in Hungary and Tcheck. republic ), the depth of the recession has been such that it will take many years for pre-1989 levels of output to be regained."

The next table shows the level of public and private consumption before the beginning of the transition process and the same level after three years of depression, compared to western levels in 1990.
Public and private consumption pro capite in Eastern Europe and Western countries. (dollars 1990. P.P.A.)

<table>
<thead>
<tr>
<th>Eastern Coun.</th>
<th>1989</th>
<th>1993</th>
<th>Western C</th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>835</td>
<td>423</td>
<td>RFA</td>
<td>13253</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>3054</td>
<td>2263</td>
<td>France</td>
<td>13661</td>
</tr>
<tr>
<td>Theck. rep.</td>
<td>3718</td>
<td>2952</td>
<td>G.Britain</td>
<td>13083</td>
</tr>
<tr>
<td>Hungary</td>
<td>4057</td>
<td>3597</td>
<td>Sweden</td>
<td>13312</td>
</tr>
<tr>
<td>Poland</td>
<td>3051</td>
<td>2907</td>
<td>Spain</td>
<td>9152</td>
</tr>
<tr>
<td>Rumania</td>
<td>2181</td>
<td>1412</td>
<td>Greece</td>
<td>6878</td>
</tr>
</tbody>
</table>

Plan Econ-Ocse.

This table suggests two considerations: the first is that all the eastern countries, with the partial exception of Poland, suffered a tremendous fall in public and private consumption from 1989 onwards; the second is that the countries which should be reached in a future process of catching up are very far away.

The backwardness of eastern countries is shown by the following table, where the procapite consumption of the eastern countries is compared with the one of Greece and R.F.A., the most backward and the most advanced western countries.

Ratio of procapite consumption of eastern countries 1993 with pro capite consumption of Greece and R.F.A. 1990

<table>
<thead>
<tr>
<th></th>
<th>Albania</th>
<th>Bulgaria</th>
<th>Thech. Rep.</th>
<th>Hungary</th>
<th>Poland</th>
<th>Rumania</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3% R.F.A</td>
<td>17% R.F.A</td>
<td>20% R.F.A</td>
<td>27% R.F.A</td>
<td>22% R.F.A</td>
<td>10.6% R.F.A</td>
</tr>
<tr>
<td></td>
<td>6% Gre</td>
<td>32% Gre</td>
<td>37% Gre</td>
<td>52% Gre</td>
<td>42% Gre</td>
<td>20.5% Gre</td>
</tr>
</tbody>
</table>

It clearly comes out again the distance between eastern and western european countries in terms of consumption levels: Hungary is the closest to West Germany reaching only the 27% of german consumption level, and the 52% of Greece's one;
Albania is the most distant one with a consumption level which is only 3% of Western Germany and 6% of Greece.

In order to have an idea of the required effort of growth these countries must undertake to catch up with western economies we may recall that it has been recently estimated that it will take three generations in order to close the gap with the other advanced western countries (Summers (1992)).

It has been recently estimated that if Hungary should reach in the year 2000 the austrian procapite income of 1980, the hungarian income should grow at a rate of 5.5% per year. For Poland, if the target is to reach the spanish income of the 1980 in the year 2000, the rate of growth should be 7.2 per annum (CEPII (1992)). These estimates are however optimistic, since they have been made taking into account the level of income in 1989, much higher than today's level of income; consequently the time span necessary to reach the above mentioned target is even longer than forecasted.

In order to have such a high rate of growth it is obviously necessary to have a high share of investments in national income for many years to come. In the western european countries for the period 1950-1960 the average share of investment in national income was 15.4, and for the subsequent period 1960-70 was 18.1 (Maddison, 1976).

On the contrary what is happening now in eastern europe countries is that investments have been falling since 1989, not only in plant and machinery, but also in dwellings. This is a worrying development since all these countries need large amounts of investments to modernize and adapt the capital stock to the new economic situation and to provide the technological impetus for economic revival.

All in all the hopes of future mass consumption appear to be devoid of any economic content and disregard the consequences of the transformation process on the level of income of the population and on the investment level.
The external environment: an obstacle to the growth process.

If we study the development of mass consumption in western Europe in the post war period we immediately see that this was created by their very high rate of growth which was favoured by an international political and economic environment which had growth at the center of the political economic agenda for various reasons. In the present situation on the contrary all the emphasis in western Europe is put on low inflation, balance budget and the growth process must satisfy these strong economic constraints; the priority is given not to growth but to growth in a landscape of sound finance. The present policies of european countries resemble in many ways the treasury view of the thirties in much more open economies. The stagnation caused by the present german monetary policy has spread all over Europe and no one forecasts a sustained rate of growth for the european economy in the near future.

The transformation process is therefore evolving in a general deflationary environment; it is very difficult to see how eastern countries may have an export led growth similar to the one of the western european countries in the post war period. In a sense, the international economic enviroment which the transforming countries have to face is currently much more complex and challenging than it was in the post war period. During word war two most countries had suffered damage to the stock of their phisical capital and infrastructure (see Millward (1987) ), while now former planned economies are facing a strong competition from more tecnically advanced countries, which are facing conditions of excess-production capacity. The capitalist countries of the west have in this moment little interest in creating very strong industrial structures in eastern countries, because these markets are very poor and prefere to delocalize part of their production with the goal of lower costs of productions in order to face in a better way the worldwide global competition.

Furthermore in the fourties and fifties, U.S.A., the major surplus country, had to face the communist threat in Western Europe, and decided to step up the european recovery program and the Marshall plan (Eichengreen and Uzan (1992) Reichlin and
Kirman (1992); now the ex-communist countries cannot count on such a political threat in order to compel Western countries to such a big financial effort, perhaps bigger than the Marshall plan itself. It can be useful to remember that the total amount of the Marshall plan amounted to 12.4 bn dollars, and represented 1% of the U.S national product. Marshal Plan transfers constituted 2% of the national product of Great Britain and 14% of Austria’s: the amount of aid for Hungary, Poland, Theckoslovaqia, equivalent to the one given at that time to Austria would be 20 billion dollars per year, corresponding to a total in four years of 80 billion dollars. The financial aid given to this countries in 1992 was 20 millions; so far only a part of this sum has really disbursed (Gabrisch (1992)).

If we look at the foreign investments in eastern countries they are concentrated in Hungary, Poland and the Thech republic: two phenomena are occurring: big western companies buy the most efficient and biggest factories (Skoda, Huta Warsaw, Tungsram, FLSO, and so on), they invest and upgrade them, but the part of the involved industrial sector is very small compared to the needs of these economies. Foreign investment is also present in the retail sector and in general in the service sector. The second phenomenon is that part of western production is delocalized in these countries for the low level of wages, especially in textile, shoes and furniture industry.

It must also be reminded that, a part from Russia, the biggest firms of eastern Europe has a turnover of four billion dollars (Mondo Economico 1990) such a total turnover let us understand how small is the size of eastern europe enterprises, and makes it very difficult for them to compete in european markets of the most advanced tecnological sectors.

It may be argued that the industrial structure of these economies (Hungary, Poland and Thech. republique) seems to be evolving toward a dualistic pattern: a few modern plants owned by foreign capital on one side and factories whose main asset is the cheap labour force on the other, which produce very low value added goods
for internal and foreign markets, driving these countries back to the peripheral role they had in the interwar period, recalling old patterns of dominance.

**A brief detour on the polish recovery and the macro consequences of of the changing pattern of demand**

The polish economy is the only eastern economy that in the last two years had a positive real growth. Let’s recall briefly some figures of the 1992 growth: GNP rose about 1.5%, industrial production by 4%, agricultural production fell by 12%. The relevance of these figures is that they signal an important turning point after two years of continuous fall in the industrial production, which amounted to an overall 34% fall. As regards 1993, both the available data—up to November—and the forecasts point to an expected growth of about 8% in industrial production, and of about 4% in GNP. This recovery raises a lot of questions: what are the economic factors propelling this growth? Will it be a lasting one, or not? Could it boost self-sustained long period growth? A careful examination of the macroimpulses (Caselli and Pastrello (1994)) can lead to the conclusion that the polish recovery was in 1992 fuelled by a positive trade balance, a budget deficit, and by a shift in the pattern of income distribution due to the thriving private sector.

In 1993 the recovery has continued joined by a slight upsurge of domestic investment, while the trade surplus disappeared and a trade deficit went to the fore. The quite visible, negative side of this recovery is the considerable deficit in the balance of foreign trade, which seems to have deep real roots. Moreover, this imbalance may eventually upset the recovery, from the financial side, leading to an exhaustion of foreign reserves. From the real side, the too high propensity in foreign consumption goods absorption may eventually clash with the need for huge capital goods imports. All these factors, working together, threaten to drive the foreign balance out of control, in this way putting a halt to the recovery.
What I want to stress is the extreme importance of the process of redistribution of income and wealth which is occurring and which is changing the pattern of consumption demand; a part of the demand is constituted by luxury consumer goods and it cannot be satisfied by polish industry and leaks abroad. According to rough estimates this luxury consumption regards only 10% of the population (Financial Times (1994) ) working in the new private sector, the greatest part of the population being excluded because real wages did not increase, albeit in the state sector, and peasant incomes fell. This is not only a problem of balance of trade, but, more important, a political problem of increasing differentials in living standards, which together with increasing unemployment (2,8 millions in 1993, 16% of the labour force) determined the victory in the last elections to parties which were in favour of a slowing down the social costs of the transformation and refer to the old P O U P.

This phenomenon of a radical polarization of the living standards is common to all the new democracies of the East: The worsening of the households economic conditions is reported by many surveys: R. Rose and C. Haerpfer (1994) in a recent article states that the absolute majority (65%) of households thinks that their condition is worse today than five years ago. Only 14% report improvement in their family's economic conditions since 1989, and the remainder say that conditions have not altered.

The road to mass consumption society or to implosion: two flow charts.

The importance of the distribution of income and wealth can be approached in a more formal way.

According to neoclassic economists the process of transition from planned economies to market economies and therefore to a mass consumption society can be visualized as follows (Boyer 1994).
The neoclassical vision.

<table>
<thead>
<tr>
<th>Property rights</th>
<th>Schumpeterian entrepreneurs</th>
<th>great rise production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>rising living standards and mass consumption</td>
</tr>
</tbody>
</table>

Market

<table>
<thead>
<tr>
<th>stimulus given by the processes of marketization</th>
<th>rise in wages</th>
</tr>
</thead>
</table>

(For a critique of the neoclassical vision see Caselli, Pastrello (1992))

In this flow chart we can see the virtuous process envisaged by the architects of the transformation plans and by IMF stabilization program (Bhaduri 92)

In the next flow chart on the contrary we visualize what in reality can be happening in many eastern countries: the process envisaged in the flow chart points to the conclusion that no mass consumption society will rise from the ashes of the planned economies if things will not change quickly.

The real process of transformation.

new profit opportunities

<table>
<thead>
<tr>
<th>few people enrich without cause</th>
<th>great rise of speculation and commercial capitalism</th>
</tr>
</thead>
<tbody>
<tr>
<td>fall of productive investment</td>
<td>no feedback on innovation and technical progress</td>
</tr>
</tbody>
</table>

Establishment of a market economy

The legitimacy of the market is put in jeopardy.

no quick transition to a mass consumption society.
Obviously the two depicted processes are polar cases and in the experience of the transition process we can find a mixture of the two, with Russia, Albania, Bulgaria and Rumenia closer to the second model, Ceck republic, Hungary and Poland closer to the first one; all the experiences of eastern countries have however features shown by the second flow chart, the problem being whether they will prevail on the virtous one or not.

The point is that if real investments will not raise massively in all the countries and if the economic enviroment will favour financial speculation, trade capitalism, a regressive distribution of income and wealth, the political legitimacy of the process towards a market economy may be endengered.

Conclusions

Four years are over since the I.M.F therapy has been implemented, and if the stick wich measures the success of such a therapy is the reapparence of growth in eastern countries some legitimate doubt may be advanced on the ability of such a therapy of ending the state of sickness. Many, as I said at the beginning, were lead by a false analogy with other historical situations in shaping the economic plans of transformation, forgetting the side of these experiences which could have been useful in eastern countries. It has been forgotten that all the capitalist countries which had successfull experiences of reform had to satisfy two conditions: a very cautious and controlled openness to the international markets and a complete control on the movement of financial capitals. Moreover they had a very active role of the state which intervened in various ways, according to concrete historical situations, in shaping the economic system. I want only to recall that Great Britain, a winner of
the second world war, abolished the last rationing measures in 1953, and its attempt of liberalizing the foreign exchange market in 1949 was unsuccessful.
The very capitalist countries have decontrolled their economies very slowly and gradually, knowing quite well the possible disastrous effects on their internal economic structure of a quick and immediate decontrol of international financial and commodity flows.
If we adopt a long run historical perspective, it is evident that all the countries that had a rapid economic growth and that reached a very high standard of living, had in common very similar and impressive pattern of growth, although in their historical differences. The main common feature is that the growth process has continued for a long period of time, checking the degree of openness to international trade, behind tariff barriers, pursuing protectionist policies until the industrial structure could compete on international markets. In international trade theory a case for protection is allowed in the "infant industry case" : I would suggest that former planned economies can be catalogued as a case of "an infant industrial region" that goes from Prague to Vladivostock.
The story of American growth, of the German and Japanese one, until the more recent success of Asian countries, not to mention the success story of the countries of the European community which happened behind the wall of a common tariff against the United States and Japan, quite clearly demonstrates how in two hundred years of capitalist development, free trade periods have been the exception and not the rule (Bairoch (1993)).
On the contrary the I.M.F. therapy is shaped by the fundamental assumption that the quicker the complete liberalization of commodities and financial flows in order to submit the former planned economies to the tough law of international competition, the more rapid will be the great leap forward in efficiency and competitiveness. The I.M.F idea of exposing inefficient economies to the hard reality of western market has been applied in its purest form, like in a laboratory experiment, in the case of eastern Germany.
with the consequences of the disappearance of east industrial structure, and financial transfers from west to east in the order of 130 million marks every year. Obviously such a solution is not available for the remaining eastern countries. Following the I.M.F. style therapies in some eastern economies the process of transformation may be blocked and in some of them has been already blocked, by the inability of the economic system of generating the necessary flow of investments in order to have high rate of growth of national income. It might degenerate for the continuous increasing hardness of the everyday life of the population, giving way to some form of backward economy, with the formation of a privileged little part of the population which resembles the "bourgeois compradora" of Furtado`s books, and a great polarization of income and wealth, leading these countries to a semicolonial status inside western Europe. For some of these countries even the yugoslav solution and its pattern of disintegration may be behind the corner. (Spagat 93).

I want to quote L.Szamuely who closing a debate on the transformation on the last issue of Acta Oeconomica writes: "... one can conclude that the chances of modernizing the countries of central and eastern europe, and the possibility of catching up with advanced industrialized societies, depends not simply on the accomplishment of privatization and / or marketization of their economies. It depends much more on what kind of market economies will be established- those which existed here and elsewhere in the last century and up to the interwar period, or those which have evolved and readjusted themselves to the changed social conditions of the Western democracies during the last half century. The present dramatic situation in Central and Eastern Europe was caused mainly by its isolation from this process of socioeconomic change. One can only hope that this drama will not turn into a tragedy."

In my opinion this unhappy end may be avoided if two conditions will be satisfied: 1) Instead of looking at Von Hajek an Von Mises who are obsessively cited in the debate on the transformation, economists and policy makers must think at Polany` s work, whose conclusion is that the role of the state in shaping and creating a market
environment is enormous. In the history of capitalist development "latecomers" have not relied on spontaneous market forces. It is sufficient to think to the experiences of Japan, of the so called little tigers or to Turkey, just to realize how the process of growth cannot be left only to market force (Urban (1992)).

As Taylor recently wrote "The longer the state is economically inactive, the greater is the risk of decades more of political degradation" (Taylor (1991)).

2) The European countries must change their attitudes towards eastern countries: financial aid must be generous and coordinated; the eastern exports must be favoured. The European countries must play the role that United States played after the second world war; not for the fear of a communist threat, but for the fear of more yugoslav type of drama at their borders. A part from financial aid and non discrimination, the European countries must resume an European economic policy geared to growth, not only for internal reasons, but in order to favour the export led growth of many eastern countries, via the operation of a foreign trade multiplier. This is the only road now open in my opinion to the resumption of growth for some of eastern countries. At the beginning of the transformation process there were hopes and proposals of economic actions for a collective solution of the economic problems of these countries built upon a regional area of free trade, behind the wall of a custom union, upon a multilateral financial organism along the line of the European Payment Union, which could have allowed the reconstruction of these countries paying less social costs.

Real efforts in this direction has been forbidden by national pride, the hope that many new rulers had of a very quick process of catching up, a justified suspicion of any new linkage with the soviet union, an unbelievable faith in markets mechanism and a strong desire to cancell the previous economic experience for good. For the sake of truth there was also a tremendous international pressure for not undertaking a different strategy from I.M.F. strategy, which won the game. Observing the present state of affairs, one may wonder whether this has been the right solution.
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