THE PROSPECTS FOR DEMOCRATIC MARKET SOCIALISM IN THE EAST

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published in Erik O. Wright (ed.),
Equal Shares: Making Market Socialism Work,

The demise of the Communist regimes of Central/Eastern Europe and the former Soviet Union has given rise to all kinds of hopes for a better future for the people who lived through decades of bureaucratic state socialism. Not only did advocates of capitalism see a glorious opportunity in the end of communist rule; advocates of democratic market socialism, too, tended to believe that conditions in these long suffering societies had finally become favorable for the development of a promising new "third way" between authoritarian socialism and capitalism.

The idea that democratic market socialism has a future in the East does have a certain plausibility. The countries of the former "second World" face a momentous task of institution building, no matter what kind of new system they construct. With the collapse of the Communist Party (CP) state and the ubiquitous desire to establish a more market-oriented economic system, most of them have already made significant progress in establishing democratic procedures and in expanding the scope of markets. Each of these countries has embarked on a process of redistribution of rights to national property on a large scale.

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1 An earlier version of this paper was presented to the conference on "A Future for Socialism" at the University of Wisconsin-Madison, May 1994, under the title "The Death of Market Socialism in the East." I am grateful to many of the participants at that conference for constructive comments that have helped me in revising the paper for publication.
In many cases the establishment of a new system of property rights is far from complete, so it remains potentially open to market-socialist as well as to capitalist arrangements. Moreover, the growing inequalities and insecurities which have accompanied the growth of private enterprise in the early years of the new market environment have generated increasing popular antagonism, and this suggests that a political base could be formed in favor of a more socialist form of market economy.

In this paper I argue, to the contrary, that the prospects for developing a viable form of democratic market socialism out of the wreckage of the CP-directed socialist economies are in fact very poor -- for both political and structural reasons. I begin in section 1 by tracing briefly the history of market socialism in the East, with an emphasis on recent developments. In section 2 I consider political obstacles to the establishment of a market socialist system in the post-communist nations. Then in section 3 I discuss some of the ways in which the structural characteristics of post-communist societies constitute an inhospitable environment for market socialism. I conclude in section 4 by speculating on some of the implications of my pessimistic appraisal of the prospects for shaping a new and desirable form of socialism in the East.

1. The Evolution of Market Socialism

As far back as the "New Economic Policy" initiated by Lenin in the early 1920s to set the war-torn Soviet economy back on its feet, the idea of combining markets with socialist forms of property ownership and regulation has had considerable appeal for CP leaders. Indeed, in most of the many historical instances in which a centralized CP-dominated system -- in the Soviet Union, Eastern Europe or the "third world" -- encountered serious economic problems, reform efforts were launched to reduce the degree of centralization and increase the scope of markets. These reform efforts rarely went as far as to create a system that could be called "market socialism" -- though the experiences of Yugoslavia since the early 1950s, Hungary since the late 1960s and China more recently do warrant that label. In these latter cases, of course, the CP maintained authoritarian political control and a substantial degree of bureaucratic economic control as well -- so these examples of market socialism were still a far

2 Reform efforts in "actually existing socialism" are amply documented in a vast literature; for a particularly instructive source, see Brus and Laski (1989).
cry from the kind of market socialism proposed by advocates of a democratic "third way."

By the late 1980s CP-directed socialism in the Soviet Union and Eastern Europe was creaking and crumbling. The growing economic crisis was aggravated by the world-wide economic doldrums of the 1980s, but there could be little doubt that internal economic weaknesses were becoming increasingly serious. CP leaders were well aware of the need for major economic and political reform if there was to be a future for any kind of socialism in their countries. In several of the East European nations -- notably Poland and Hungary -- new decentralizing reforms were introduced; and in the Soviet Union CP General Secretary Mikhail Gorbachev launched his programs of glasnost' and perestroika, thereby initiating a process of growing marketization and decentralization of political and economic power which would accelerate with each passing year.

Not only were CP leaders increasingly interested in reforming their brand of socialism in a more capitalistic direction, but many leading dissidents in the East favored a "third way" for their economies -- if and when they would be liberated from the yoke of CP dictatorship. These dissidents sought to combine political democracy with an economic system that would combine the efficiency of market mechanisms with fulfillment of the humanitarian social goals that CP-directed socialism had honored much more fully in rhetoric than in reality; and the idea of market socialism resonated well with such an agenda.

In some countries of the East dissidents found very appealing the notions of worker ownership and workplace democracy -- elements of a variant of market socialism which places strong emphasis on worker self-management. Thus in Poland the Solidarity Movement in the early 1980s embraced workers' control as an important element of its economic program; and in a number of countries (including the Soviet Union as well as Poland) CP regimes, under pressure from workers and reformers, began to confer greater power on enterprise-level workers' councils. As the momentum for economic reform accelerated in the late 1980s and early 1990s, worker ownership and control of enterprises increasingly appeared as a politically and economically promising alternative to conventional forms of capitalist ownership and control -- especially for those who sought to transform state-dominated economies into something other than full-fledged capitalist systems.

In the early 1990s there was a flurry of interest in market socialism in the rapidly changing nations of the East. After the collapse in 1989 of the old-style hard-line CP regime of Erich
Honecker in East Germany, a new generation of reformist leaders came to power (briefly) advocating a market socialist "third way" for East Germany. In Czechoslovakia, Vaclav Havel and some of the intellectuals in his circle of Charter 77 dissidents sought to develop an alternative to what they viewed as the excessive individualism and rampant commercialism of Western capitalist economies. In the Soviet Union, Mikhail Gorbachev gathered around him economic advisers -- who talked openly about converting the Soviet economy to a form of market socialism.

In general, support for some form of market socialism in the East came from professionals active in the reformist wing of the CP or from intellectuals prominent in the underground resistance to the CP. But both of these bases of market-socialist support were soon to be overwhelmed in the political arena by the forces unleashed by the crumbling of CP authority. A new generation of political leaders and (Western-trained) economists rose to embrace market capitalism and the most rapid possible transition thereto, with strong support from the West and from indigenous entrepreneurs and speculators who had begun to do very well as their economic freedoms expanded. In many countries of the East the new breed of politicians and economists were welcomed -- or at least tolerated -- by a substantial fraction of the population eager for economic improvement and ready to believe in the miraculous powers of free enterprise and the market. Thus names such as Balcerowicz (in Poland), Klaus (in Czechoslovakia) and Gaidar (in Russia) came to the fore, embracing Thatcherite and Reaganite conceptions of capitalism as the wave of the future for their countries.

Many of the economists and other professionals who at one time had invested their hopes and energies in the promotion of market socialism (with or without worker self-management) now abandoned all interest in a third way. It turned out that for all but a committed minority, the embrace of market socialism in one form or another had merely represented a marriage of convenience -- based on the limits of the possible. Once the ideological barriers to full-fledged capitalism came tumbling down with the Berlin Wall, most intellectuals and professionals abandoned the project of reforming socialism and joined the movement to build a new capitalism in their nations.

To be sure, in some countries of the East -- for example Romania and Ukraine -- the thrust toward capitalism was much weaker, as conservative nationalist leaders limited the pace of privatization and the scope of the transition to a market economy. But such go-slow approaches that arose after the collapse of hard-line communism had little or nothing to do with market socialism. Rather, they were rooted in the effort of much of the CP nomenklatura to maintain their privileged status in the
old style rather than try to convert it into a favorable position in the new market economy.

By 1992, just a few years after the opportunities for market socialism had seemed so bright, realistic political prospects for a "third way" seemed to have vanished throughout the East. The Soviet Union had collapsed, and the Yeltsin-Gaidar team in Russia was firmly committed to a rapid transition to capitalism. Two years of "shock therapy" in Poland, begun by Balcerowicz in early 1990, had thrust the economy irreversibly onto the road to capitalism. Vaclav Klaus had supplanted Vaclav Havel as the dominant political personality in Czechoslovakia, becoming the darling of the World Bank and the IMF among political leaders in the East. In those Eastern nations yet to embark on a systematic transformation of their economies, the old socialist system was crumbling and a form of primitive capitalism was emerging in a chaotic manner -- in the absence of any well-conceived or strongly supported alternative.

Since 1992 the political tides have again turned, though hardly as dramatically as they did in 1989. In elections in 1993 and 1994 (in Lithuania, Poland, Russia and Hungary) large numbers of voters turned against the most avid free-marketeers and the most enthusiastic pro-capitalists who initially rose to power in the wake of the demise of the CP. In a context of continuing economic dislocation, declining real incomes for the majority of the population, and increasingly conspicuous inequalities, many people turned to reformist elements of the old CP apparatus and other opposition groups in search of some protection from the ravages of the collapse of the old system and the transition to the new.

Yet the beneficiaries of this backlash against the "big bang" strategy of transition to capitalism have not been advocates of market socialism. For the most part the gainers in the 1993 and 1994 elections have been politicians and parties also committed to a transition to capitalism -- but a more gradual one in which more attention is paid to preserving employment and more public spending is devoted to social programs to cushion adverse effects of the economic changes on ordinary people. The programs of these parties have much more in common with social democracy than with market socialism.

A partial exception to the above generalization is the growing support evinced (in countries such as Poland and Russia, and now apparently also in Ukraine) for forms of employee ownership as a mechanism of privatization. Although firmly opposed by the first generation of post-communist leaders and economic decision-makers, privatization schemes in which employees acquire a majority of the publicly-held shares of
corporatized former state enterprises have emerged as a popular means for removing these enterprises from government control. Such employee-majority-owned enterprises could conceivably provide the foundation for a worker self-managed variant of market socialism. In practice, however, employee majority ownership of former state enterprises has almost always meant undisputed managerial control. Ostensibly employee-oriented privatization schemes have in fact served much more as a vehicle for insider "nomenklatura privatization" than as a basis for the establishment of industrial democracy. Indeed, they should be interpreted as part of the ongoing struggle over the private appropriation of formerly state property rights in the post-CP era rather than as part of a movement that has anything to do with democratic self-management or market socialism.

In sum, the evidence is strong that the idea of market socialism -- as a viable alternative option for economies of Eastern Europe and the former Soviet Union making the transition to a market economy -- is dead. One may be able to identify a few countries of the East (Romania, Uzbekistan?) where the political leadership remains somewhat skeptical of capitalism and might become interested in a genuine alternative. But these are countries in which the influence of old-style CP leaders remains very strong and in which democratic traditions are particularly underdeveloped; thus market socialism, should it ever be introduced, is highly unlikely to take a democratic form that would reflect the aspirations of its most committed devotees.

2. Obstacles to the Establishment of Democratic Market Socialism

What accounts for the failure of democratic market socialism to take root in the East? One obvious candidate for an explanation is the absence of a clear and well-worked-out blueprint for such a system. But many of the general ideas underlying market socialism have been circulating for quite some time, and indeed advocates of variants of such a system could be found in virtually every post-communist country. What needs to be explained is the evident difficulty of developing a strong constituency for democratic market socialism within the more open political arenas of the post-communist societies.

First of all, consider the advocates of market socialism themselves. They consist for the most part of well-educated professionals, government officials, skilled workers and labor

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3 See Blasi (1994) for an informative account of this phenomenon in the case of privatization in Russia.
leaders -- but in every country of the East they constitute only a small minority of their peer group. Because of their small numbers (and lack of disproportionate resources), they are clearly not in a position to prevail in open political competition without a large and/or powerful set of political allies.

One might argue that market socialism has in fact a very large latent constituency in the poorer classes of society, for they stand to derive the greatest economic benefits from its redistributive implications. Workers, moreover, might well be attracted to variants of market socialism involving substantial elements of worker self-management. But here another obstacle arises: the complexity of the concepts and mechanisms of democratic market socialism. It is not easy to explain in simple and compelling terms how a market socialist economy would work to benefit the majority, particularly in the case of the relatively sophisticated versions of market socialism which arguably offer the best prospects for combining economic efficiency with social justice. Nor is it easy to show how self-management will yield palpable gains for workers. It is far simpler to make a case for social democratic modifications of capitalism as a way of meeting the economic interests of the poor, or to interest workers in forms of employee ownership that are much closer to syndicalist capitalism than to market socialism.

The unfortunate fact is that the political prospects for market socialism tend to be brightest when authoritarian regimes in control of socialist economies begin to loosen up -- when their leaders become receptive to experimentation designed to improve the nation's economic performance without compromising the leaders' overall political authority. Under these circumstances, the leaders provide some opportunities for intellectuals and professionals to devise the kind of decentralizing economic reforms -- in the context of society-wide economic regulation -- which characterize market socialism. This was the case in the few sustained historical examples of market socialism -- e.g., Yugoslavia from the 1950s, Hungary from the late 1960s, and China under Deng Xiao-Ping. Yet in none of these cases were authoritarian regimes prepared to allow the degree of political liberalization needed to undergird a democratic form of market socialism.

Once the preconditions for political democracy have been established with the collapse of authoritarian CP-dominated regimes, the impetus for market socialism tends to be lost for

4 See, for example, the proposals by Roemer, Weisskopf, and Fleurbaey in Bardhan and Roemer (1993), and the models developed in more detail by Roemer (1994) and Schweickart (1994).
two reasons. First, many of those who supported it for pragmatic reasons jump ship and join the movement for full-fledged capitalism. Second, and even more important, the legacy of a discredited state apparatus looms as an enormous obstacle to popular support for a socioeconomic system involving a critical role for the state.

This last point can hardly be over-emphasized. Clearly the establishment and operation of a market socialist economy involves a continuing role for the state and its officials -- albeit but one that is much more subtle, more indirect and more benign than running an administered socialist economy. Yet the state has been so discredited in the East by the history of CP bureaucratic domination that it can no longer plausibly present itself as a source of effective and benificent social engineering. Popular cynicism about the role of government in the economy, in the wake of the manifestly self-serving, corrupt, and obtuse behavior of its representatives under CP regimes, is perfectly understandable; but it poses a huge obstacle to advocates of democratic market socialism in their efforts to rally support for their cause.

To be sure, many citizens of Eastern nations exposed to the inequalities and insecurities of a relatively unregulated market system in recent years have started to long for a return to greater order amid the unfamiliar and unsettling chaos. There is evidence of growing sympathy for a "strong ruler" to set things right again. But this reaction can hardly be interpreted as a new sense of confidence in the ability of public officials to manage the economic affairs of a nation in a democratic framework. This kind of popular sentiment appears to point more surely toward an authoritarian form of capitalism than toward a democratic form of socialism.

3. The Inhospitable Environment for Market Socialism

Let us suppose now that the political obstacles to the establishment of a democratic market socialist system can somehow be overcome. Is it plausible to suppose that such a system would survive and prosper in the environment of the post-communist societies of the East?

I believe that the answer is most probably negative -- because the institutional and cultural context bequeathed by CP-directed socialist societies is in too many ways incompatible with the requirements for the successful operation of a democratic socialist market economy. The failure of the Soviet-type system was not necessarily a failure of socialism; as Roemer
(1994), Schweickart (1994) and others have forcefully argued, socialism can work if it is embedded in (robust) democracy and markets rather than in authoritarianism and commands. But a society emerging from authoritarianism and commands is ill-equipped to make democracy and markets work effectively, and it is also ill-equipped to sustain the kind of sensitive state role in setting limits to the operation of free markets which represents the essence of the socialist project in a market environment.

That it will be very difficult to establish effective democracies in post-communist societies is a perfectly commonplace -- but no less valid -- observation. The forms of democracy can be and in most cases have been introduced in the East: more-or-less free elections, a relatively free press, political parties, etc. What is widely recognized to be lacking are the underlying institutions that sustain a vital democracy: strong organizations representing and serving various interest groups, reliable sources of information for citizens, opportunities for meaningful debate and discussion of issues. Also lacking -- and just as important-- are a social culture in which individuals believe they can make a difference and have some incentive to participate in political activity, and a political culture in which politicians are ready to negotiate and compromise in order to satisfy partially many interests rather than seek to impose totally a single interest. Because the CP monopolized the political arena so completely, suppressing most manifestations of "civil society," the institutions and culture undergirding democracy must be built up virtually from scratch in the East. This is a time-consuming process -- and it will take all the longer in the nations of the former Soviet Union which were dominated by the CP for 70 years than it will in those areas of Eastern Europe where CP dominance began only after World War II.

It will be just as difficult and time-consuming a process to develop an effective market system. To be sure, the market mentality -- Adam Smith's "propensity to truck and barter" -- never disappeared even in the most rigidly administered economy under CP rule, and all kinds of markets have mushroomed in the East since the command system collapsed. But it is one thing for myriad transactions to take place between buyers and sellers; it is quite another for such transactions to work "as if by invisible hand" to coordinate the independent actions of atomistic individuals to achieve a significant degree of overall economic efficiency.

To function effectively a market system must be embedded in a general culture of honesty and trust; it must also be embedded in institutions that limit problems of malfeasance and, more
generally, the transactions costs of market operations.\textsuperscript{5} What is needed is a comprehensive institutional structure of laws, regulations, and sanctions which undergird an ethic of personal reliability and responsibility. This in turn helps to channel people's self-seeking instincts into activities that create new wealth rather than simply redistributing old wealth.

Moreover, to be efficient a market system must also find ways to limit the incidence and avoid the negative consequences of "market failures" arising from public goods, externalities, and other well-known sources of divergence between private and social benefits and costs. Depending on the context, market failures may best be alleviated by the extension or redefinition of private property rights, by state regulation or intervention, or by voluntary mechanisms of cooperation. But each of these kinds of solution depend on an appropriate institutional or cultural framework: institutions backing up property rights and/or state programs, or "cultures of cooperation" of the kind that can be built up only through frequent and multiplex interactions among relatively equal members of a community (who can bring to bear reputation effects, informal sanctions, etc., to assure cooperation).\textsuperscript{6}

In the absence of the appropriate institutions and culture, market participants will have to devote substantial resources to such non-productive activities as security and contract enforcement, rent-seeking activities will tend to displace productive activities, and private benefits and costs will depart significantly from social benefits and costs. This is precisely the case now in the East, in the wake of the collapse of CP-dominated structures of authority and discipline. New legal and regulatory institutions are woefully underdeveloped; extreme individualism, widespread distrust, and opportunism are rampant; and market failures are largely ignored. As a result, the costs and risks of doing honest business are very high, and the economic efficiency gains from a decentralized market system are very hard to realize.

The obstacles to effective democracy and markets in the East are just as sobering for the prospects of a democratic form of capitalism as they are for democratic market socialism; they

\textsuperscript{5} I am drawing here on Granovetter's (1985) very useful analysis of the embeddedness of successful market systems.

\textsuperscript{6} See Putnam (1993, especially chapter 6) for an instructive account of the role of civic engagement and a culture of cooperation in market economies.
suggest that the early hopes and expectations of many Western reformers for a rapid transition of the post-communist countries to a Western-style economic system were naive at best. But there is good reason to suspect that conditions in the East are even less hospitable to democratic market socialism than to some forms of capitalism. This is because, first of all, democratic politics is considerably more important for the success of a democratic market socialist system than it is for the success of a capitalist system; indeed, history provides many examples of capitalist economies which have prospered in the absence of democracy. Second, as compared with democratic forms of capitalism, democratic market socialism calls upon the state to play a particularly critical and sensitive role in order to serve distinctively socialist goals such as distributive justice.

To accomplish its tasks under democratic market socialism, the state must be strong enough to set and enforce rules and regulations regarding property rights and the operation of markets -- in ways that are of course much less overbearing and intrusive than under CP-dominated socialism, but which are somewhat more extensive than under most forms of capitalism. The state must also be held accountable for its activities to the general citizenry. Yet the environment and the culture in which the state now operates in the East are unfavorable in both these respects.

For one thing, state authority at the national level has been greatly weakened since the collapse of the CP regimes. In most of the post-communist countries there has been substantial diffusion of political power to regions and localities; and there has been diffusion of effective economic power to former state enterprises (and/or monopolistic associations thereof) and to local government agencies. National governments are having a great deal of difficulty raising revenues, and they lack resources to undertake programs and even to enforce laws and regulations.

Secondly, all of the countries of the East face grave problems of accountability of the public sector. The legacy of corruption and opportunism among government bureaucrats, and the whole culture of soft budget constraints, has made it almost second nature for public officials to serve particular private rather than general public interests. Moreover, mechanisms and

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7 In a few exceptional cases -- perhaps the Czech Republic, Slovenia, and Estonia -- these hopes may not prove to have been so unfounded. But these exceptions can be attributed in considerable part to the small populations and favorable geographical locations (vis-a-vis the West) of the countries involved.
attitudes that would support effective monitoring of the actions of public officials are largely lacking. Throughout Eastern Europe and the former Soviet Union, the state is regarded -- with considerable justification -- as at best incompetent and at worst thoroughly corrupt.

Economic development and transformation in the East is therefore going to have to rely, by default, largely on initiatives from below. Because of the decline in the authority and legitimacy of the state, political leaders and national economic decision-makers will have relatively little influence over the course of events. To the dismay of anyone desirous of rational, ordered and equitable change -- including notably all advocates of market socialism -- the countries of the East seem most likely to be in for a Hayekian process of spontaneous and chaotic change motivated largely by individual self-interest, constrained less by conscious social engineering than by the pressures of an increasingly powerful global capitalist economy.

4. Concluding Observations

My conclusions about the prospects for democratic market socialism in the East are very pessimistic indeed -- especially for those (myself included) who believe in the kind of social rationality, responsibility and justice reflected in contemporary models of market socialism. The realities of the Eastern environment appear to be at least as inhospitable to the preferred models of the Left as they are to the preferred models of the Right. Indeed, because contemporary models of market socialism involve more ambitious goals with respect to democratic decision-making, they face even more daunting obstacles in the chaos of post-communist societies.

This pessimistic appraisal raises the question: under what conditions could democratic market socialism ever have been or still be expected to succeed -- in the East or elsewhere?

I would argue that the prospects for a viable and democratic form of market socialism in the East would have been substantially greater had the effort to establish it occurred as part of a process of gradual transition from CP-directed socialism to a freer economic and political system, rather than in the wake of the collapse of the communist system. Forward-looking political leaders with substantial authority to bring about fundamental change, ready to listen to and act upon the advice of innovative social and economic reformers, and under
strong pressure from an aroused and mobilized citizenry, could conceivably have initiated the kind of fundamental reforms that would introduce democratic and market and (truly) socialist institutions in a gradual, systematic and ultimately more effective way. In such a context the reform effort would not have had to contend with the degree of private cynicism and opportunism, and the extent of governmental corruption and impotence, which have plagued contemporary efforts to promote effective democracy, efficient markets and social justice.

Needless to say, this kind of scenario is enormously demanding and (even without the benefit of hindsight) could never have been considered a very strong historical possibility. Perhaps Czechoslovakia in the "Prague Spring" of the 1960s offered the best historical opportunity for such a scenario to unfold. Had Soviet troops not put an end to the experiment, it is possible that a democratic and economically successful form of market socialism could have developed in this little country with relatively strong democratic, market and socialist traditions, poised between East and West. The Soviet Union under Gorbachev in the late 1980s might be considered another such historical opportunity; but the fact that Russia and the USSR have had such a long history of authoritarian and bureaucratic rule no doubt makes efforts at reform in a democratic market socialist direction all the more problematic. Yugoslavia, Hungary and China did of course develop forms of market socialism under more favorable conditions than now exist in the East; but these three historical examples lacked the critical ingredient of strong democratic traditions and pressures.

I would therefore suggest that, if democratic market socialism is to have a future anywhere, it is most likely to be in those parts of the world where democratic and market institutions and cultures have already been well established. Here the critical missing ingredient is the socialist commitment to greater egalitarianism (and more profound democracy). To be sure, recent political and economic trends in the developed capitalist countries of the world do not suggest any movement in this direction -- quite the contrary. Political circumstances have a way of changing over time, however, and they surely change more readily than institutions and culture. It seems to me, therefore, that the long-run prospects for democratic market socialism are best where history has prepared at least some of the institutional and cultural grounds for its successful operation.
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