Assessments of postcommunist economic reforms by systems specialists and those stewarding G-7 assistance are sharply polarized. Both acknowledge that official Eastern European data indicate catastrophic falls in GNP far deeper than the Great Depression of 1929 and a myriad of other failures including rampant inflation, anticompetitive abuses, graft, corruption, and the persistence of socialist ownership and controls. But while the former interpret these outcomes as a consequence of the communist legacy and transmuted anticompetitive institutions, the latter in Schumpeterian fashion interpret them as a successful prelude to competitive capitalism, as the postcommunist East traverses the J curve of recovery to rapid modernization. This essay surveys the recent literature and, siding with the systems theorists, explains why the G-7’s interpretation of macroindicators is misleading. (JEL P20, P50)

In a recent article in this journal, the author argued that the Commonwealth of Independent States (CIS) did not appear to be transitioning to free enterprise [Rosefielde, 1992]. Although market elements have emerged, including privatization, liberalization, price decontrol, partial deregulation, and entrepreneurship, they have been distorted or impaired, and the system viewed in its entirety remains heavily dependent on the state. "Private" property is predominantly "collectively" owned, key prices like oil and electricity are quietly controlled, and entrepreneurship, especially in the industrial sector, is thwarted by established monopolies and the mafia. The principal distinctions between arrangements in the former Soviet Union and those prevailing today are assured demand and coordination. In the past, the government automatically purchased everything enterprises produced, while the central planning agency (Gosplan), the State Price Committee (Goskomtsen), and the material supply organizations (Gossnab) saw to it that the crazy quilt of microeconomic regulations and constraints did not impede full (overfull) resource utilization. Now regulations and constraints (including those on ownership) remain, but the state has drastically curtailed purchases from its own factories and cannot muster the resolve needed to create a coherent control system in the face of the conflicting influences of kleptocrats (bureaucrats who appropriate state assets and live passively off the usufruct), and the mafia (a loose amalgam of criminal organizations).

As a consequence, the CIS has become a disorganized, state-directed economy in acute crisis, with a stratified marketization strategy where autonomy is inversely proportional to scale and collectivist social priorities. According to Emil Ershov, Director of the research division of Russia’s State Statistical Committee, GNP has fallen by approximately
50 percent since 1989, after taking account of omissions and distortions in official statistics. Inflation continues to rage in the double digits, Boris Yeltsin's claims to the contrary notwithstanding, and the prognosis of informed Russian scholars is for more of the same.

This catastrophe is not confined to Russia and the CIS. The statistics reported in Table 1 reveal that all former communist societies of Eastern Europe have been ravaged by sharp declines in GNP, strongly suggesting the effect of common systemic factors. However, despite the cogency of this evidence [Goldman, 1994; Campbell, 1994; Ellman, 1994; Aslund, 1994a, 1994b; Kornai, 1994; Taylor, 1994], Eastern European governments, multinational institutions, and many Western scholars continue to believe the East is on the right course. They claim that shock therapy was justified and that the former communist states are transitioning rapidly to freely competitive markets of the standard type prevailing in the developed West. As proof, they point to some modest improvements in Poland and the Czech Republic, recite the usual litany about stabilization, liberalization, and privatization, and contend that prosperity is just around the corner if the reformers persevere [Sacks, 1994b].

Which vision is correct? Are the nations of Eastern Europe really transitioning to Western free enterprise, and are the policies they have adopted adequate to see them through?

Christopher Clague's and Gordon Rausser's edited conference volume, The Emergence of Market Economies in Eastern Europe, provides a sample of opinions and analysis from an extremely diffuse literature for the optimistic view. The participants, who include many distinguished scholars, take it for granted that a transition to competitive free enterprise has begun, that the process, once started, has only one trajectory ("path dependence"), and that the only interesting question on the table is the best way to efficiently complete the transformation. Should the old order be smashed immediately with shock therapy, or is a gradual transition preferable?

This question is not addressed systematically, as would be expected in a treatise, but, as is often the case in conference volumes, is examined with differing degrees of rigor by the various authors. The book begins with an introductory essay by Clague, Director of Research of the Center for Institutional Reform and the Informal Sector of the University of Maryland, the conference sponsor, entitled, "The Journey to a Market." It briefly lays out the text's structure and provides capsule summaries of the authors' main points. The volume is divided into four sections: 1) The Problem of Transition; 2) Macroeconomic Policy and Financial Discipline; 3) Government Policy Toward the Private Sector; and 4) The Privatization Process. It contains 19 chapters written by distinguished scholars such as Harvard Professor Lawrence Summers (Chief Economist of the World Bank), Ronald McKinnon (Stanford), and Stanley Fischer (MIT).

The quality of the essays varies greatly, but most are thin, written abstractly with little grasp of Eastern European institutional reality or the specialist literature. Clague, for example, in contrasting pre- and postcommunist arrangements, asserts that prices and profits played no role under administrative command planning [p. 7], and Mancur Olson (University of Maryland, Chair/Principal Investigator, IRIS) declares that "no one, whether using economic theory or any other tool of thought, has been able to explain why the Soviet-type economies were able to produce what they produced and to last as long