

Culture and Modernization in Light of the Japanese and Central European Experience

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**Pretence of Market Economy and Legacy of Old Regime
Political Economy of System Transformation**

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The views expressed in this paper are those of the author and not those of the institution to which the author belongs.

Nine years have passed since 1989, when East European socialism collapsed. The system transformation is now at the half-way stage and so far we have plenty of testimonies on transformation processes from the countries concerned, including ex-Soviet Union countries.

In this paper I will attempt to describe what has been happening in the transformation process and analyze the characteristics which are more or less common to every country in transition. The analytical approach used is that of political economy, which might greatly help us to understand the overall socio-economic changes in the countries concerned.

The chapter headings in this paper show the causal logic of my understanding of the actual processes of nine years of transformation.

1. Misunderstanding System Transformation

1-1 What has happened?

In 1993-1994 many economists and even journalists frequently spoke about the Czech miracle, which was thought to have been accomplished via radical voucher privatization. IMF economists are particularly enthusiastic praisers of the Czech type of privatization which is characterized by shock therapy, and are strict critics of the Hungarian type of privatization characterized by reluctant gradualism. However, in my book⁽¹⁾ in 1994 I wrote that the adjective "miracle" is an exaggeration and the question of corporate governance has not yet been solved in voucher privatization, and Czechs are rather conservative regarding policy measures other than the voucher scheme, which are not clearly understood by superficial praisers and watchers.

After two years, economists and analysts began to speak of weak corporate governance and a delay in restructuring voucher-privatized Czech companies. At the same time they began to praise Hungarian privatization as a success model. What is the truth? Are economists so short-sighted? What was wrong with the analyses?

(1) *Taiseitenkan no Keizaigaku* (Economics of System Transformation) published in Japanese by Shinseisha Publishing Company, Tokyo, Dec., 1994.

1-2 False Assumption

Many economists thought that transformation from so-called planned economy to market economy could be accomplished in a relatively short period, providing government is able to boldly liberalize economic activities, speed up privatization, and establish the legal infrastructures of a market economy. Therefore, either the IMF or the EBRD take these criteria as progress indicators of market economy, as if "market revolution" can be achieved at the same speed as "socialist revolution".

In my book I carefully analyzed why marketization takes much more time compared to the opposite change, i.e. from market to planned economy. The time difference is derived from the degree of complexity in the two transformations.

As is well known in natural sciences, progress from simplicity to complexity needs a huge amount of evolutionary stages and time, however on the contrary, degeneration from complexity to simplicity can be realized in a relatively short time. If we are lazy, and it is not difficult for us to be, then one can easily lose his competence both in thinking and in physical power. This simple truth displays the essential question concerning system transformation. That is, as far as the socialist revolutions which occurred are concerned, almost all the transformation were degeneration from complexity to simplicity, which completely limited the social development of the given countries.

Of course, real planned economy presupposes very high competence from the participants of planning. However, Soviet type economic planning used to result in only centralized redistribution practice executed by simple and manual economic calculations, simply because there had not been any real conditions for such planning in the 20th century. Instead of establishing a complex system, Soviet type planning tended to be conducted through an all powerful leadership system which could lead the national economy by subordinating innocent people, and the communist party played the role of the almighty wise-man. The actual difficulty of economic planning forced the party to politically control the national economy. Therefore, existing planning exercises never demanded high complexity of individual economic behaviour, thus planning soon became mere military orders of bureaucracy to individuals and companies. Companies and individuals simply obeyed directions from above, which did not require any complex knowledge and development of individual competence, but on the contrary resulted in the rapid degeneration of people and society. In other words, degeneration of society from complexity to simplicity of society completed the formation of the Soviet type socialist society.

1-3 Evolution Principle

The above description can be put in another analogy. As can easily be imagined, almost every businessman could be a competent civil servant without lengthy specialized training, but not all civil servants could be competent businessmen, even with professional training, because business activities are far more complex than bureaucratic routines and need many years of experience.

In the last conference in Budapest, I listed several social moments of human development regarding economic behaviour by classifying basic economic activity into redistribution (planning) activity and exchange (market) activity. Thus, by paying attention to each social moment, I compared the two basic activities in terms of the autonomous development of human behaviour, and showed that redistribution activity does not have any positive moments to develop itself up to a higher and more complex level. The fatal lack of positive moments for self-development in the redistribution system is the cause of continuous system degeneration, which finally led to the natural collapse of the system. Table 1 briefly shows the result of my comparison.

Table 1 Comparison of Social Moments Between the Two Activities

Social Moments	Basic Economic Activity	
	Exchange	Redistribution
1. Nature of communication	informational and bilateral	Physical and unilateral
2. Institutionalization	self-organizing market system	Bureaucratization
3. Personal relationship	depersonalization-civilization	Personalization-decivilization
4. Organization	openness and transparency	Closeness and secret
5. Social behaviour	independence and self-responsibility	Dependence on authority
6. Complexity	continuously increasing	Degeneration into simplicity
7. Self-development	autonomic and continuous	Destructing and –deteriorating

Notes: (1) A moment is a driving factor for autonomous developments in a positive or a negative direction which exists at each stage of basic exchange and redistribution behaviour.

(2) Nowadays, every national economy consists of the two main economic activities: exchange and redistribution. The question is how the mixture of the two is composed in a given economy. The socialist economies were exclusively organized based on the redistribution principle, where almost 70-80 % of GDP was centrally redistributed. On the contrary, so-called capitalist economies largely introduced the redistribution principle after the second world war, and thus various mixtures of the two combinations have been experimented with, which leads to the success of the further development of national economies. The self-collapse of the socialist economy can be explained by its inner moments which degenerate and destruct economy and society.

2. The Fallacy of Generalization

2-1 The Pitfall of Numericalization

What is surprising is the naive numericalization used in evaluating development of market reform in transforming countries. It is understandable that international organizations tend to make general standards for evaluating market development. If the countries compared are more or less at the same stages of social development, then comparison might be reasonable. However, if the countries in question are essentially at different stages of social development, comparison of common criteria does not give us any meaningful information.

For example, if we read the comparison tables in *Transition Reports* regularly prepared by EBRD, we find an evaluating table of market developments for 25 transforming countries, from Kirghistan through Central European countries to Estonia. It is an appropriate question: how is it possible to make meaningful comparisons among such diverse countries with different stages of social development.

The method of comparisons used by EBRD reminds me of such an analogy: is it meaningful to compare weight increase among pigs, cows, sheep and chickens? Of course, you can make comparisons. However, the question is not whether we can measure it or not, but whether the measurement itself is meaningful or not.

Here we come to the fallacy of numericalization and to the fallacy of generalization. Numericalization presupposes similarity of substance, i.e. equality of the quality compared, or we can say that numericalization neglects differences of the quality concerned. This means that once we numericalize something, then we automatically neglect the quality differences of objects.

Table 2 Progress Comparison by EBRD

Countries	Enterprises			Markets and trade			Financial institutions	
	Large scale privatization	Small scale privatization	Governance & restructuring	Price liberalization	Trade & foreign exchange system	Competition policy	Banking reform & interest rate liberalisation	Securities markets & non-bank financial institutions
Albania	2	4	2	3	4	2	2	2-
Armenia	3	3	2	3	4	2	2+	1
Azerbaijan	2	3	2	3	2+	1	2	1
Belarus	1	2	1	3	1	2	1	2
Bulgaria	3	3	2+	3	4	2	3-	2
Croatia	3	4+	3-	3	4	2	3-	2+
Czech Republic	4	4+	3	3	4+	3	3	3
Estonia	4	4+	3	3	4	3-	3+	3
FYR Macedonia	3	4	2	3	4	1	3	1
Georgia	3+	4	2	3	4	2	2+	1
Hungary	4	4+	3	3+	4+	3	4	3+
Kazakhstan	3	3+	2	3	4	2	2+	2
Kirghistan	3	4	2	3	4	2	3-	2
Latvia	3	4	3-	3	4	3-	3	2+
Lithuania	3	4	3-	3	4	2+	3	2+
Moldova	3	3	2	3	4	2	2	2
Poland	3+	4+	3	3	4+	3	3	3+
Romania	3-	3	2	3	4	2	3-	2
Russian Federation	3+	4	2	3	4	2+	2+	3
Slovak Republic	4	4+	3-	3	4	3	3-	2+
Slovenia	3+	4+	3-	3	4+	2	3	3
Tajikistan	2	2	1	3-	2	1	1	1
Turkmenistan	2	2	2-	2	1	1	1	1
Ukraine	2+	3+	2	3	3	2	2	2
Uzbekistan	3-	3	2	3-	2-	2	2-	2

Source: EBRD, *Transition Report 1997*, p.14.

It may be meaningful to compare market developments among Central Asian countries. The same can be said for Central European countries, and for Baltic countries, because we can presuppose each group has sufficient homogeneity in the level of social developments.

2-2 The Pitfall of Relativism: Lack of Industrial Policy

The comparisons usually made by international organizations are mainly those of relative developments in market functions and their organizational developments. What is lacking is comparison of the absolute level of industrial development and related policies, which are usually neglected by economists of international organizations who condemn industrial policies as bureaucratic intervention.

Why are international organizations so oriented towards market function, and absolutely not oriented towards industrial policy? There may be a crucial difference in the economic approach between Asian economists and American economists, which could reflect the stage of economic development and its policies for developing national economy.

If a given national economy already possesses a fully-fledged market economy, then economic policy would be the means of ensuring that the market system keeps functioning efficiently. However, for example, in the case of Central Asian countries, the urgent task for economic policy at this stage of economic development is not how

to build foundations for the market to function, but how to establish a reasonable reproduction base for the national economy and how to develop their own processing industries from the mono-cultural economy level.

What is needed most in ex-Soviet Union countries is clearly, first of all, not market functioning policies, but industrial policies. It is an economist’s illusion that market function can solve essential economic problems. Functions of markets at each stage of economic development always presuppose certain levels of absolute economic development, and that market policy cannot substitute development policy. When we recall the crisis in Russia in 1998, we can recognize how the market policy approach is vulnerable without industrial policy.

3. The Pretence of Market Economy

3-1 Weight of Private Sector as Virtual Indicator

In *Transition Reports* published by EBRD, the indicator of the private sector share of GDP is usually shown, where the Czech Republic, thanks to voucher privatization, is always ranked first and that of the Russian Republic is also very high in spite of the mass destruction of state companies.

Generally, the size of the private sector is large in those countries which have introduced voucher privatization. On the contrary, where direct sale is the dominant form of privatization the private sector seems to be small as in the case of Hungary. This indicator has provided a firm benchmark with which to judge the speed of market reform in international organizations. Therefore, the Czech Republic was praised for its rapid and brave privatization, and Hungary was accused for its slow and reluctant privatization.

Table 3 Private Sector Share of GDP in % (rough EBRD estimate)

	1995	1996	1997
Czech Republic	70	75	75
Hungary	60	70	75
Poland	60	60	65
Slovak Republic	60	70	75
Russian Federation	55	60	70

Source: EBRD, *Transition Report*, 1995,1996,1997.

However, it is unbelievable that any ex-socialist economy can almost change itself into a private economy within a few years of transformation. If it is proclaimed so, then you should doubt the fact and ask its political intentions. Many economists failed to do so and only after the financial and currency crises in the Czech Republic and Russia did they begin to doubt the facts.

It has to be said that the share of the private sector in GDP measured by EBRD has been a virtual indicator which does not truly reflect the real economic situation. The virtual indicator has contributed rather to the pretence of market economy by countries who are making haste to catch up after the delay in transformation and to show their condition in a more favourable light than what they are.

3-2 What Is Privatization?

Then comes the question, what is privatization? The EBRD indicator is based on the legal transformation of state companies into joint-stock companies and if the government keeps only a minor stake, then the company can be

automatically classified into a private one, regardless of its actual status. Thus, only formally transformed companies which are actually controlled by the state are counted as private.

What has actually happened in voucher privatization is, in the strictest sense of the word, a securitization of state companies, but securitization in itself is not yet privatization. In this sense we can name voucher privatization as semi- or quasi-privatization.

When we think of the four big banks in the Czech Republic, although they all were formally privatized by the voucher scheme and state ownership was reduced to a minority stake, they are actually state banks without any strategic investors.⁽²⁾ However, these banks used to be counted as private banks from a legal point of view.

(2) Of the four big commercial banks, IPB was finally privatized in 1997, but the other three banks are *de facto* state owned.

It is currently planned that large Czech banks are to be sold to strategic investors, which would be the step to completing privatization of banks. This case shows us that voucher privatization by itself does not end up as privatization, and thus quasi privatized companies can only be finally qualified as private when strategic investors actually participate in management with a majority stake.

Therefore, we should be careful in observing voucher privatized companies since we know that many voucher privatized ones need further steps to find real owners who can complete their privatization process in the true sense of the word.

4. Who Governs Quasi Private Companies?

- from "State Monopoly" Socialism to "State Monopoly" Capitalism

Simple observers of Russian and Central-Eastern European countries believe that transformation from a so-called socialist economy would be a transition to a capitalist economy. However, reality is not so simple. When we closely observe any voucher-privatized company or quasi-privatized company where the government holds a majority or minority stake with a decision right and role, we can observe very curious and typical vacuum situations demonstrating a lack of effective and responsible management. In many cases such companies a single manager or a set of managers who are legally appointed by the government have an overriding power to manage and they execute not only economic, but also political activities to maintain and strengthen their positions in the given companies. Moreover, the managers appointed are in many cases bureaucrats, politicians, or reform intellectuals from the old regime who succeeded in surviving amid the new surroundings. Thus, by showing their ability and competence in the new era they replace old type party bureaucrats and become a new governing social stratum.

4-1 The New Holy Trinity: Politician, Bureaucrat and Manager

Let us ask ourselves who governs Gasprom? Gasprom is a partially-privatized company of immense size, in which the government keeps a 40 % stake and is actually run by a few managers appointed by the government. In fact Gasprom was a socialist monopoly company managed by the Ministry of Gas in the Soviet Union where Chernomyrgin had been the boss in the 1980's. After the collapse of the Soviet Union Gasprom was transformed into a joint stock company and partially privatized. At the same time Gasprom established its

own bank and holds some other bank stakes, too. Thus, Gasprom forms an industrial and financial group in which ex-bureaucrats and -central bankers carry out managerial and supervisory roles.

As is generally known, Gasprom managers have a trust contract with the government in which a decision right of a 35% government stake is entrusted to them. Besides this a buyout option of 30% stake by managers was also effective until recently, when it was cancelled by Yeltzin. By transforming itself into an industrial and financial group involving ex- and present bureaucrats, ex-party members, and politicians, Gasprom has made a typical economic enclosure of state assets for maintaining and strengthening its economic and political power. Thus, Gasprom has been transformed from a "State Monopoly" socialist company to a "State Monopoly" capitalist company, where a group of managers, politicians and bureaucrats form a new Holy Trinity in the transformation era.

The same stories can more or less be told of other industrial and financial groups in the Russian Federation. In many cases elite of the old regime are playing key roles by just changing their positions and functions. Essential changes cannot yet be seen. Only the characterization of economic management has changed from "socialist type" state monopoly to "capitalistic type" state monopoly.

4-2 A Miniature: Postabank in Hungary

Of the large Hungarian commercial banks only Postabank keeps domestic ownership with a state majority, other big banks are privatized and now owned by foreign strategic banks. After the opposition-party winning the general election in 1998, the new government immediately dismissed the management of Postabank, where Gabor Princz, CEO of the bank had reigned for about ten years since the establishment of the bank.

It was disclosed after the change of management that the accumulated loss of the bank amounts to more than 120 billion Ft (about 600 million USD) which requires further investigation. The loss is derived mainly from

various suspicious real estate investments both in Hungary and abroad, from risky portfolio investments, from continuous loss producing media holdings and, last but not least, from various types of thefts.⁽³⁾ Aggressive business policy and media occupation was carried out by Princz whose monthly salary was 8.8 million Ft which was 500 times higher than the minimum wage and 150 times higher than the average wage in Hungary.

(3) After the dismissal of previous management at Postabank a suspicious international transaction was suspended by a court decision, which would have otherwise obliged the bank to transfer 2 billion Ft to an Austrian bank as a guarantee execution for a Hungarian company which bought steel materials from an Austrian company. It has been disclosed that the purchase deal itself did not exist, and the size of the amount to be transferred and the date of the deal concluded coincided with the size and date of the bank capital increase proposed by an unknown Austrian private company last year, though the proposal was not accepted because of the delay in payment. The whole scheme is actually an intriguing theft of money and stakes in the bank which cannot be completed without the full support of the highest management. It is natural to consider that similar thefts might have been undertaken at Postabank in past years and thus contributed to the accumulation of loss in the bank. However, no one has been arrested even today and the Hungarian media is not enthusiastic to discover the secrets of many suspicious transactions and involvement of past management, since many daily and weekly papers were financed by media holdings owned by Postabank, in fact by the mercy of Gabor Princz who has been staying in Austria since his dismissal.

Postabank is not a private bank, but a state bank. Nevertheless, why was its management entrusted actually to one person? He and his assistant managers executed every imprudent investment and determined their own salaries. Who represented the government stake? Was everything entrusted to Gabor Princz? What happened to government supervision? Did government officials participate as part of the supervisory board as their private job?

It was Princz's initiative to establish a commercial bank by utilizing post office networks and he became CEO of the bank after being a senior officer of the National Bank of Hungary. Similarly, when commercial banks were established by dividing up the functions of the National Bank at the end of the 1980's, many senior officers moved from the central bank to commercial banks as managers of newly established banks. Strangely enough, there was no state regulation on salary, premiums and retirement lump sums in state commercial banks, consequently every commercial bank with a state majority has already introduced a very competitive payment system, as if they were a 100% private.

Table 4 Subsidiaries of Postbank in Hungary

<i>Name</i>	<i>% Owned</i>	<i>Type of business</i>
Core Businesses		
Postabank Securities	99.7	Brokerage
Lakáskassza	21	Home lending
Profit Invest	93.4	Portfolio management
Defend	97	Bank security
Media		
P&B Media	100	Media holding, 10 papers
Pesti Műsor	91.4	Weekly magazine
Szabad Föld	59.5	Weekly magazine
Press 2000	51	Newspaper publishing
Híd Rádió	51	Radio Bridge
Zöld Újság	52.1	Világgazdaság (daily newspaper)
Postabank Press	100	Advertising
Telegráf	75.1	168 óra(weekly magazine)
Szikra Printing House	32.4	Printing house
Real Estate		
Proszolg	100	Runs Bécs u. 5. Building
Postabank Invest	100	Management & development
Medüsz	100	Medical holding
Üdülő	51	Balatonfüred resort
Duna Club	75.3	Szentendre resort
Inga	51.8	Holds Postabank's HQs
Fúzió	51	Development, investment
Epona Turism	100	Hortobágy resort
Tér 1	100	Management
Tér 5	100	Management
Dóm	18.3	Construction
Asset Management		
PV 1115	100	Subsidiary management
Ohio	100	Stock portfolios
Kereskedelem 2000	40.2	Subsidiary management
Other		
Comasec Respirator	50	Military clothing
Borászati	22.9	Wine trading

Note: Most companies above have their own subsidiaries which make the whole picture more complicated and not transparent.

Source : *Budapest Business Journal*, Aug. 24-30, 1998.

When Mr. Bokros was appointed Minister of Finance in the Spring of 1995, it was disclosed that he received 16 million Ft (133,000 USD at that time) as his retirement lump sum for a few years CEO work at Budapest Bank, which was still state-owned at the time. The news caused a lot of controversy concerning the payment system of state banks, nevertheless no effective state regulation was introduced to the payment system of state banks and other similar institutions such as the state privatization office. How was it possible for state bankers to earn large amounts of money and decide on almost everything as private bankers do without effective state control?

First of all, it was an excuse of the government that to keep competent bankers in state banks a competitive payment system would be required. Secondly, the managerial and supervisory function of government as the majority owner has not been functioning. Most government officers did formal work as their private second job without taking due responsibility. Thirdly, it was of prime importance for politicians to keep a good relationship with state banks for financing political activities. Fourthly, astute managers such as Princz widely distributed money to all main political parties and invested in newspapers and magazines which were thus castrated and became incompetent to dispatch true information to the public. It was quite a ridiculous phenomena that almost all of the main daily papers and weekly magazines were financed by several subsidiaries of Postabank. It is unbelievable that the main forms of the media have been owned by the state bank for such a long period since the beginning of the system transformation. Here, in the case of Postabank, we can observe a similar Holy Trinity among politicians, bureaucrats and managers. The Trinity was strengthened through banking activity with media holdings, which were very universal in the Russian Federation and can be generally observed in the Czech Republic and Poland as well.

5. Corruption and Opportunism: Legacy of Old Regime

5-1 Politics Makes Wealth

It is a prevailing fact that many politicians begin to buy western cars and construct their own houses in a certain period after winning general election. It seems politics brings good money and wealth. How is it possible?

Of course, for politicians who play their role in the Holy Trinity there is no problem for them to create their own wealth as long as they keep influential power in political life. However, not all politicians can be members of the Trinity. The following are typical ways to earn money through politics in the transformation era.

The first channel is privatization. Politicians of a governing party can get insider information about privatization plans, and not only intermediate matters, but they themselves can also participate in relatively minor matters and collect small benefits. Of course, the direct participation of politicians in almost all cases is not possible, but the participation of their family members and co-operators are not illegal. If the matter in question is an international tender, then the amount of the success fee for lobbying would be tremendous.

Secondly, not only bureaucrats but many politicians have also been appointed as supervisory board members of quasi privatized and fully privatized companies. The amount of each honorarium may not be large, but one

can collect enough money to buy cars and flats from many nominal supervisory jobs offered by company managers who are looking for political and governmental connections.

Thirdly, the ruling party has decision power in distributing the state budget. Here again, politicians can get insider information on where money flows, and by proposing and suggesting ways of expanding budgets and where money should be expended, they can get earnings through intriguing channels. It is a well known scandal in Hungary that when a lawyer did some minor work on behalf of the National State Assets Holdings (APV Rt.) to negotiate with local government on the division of public assets, she received an 800 million Ft success fee, half of which the lawyer immediately transferred through complex channels to bank accounts of two ruling parties. This is only one case, known as the Tocsik scandal, which was disclosed to the public. The president of the junior partner of the coalition government resigned, but no responsible action was taken by the governing Socialist party.

As seen in Fig.2, Royal KPN has invested in several telecom companies in Central Europe. Recently, KPN's bribing of Czech politicians of the previous ruling party has been disclosed in connection with the privatization deal of SPT, although bribery is rarely disclosed in the case of international deals.

5-2 Family Connections

Family connections concerning political and economic power is widespread in Asian countries, and is often thought to be a typical phenomenon of despotic states which still utilize feudalistic traditions as a way of ruling countries. However, it was also a well known fact that sons and daughters of communist party leaders enjoyed privileges under the old regime.

Even today the tradition is still alive. If you are a family member of an MP in Hungary, you can get hold of and use diplomatic passports regardless of the aims of your trips. This fact reminds us that almost all guests to western countries from socialist countries had diplomatic passports in the old regime. At that time almost every guest from a socialist country explained that they were members of state organizations and therefore entitled to hold diplomatic passports.

Mr.Torgyan, the president of the Independent Smallholders Party and a junior partner of the coalition government in Hungary is now well known for his endeavours of promoting every family member to head state companies and institutions after his nomination as Minister of Agriculture. The Smallholder Party leaders also support their president's effort in the sense that family promotion has been a good and beautiful tradition not only in Hungary, but also all over Europe.(4)

- (4) On the contrary, Torgyan explains the appointment of his daughter-in-law from a different perspective. He claims that with only a high-school education background she did not have the chance to study in university under the Bolshevik era due to her lack of party membership. He believes that her promotion to the management board of the Hungarian Airlines will compensate for her past. All MPs laughed at his explanation, for every MP knows that his son graduated from university without party membership and has been earning a large amount of money through legal consulting for Postabank.

It is also very strange to us that the Prime Minister Mr.Orban takes his small son with him on his official visits abroad as if they were his private trips.

However, again the Hungarian media kept rather silent about these subjects as if nothing had happened, for they are afraid that critical remarks about current governing politicians cause fatal damage to financing papers and magazines. If this is the case, then what is the difference in the role of media from the old regime? If this is not so, we can say that the Hungarian media is very cowardly and still far away from being an independent power as in developed society. For the sake of Mr.Torgyan's honour we have to report that he finally abandoned the whole scheme of family promotion to lessen damage to his party.

5-3 Abuse of Status: Official Second Job

Under the old system, the mixture of private and public matters could frequently be observed in everyday life. This might have been because a clear border line between public and private matters did not exist in the old regime, where public assets might in some sense be for all people and in turn individual assets could also be considered public in some cases.

Even today, these types of mixed feelings, social behaviour and ethics are still dominant in ex-socialist societies, and this does not conform to social disciplines and normative in a developed society. Take one example: Many higher government officers have been given posts in supervisory boards of partially privatized companies, where they represent government ownership stakes. Government has also recommended bureaucrats to actively take part in this type of work to understand real business more closely. It is clear that they do the job as a function of government ownership and the honorarium they get is not personal income, but that of the government's. However, the honorariums have been paid directly to the persons concerned as personal income and Ministries have permitted this, because it complements the low salary of the bureaucrats.

Here we can observe the typical abuse of status and non-transparent function of government. The officer should get extra payment from government according to rules for extra work, and the payment derived from executing government function should be paid into the state budget. The two different things should be clearly differentiated to avoid bribery. If they make the matter unclear, every type of corruption could happen.

Executing government functions should not be a private second job. It is just as much a public job as being a civil servant. This is the ABC for carrying out public jobs, otherwise the government cannot execute its responsible functions.

It goes without saying that using a diplomatic passport for private trips is not a privilege for MPs and their family members, but is simply an abuse of status. If you go through customs control without checks on bringing in valuable private materials, it is plainly illegal. However, this does not make common sense in transforming countries, where the abuses are still taken as privileges of the persons entitled.

5-4 Moral Hazard and Weak Prosecution

Since the collapse of the old regime many government officers and many competent elite have gone into the private sector to make money. Consequently, bureaucracy in transforming society is becoming weaker and weaker. This is also one reason for higher officers to be recommended for taking official second jobs such as supervisory work in quasi-privatized companies. However, this easy-going solution brings about serious problems of moral hazard which lead to various types of corruption contrived by government officers and company managers.

In spite of very widespread doubt in Hungary, so far almost no legal accusations have been made by prosecutors in connection with bribery and corruption. It is partly because quasi bribery is *de facto* legalized and partly because the prosecutor is deprived of independence and did not play an important role in the old regime under communist power and that the negligible role of the prosecutor has been maintained in transforming countries, even after the collapse of the old regime.

6. Original Capital Accumulation

Transformation to a market economy enforces the reorganization of economic resources which should result in the effective redistribution of national assets. This process has been developing in various ways: if carried out domestically, then some type of enclosure of national assets is inevitable which can be accomplished by political struggles or by insider transaction, and where domestic capital accumulation is not sufficient, the only way for capital accumulation is capital import.

6-1 The Enclosure of National Assets: The Russian Case

The enclosure of national assets by the new Holy Trinity in Russia is no other than the original accumulation of capital typically observed in the beginning stage of capitalistic development as K. Marx described in *Capital*. The new type of capital accumulation is generally observed in ex-Soviet Union countries, where natural resources are rich, old political power is still relatively strong, and market economy development is weak.

In the course of enclosure it is also a well-known tactic to establish various types of subsidiaries around key companies and make money flows very complex and non-transparent. Thus, even if the key companies remain in the form of quasi-privatized companies, managers can easily acquire individual wealth by leaking money through subsidiaries to their own paper companies.

Otherwise, it is impossible for managers to afford luxurious lives only by their official salaries alone. The subsidiary tactic is widely utilized in Central European countries as well. Of the 120 billion Ft loss of Postabank it is said that a large amount of money was distributed to politicians, managers and others with various ostensible payment naming through various subsidiaries of the bank which also have their own subsidiaries with cross-ownership.

6-2 Insider Transaction: The Czech Case

In a more civilized society where market development is far more visible than in Russia, different methods of original capital accumulation are taking place. The Czech Republic, the pioneer of voucher-privatization, shows another way of accumulating capital by fully utilizing insider transactions.

Thanks to rapid privatization, almost all state owned companies have now been transformed into joint stock companies and their shares are freely traded among investment funds, where frequent insider transactions are observed due to the lack of strict transaction rules and disclosure requirements. Consequently, many unidentifiable investor groups could have acquired enough stakes in large companies, even in big banks, and suddenly have appeared as powerful investors in the business world.

In the Czech Republic, politicians have also tried to have good relationship with quasi privatized commercial banks and large companies to maintain their economic and political influences. Donations from large banks and companies were the main sources of election campaigns for the ruling Party, ODS, and the president of the largest Czech commercial bank, Komerčni Bank, was until recently a famous senator of the ODS and a colleague of Mr.Klaus. Not only Komerčni, but IPB, the fourth largest bank was also a major creditor in the 1995 election campaign.

The delay in the real privatization of big banks in the Czech Republic has caused several serious problems in the banking sector. The Klaus government did not take effective measures to consolidate accumulated bad loans and instead continued the easy option of bailing-out companies. Consequently, large banks have kept past business routines with strong holdings of non-financial business companies regardless of their profitability which has further worsened the situations of banks and has left semi-privatized non-financial companies not restructured.

All of these were mutually beneficial both for the Czech ruling party, ODS, and the managers of large banks and companies, because they could maintain their positions and political-economic benefits by their co-operation.

The direct cause of the resignation of Prime Minister Klaus in Dec. 1997 was the disclosure of a secret party bank account in Switzerland, to where not only foreign companies transferred lobbying fees in connection with privatization deals, but also secret donators in the Czech Republic transferred money.

The hasty privatization in the Czech Republic has deeply upset market disciplines and rules, however Mr. Klaus self-praised the course as real liberal capitalism, all of which brought out chaotic business situations

especially in the banking sector and in the capital market. Today's recession of the Czech economy can be attributed to the hasty voucher privatization, which had been greatly praised as a radical step towards the market economy by international organizations and economists in 1993-94.

Anyway, through voucher privatizations and insider transactions, the Czech style reorganization and redistribution of national assets has been established, and this characterizes the method of original capital accumulation in the Czech Republic.

6-3 Capital Import: The Hungarian Case

Where neither natural resources are available nor domestic capital is enough, the only way to accumulate capital is by importing. Direct investment by foreign strategic investors can pave the way for original capital accumulation in a given national economy. However, not every country can rely on imported capital, because it is not a given country's decision, but it is an investor's decision of where to invest.

Fortunately enough, Hungary has succeeded in attracting foreign capital and therefore so far accumulates sufficient capital in the national economy, partly by selling state companies to strategic investors and partly by inviting green-field investments.

6-4 Mixed Ways: The Polish Case

Compared to the above mentioned three countries, the Polish case cannot be decisively characterized by typical methods of capital accumulation. As is well known, trade unions hold strong powers and represent an independent social power which largely contributes to political democracy, though they put limitations on the privatization process.

Generally speaking, the privatization of state companies has been slow in Poland compared to the Czech Republic and Hungary. On the other hand, green-field foreign direct investments towards Poland, which are free from trade union power, are rapidly increasing thanks to its large domestic market with a population 38 million.

Thus, we can say that Poland shows a rather mixed case where privatization is effectively controlled by trade unions and, therefore, green-field investment by foreign investors is gradually becoming main stream in capital accumulation.

7. Where Has Social Justice Gone?: Lost Ideals

7-1 Know Yourself: Illusion of Quasi Private Business

When the average monthly salary of a Hungarian National Philharmonic member is 80,000Ft (400 USD), the national average monthly wage is 60,000Ft (300 USD) and the national minimum wage is 19,000Ft (95 USD) in 1998, then the president of Postabank, which was actually a state bank, was 8.8 million Ft (44000 USD). The amount might be larger than that of the president of the Japanese Central Bank. Even many presidents of giant Japanese companies do not receive such large salaries. There is a Japanese proverb: you should know yourself, otherwise you will ruin yourself.

Even if the market is so competitive in the banking sector, there are many competent Hungarians who can do such jobs for far more modest salaries, and it should be the government's responsibility to find and nominate the most appropriate person for the post with a reasonable salary. It is clear that the Socialist government gave up this task from the beginning and let managers do their jobs freely, and as a result all the loss which has occurred has to be compensated by the state budget. Who takes responsibility for the loss?

People who get an average salary have to pay 20 % personal income tax, and that means the net salary is 240 USD from which social security payments and other contributions are further deducted and the actual disposal income is under 200 USD. How was it possible for the ruling Socialist Party to permit and allow state bankers to determine their salaries freely when the overwhelming majority of people are suffering from low income? The government could have paid 100 members of the National Philharmonic from the salary received by Prinz, the ex-president of Postabank.

Princz might have had the illusion of his business competence, and the government neglected proper supervising work, all of which happened in the circumstances where competitive foreign companies were actively doing business and lifting the levels of salaries. However, you should know yourself and your competence and cut your coat according to your cloth. It should have been the government's task to measure its own coat size and cut its cloth properly according to its level. Imported capital might lift the level of salaries in certain sectors, however, it does not mean automatically that domestic companies also can enjoy the same level of income.

The story of the Postabank shows that it was a mere illusion and a mirage in the midst of the bubble of imported capital booms that domestic state bankers can also be competent enough to get a high salary as top bankers around the world do.

7-2 Irony of History: Left Became Right and Right Became Left

In the 1998 election the so-called center right-wing FIDESZ coalition won in Hungary, and the so-called left-wing social democrats won in the Czech Republic. Do the two results show an opposite political tendency in the two countries? No, not at all. Both political movements are exactly the same in the sense that voters chose policies oriented towards social policies which have been neglected by previous governments. It sounds strange that the central right-wing party in Hungary follows social policies, however, in fact FIDESZ proclaimed that the party can realize social policies which were neglected by the socialist party.

It is quite interesting that stereotypical classifications of political parties are already irrelevant for today's analysis of political situations in Central Europe, where the old left are strongly pursuing a market economy and the old right are orienting towards more social policies. Thus, earlier descriptions of political parties should be inverted by exactly 180 degrees; left became right and right became left.

As seen in Table 5, the classification shows a typical old-fashioned and obsolete analysis of political maps in ex-socialist countries. It is already invalid to analyse the political situation in this region by a pair concept of right and left.

It is also very interesting to hear from the new leader of the Hungarian Socialist Party, László Kovács, who was elected as the new leader after they lost the general election, that the party strongly opposes the taxation plan

Table 5 An Old Fashioned Political Map

	First post-communist government	Next	Most recent
Bulgaria	right	Left	right
Czech Republic	right	Right	Centre-left
Estonia	right	Mixed	right
Hungary	right	Left	right
Latvia	right	Mixed	mixed
Lithuania	right	Left	right
Poland	right	Left	right
Romania	left	Left	right
Slovakia	right	Left	left
Slovenia	left	Left	mixed

Source : *The Economist*, May 30 - June 5, 1998.

on real estate and interest on bank deposits. When I heard and read this news, I could not believe my ears and eyes. Since when did the Socialist Party become a capitalist party in Hungary? Something is eating away the ideals and conscience of the Hungarian Socialists who seem to have enjoyed political power and economic benefit too much in the previous ruling period.

There is a proverb in Japan: Fine manners need a full stomach. However, what we can observe in Hungary is: a full stomach makes a man throw over his original ideals, and makes a man more and more snobbish and vulgar. Otherwise, we cannot understand the change of behaviours in the socialists.

7-3 Restoration of Social Justice

By introducing taxation on accumulated wealth in the form of real estate and financial assets it is urgent and essential to restore social justice in transforming society, because sources of valuable real estates and other liquid assets are nothing but various types of incomes which evade taxation.

It is surprising to discover that no type of effective taxation on real estate actually exists not only in Hungary, but also in other Central European countries, and the state budget depends on a very high level of taxation of personal income and on VAT, the general rate of which is 25% in Hungary. The prevailing system of taxation in Central European countries is heavily dependent on current incomes and expenditures which unproportionally burden the poor and favour the rich. As observed in developed countries, small income earners do not have any ways of escaping taxation, on the contrary, large income earners do have various ways of evading taxation and thus tax evaded incomes are transformed into real estate and financial assets exempt from taxation. Contemporary Central Europe seems to be a paradise for the rich.

Why are socialists so strongly against real estate taxation? If it is because many socialist MPs constructed houses during their political ruling period, then it is quite sure that socialists cannot restore social justice in Hungary.

8. Optimism and Hope

8-1 Election as Judgement of the Public

Almost every general election in Central European countries since the beginning of the transformation has so far resulted in changes of governments. Thanks to the changes, most major parties have already enjoyed a ruling period and have known where channels of money flow connected with privatization and state budget distribution exist, which, interestingly enough, has brought out *de facto* mutual surveillance systems for extraordinary abuse of status among politicians. In this sense public votes have so far played an important social role by giving its judgement to the ruling of government parties on behalf of unreliable and incompetent prosecutors.

Here I would like to add one comment. In spite of the fact that the Hungarian Socialist Party did not take any responsibility for the Tocsik scandal, the party got the largest support in the latest election, though the party did not succeed in keeping power. In the same way, in the Czech Republic Prime Minister Klaus was forced to resign via a secret bank account, surprisingly voters still supported the ODS and parties split from the ODS.

These are very interesting phenomena when we study social and political normative in Central European countries in the sense that political scandal itself does not cause fatal damage for the parties concerned. We can say people are tolerant enough of political scandals.

Although foreign investors do not like frequent changes of governments, so far only the changes in political power have brought about the cleansing of the quasi bribery activities of politicians, bureaucrats and managers, and thus societies have barely maintained minimum social justice where the prosecution system does not work at all.

The disclosure system of individual assets of MPs has already been introduced in Hungary, but no one believes the seriousness of the self-declarations of MPs, most of which are so laughable that no form of media has anything to do with the declarations. This might be so, partly because the media itself does not work as a social checking and critical power in Hungary, and partly because people are very tolerant and quiet about bribery and government corruption. This can be explained by the long time period of silence of the people against any type of government and party corruption under the old regime, when protests by people against them were strictly punished.

However, the time has come for politicians to get a hold on themselves and make political life correct in the line of social justice. That is the message and expectation of people who voted for FIDESZ, the Young Democrats of Hungary who are considered to be still immune from corruption.

8-2 Much More Social Power and Establishing Social Disciplines

As described, people in Central European countries, except in Poland, are tolerable, obedient and silent regarding social injustice and corruption concerning government and parties. These societies are actually in some sense similar to European societies where the acceptance of the status quo in society is rather strong among people: people conform to current structures of social class and strata, those of wealth between the rich and the poor, and the relationship between authority and non-authority.

The level of social activity in Asian countries is far higher than that of in Europe, for the opportunity exists for Asian people to move and step up from one social class and status to another by their own efforts. This possibility has produced tremendous energy among people who are struggling for social promotion, and at the same time has brought every type of corruption to ruling government and parties.

Thus, we can characterize Asian society as one of high level activity, a strong social struggle, political antagonism, large scale corruption, high demand for social disciplines and ethics due to the lack of them, a strong and independent prosecution system for maintaining minimum social order, and high ideals for social justice as integrating objectives.

On the contrary, European society can be characterized as one of a low level of activity, mild social struggle, peaceful political dialogue, small scale corruption, established social disciplines and ethics, a prosecution system highly dependent on government, and a quiet voice of social justice, partly because a social welfare system is already established.

In this respect Central European society is also different from Western European society. Central Europe is in somewhat of a mixed position in every aspect of the social comparisons described above. That is: the level of social activities is low, political struggle is less antagonistic, corruption is widespread, social disciplines and ethics are low, and demand for social justice is also weak.

To Japanese eyes Central European countries and societies need more energy and power to promote themselves to a higher level of social and economic progress, and at the same time social disciplines and ethics should be restored for lessening *de facto* bribes and corruption spread around government and semi-privatized institutions.

Therefore, Central European governments should motivate people to play a more active role in business and social life not only by encouraging economic measures, but also by establishing rightful social normative in public life. That is, by showing the social disciplines required for a developed and civilized society the public can learn new social normative and fight powerfully against business and social injustice, and against corruption in social and business organizations. The fighting power itself shows the activity level of a society, and the reverse is also true that the activity level of society remains low as long as people are afraid of fighting business and social injustice. In this respect I am sure Central European countries could learn a lot from Japanese society.