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Elements, origins and future of Great Transformations: Eastern Europe and global capitalism

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Abstract
This essay analyses the relationship of two 'Great Transformations': the first from socialism to capitalism, more specifically in Eastern Europe in the 1990s, and the second from regulated to unregulated capitalism in the global economy since the 1980s, with respect to their common origins, elements and social results. Applying Karl Polanyi's double-movement concept, it is concluded that these two, in essence neoliberal, transformations have led to societies being deeply divided economically, socially and culturally. Moreover, the self-protection of transformation losers is generating adverse political outcomes on a global scale. For both reasons, the outcomes of neoliberal transformations are jeopardising also the viability of the European Union, which was initially built on the basis of a regulated capitalism. The future of the global economy and also of the European Union depends on how the conflicts between the deepening of unregulated globalisation, national sovereignty and democratic politics can be solved.

JEL Codes: B25, B52, P17

Keywords
Eastern Europe, global capitalism, Great Transformation, Karl Polanyi, neoliberalism

Introduction

As recently as 1989, the world was divided into the capitalist West, the socialist East and the rest of the world where neither the market mechanism nor the socialist central planning played the dominant role. Three decades later, the capitalist system has absorbed the

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East and penetrated large parts of the remaining countries, which are now commonly named 'emerging markets'. The system's triumph went hand-in-hand with its remarkable mutation towards an unregulated variation, which Rodrik describes as 'hyper-globalisation' (Rodrik, 2016). An examination of history reveals many analogies, compressed within a shorter time frame, with Karl Polanyi's Great Transformation between 1834 and 1929 (Polanyi, 2001 [1944]). Two analogies are especially striking. First, we see among policymakers and their economic advisers in both episodes a dominant belief in the self-regulating power of free markets that resulted in the lifting of most restrictions on national and international markets in commodities, labour, land and capital. Second, the global triumph of unregulated capitalism was associated with increasing resistance by the population and criticism by intellectuals who opposed the social and natural costs of its proliferation. The protests found, and may continue to find, their way into the formation of extremely nationalistic governments with an explicitly anti-globalisation impetus in many countries, among them in former socialist Eastern Europe. This impetus provokes a question regarding the future of capitalism in general and in Europe. My main conclusion sets out that the future depends on whether and how Rodrik's inescapable political trilemma (Rodrik, 2016) between hyper-globalisation, nationalism and democracy can be solved: that only two, but not all three of them can co-exist.

Clearly, a scientific preoccupation with such a nebulous subject such as the future of capitalism requires a methodology that modern economics or any other specialised discipline of social sciences is, for two reasons, unable to provide. First, the economy is a subsystem of society that incorporates culture, religion and jurisdiction, and as such, its historic analysis requires a holistic view, given that specialised disciplines have a more myopic perspective. Second, when undertaking empirical analysis, the various disciplines of the social sciences concentrate on data and their processing using statistical methods. But to identify underlying causal tendencies, they require long time series of data and an understanding of the weights of historically different episodes. Specialised sciences dispose of relatively short data series and tend to neglect the qualitative differences between episodes, even though they are necessary to recognise new occurrences in societal developments. The method applied in this essay is conclusion by analogy and thus assumes similar underlying structures in history. Imagine if we made use of a distant mirror[1] through which we might look from the future back to the past, in order to recognise such similar structures. Then, my main assumption adopted in this essay and used for conclusions by analogy is Polanyi's (2001 [1944]) concept of the double-movement that he developed in his work about the first Great Transformation. The concept refers simply to the dialectical process whereby society responds to the ravages of an unrestricted capitalism, which can open the way for alternatives. This assumption acts as the guiding thread of the considerations herein.

While a major focus of this essay is on East European countries, their transformation is embedded in the general development of the modern capitalist system. Such an assumption of embeddedness is justified, because the victory of capitalism in Eastern Europe, as well as on the global level, were the results of feedback processes. The socialist systems in Europe were virtually defeated by the regulated, welfare capitalism in Western Europe, but their transformation established an unregulated variation, and the global triumph of unregulated capitalism over welfare capitalism cannot be fully understood without examining the transformations in Eastern Europe. Thus, Eastern Europe is also embedded in the future course that capitalism will take.

The remainder of this article is structured as follows. In section 'Economy and society', the central assumption of the double-movement concept is more thoroughly explained. In sections 'Economy and society' and 'The Washington consensus in Eastern Europe', the Great Transformation in Eastern Europe and its relationship to the worldwide ascendancy of neoliberalism and the Washington consensus are discussed. Section 'The neoliberal turnaround in Eastern Europe' provides my explanation of the apparently unexpected turnaround of East European economists, away from Oskar Lange, John M Keynes and Michał Kalecki to the founders of neoliberal economics, such as Ludwig von Mises, Friedrich von Hayek and Milton Friedman. Section 'The global triumph of the unregulated capitalism and Eastern Europe's contribution' addresses the contributions of the Eastern transformation to the global triumph of unregulated capitalism, and section 'Self-protection of society and the future of the unregulated capitalism' offers reflections on the possible directions capitalism takes in the East European members of the European Union (EU). Section 'Concluding remarks' concludes.

Economy and society

> Fascism, like socialism, was rooted in a market society that refused to function. (Karl Polanyi, 2001 [1944]: 248)

Polanyi's subject of interest in his work on the Great Transformation was the era between 1834 and 1929, when the belief in self-regulating power of free markets dominated economic thinking and politics. Under the intellectual influence of the leading economists of the late 18th and the early 19th centuries, for example, Malthus, Ricardo and Bentham among others, politics led to the simultaneous spreading of international free trade, competitive labour markets and reliance on the gold standard first in England, followed by the European and American continents. As labour, land and currency (gold) became internationally tradable commodities, the first or original movement towards global unrestricted capitalism began.

What the classical economists *wanted* to create was an economy that was effectively uncontrolled by society and its government, and therefore able to set and act on its own rules. In such a case, it was their argument that the market mechanism would regulate demand and supply of commodities, thereby ensuring economic growth and common welfare. Polanyi, however, insisted that they did not and *could not* achieve this goal because the economy, as a subsystem of society, remains always embedded in the norms and moral rules of society (Block, 2001 [1944]: xxiv; Polanyi, 2001 [1944]: 74). When politics attempts to realise a utopian concept such as the idea of an all-embracing self-regulated market economy, they run the risk of damaging the society. The self-protective response of society against the social and cultural ravages of unrestricted markets constitutes the counter-movement, whereby protests begin and culminate in a populist moment that enforces the return of government interventions into the economy, in response to the society's protection requirements. The Bismarck social reforms in Germany after 1881 were one example of protective government interventions, while another was the creation of national central banks as protection against the straitjacket of the gold standard.

The double-movement concept helps to explain the history of capitalism – specifically, first, the rise of fascism and socialism; second, the emergence of welfare capitalism in Western Europe after the 1945 collapse of the major fascist regimes in Europe and as response to the expansion of world revolutionary socialism; and third, the increasing protests against the (neo)liberal transformation of society during our time. Polanyi's double-movement concept constitutes a form of feedback between cause and effect in societal development. It is violently in conflict with a broad stream of thought in social science 'that assumes facts and logics to be sufficient to arrive at the truth without reference to the historical context' (Zaman, 2016: 45). Such logical positivism, which is universally taught in economics textbooks, contends that the economic truth rests solely on observations that can be explained by the application of value-neutral, hence universally applicable laws of causality like those in the natural sciences, where an effect may abate, but cannot nullify, the cause. The double-movement as a holistic and contextual approach in history challenges this perspective by arguing that socialism was the effect of the capitalist system, but that it overturned its cause until its own lack of sustainability initiated the next counter-movement, that is, the transformation towards a new capitalist system. Logical positivism fails also in predicting great crises such as the collapse of socialism in 1989, the East Asian crises of 1997, the global financial crises of 2007–2009 and the Greek and euro crises between 2011 and 2014. In view of these crises, the future of the capitalist system may be better analysed by an approach that transcends the limited perspective of textbook economics.

The ascent of neoliberalism

> *And, you know, there is no such thing as society. There* are individual men and women, and there are families. And no government can do anything except through people, and people must look to themselves first. (Margaret Thatcher, 'Interview women's own', 31 October 1987. Cited in Thatcher, 2013)

When the Great Transformation ended with the Great Depression in 1929, the return of protectionism and the abolition of the gold standard, the mythic belief in the self-regulating market economy seemed to be virtually dead, also in Eastern Europe, where socialist ideas spread in industrial centres in Russia and Poland. However, as early as the 1930s, a revival of the idea emerged, activated by the academic controversy between Oskar Lange (1936, 1937) and Abba Lerner (1936), on the one side, and Ludwig von Mises (1975 [1935]), Friedrich Hayek (1975 [1935]) and Lionel Robbins (1935), on the other, regarding the feasibility of socialism, that is, the 'socialist calculation debate'. While Oskar Lange was a major influence for later market reform attempts in the socialist countries, von Mises and Hayek were it for the liberal schools of economics in the 20th century, especially the Austrian school of economics, the German ordo-liberal school (Eucken, 1948a, 1948b) and American and British neoliberalism schools of thought. Hayek held university positions in Chicago and London and founded the Mont-Pelerin Society in 1947, which still today acts as the hub of neoliberal networks.

It is likely that Alexander Rüstow, a German sociologist and economist, created the term 'neoliberalism' to separate the new view from the classical liberalism of the 18th century. Initially, it was a synonym for the German ordo-liberalism. In contrast, however, to the *laissez-faire*[2] attitude of governments, which practically made the state the prey of lobbyists, Rüstow (1932) demanded a strong state. He, Hayek and others wanted a rule-based liberal order, where state activity was not excluded but rather restricted by fixed rules that do not allow lobby groups to capture the state or the government to intervene in the spontaneity of the market process. A typical trait of a strong state is a balanced or even surplus budget. It is ensured by expenditure and deficit rules that commit the government to action when indicators, for example, reduced tax revenues, signal a deviation. The rule-based approach is the concept of policy-free governance that has penetrated modern public administration at the supra-national (EU), national and local level. It is based on the schools of the *New Public Management* developed in the 1980s that seek to make public services more businesslike through the use of private sector management models and public–private partnerships. The policymaker is replaced by the public manager.[3]

Despite this difference between the two liberal schools of thought, they are both founded on a common ontological root, that is, a belief that the behaviour of the individual is determined by its biological nature. Only when individuals exchange on the markets do they enter into social relations. Accordingly, for Hayek, the sum of individual exchange behaviours forms the society and not vice versa. It is from this notion that the so-called micro foundations of macroeconomics in modern economics are derived. With respect to the above-cited Margaret Thatcher quotation, the market and not the society should determine the relations between individuals, such that there exists a competition among autonomous individuals where the fittest win and, as in nature, survive. From here stems the modern phrase of a market-compliant democracy. Consequently, each consumer is a free trader due to its nature, and any social restrictions on this natural autonomy, be it a cartel or state restrictions on trade and capital flows, are wealth reducing. In this sense, as money is output-neutral, monetary policy may distort market outcomes. Therefore, Hayek favoured the gold standard, while Friedman favoured a rule-based monetary policy in the case of fiat money.

In a speech long before his *General Theory*, Keynes (1926) marked this concept as economic Darwinism and accused it of having micro-assumptions that do not reflect reality in human societies but that when not fulfilled produce complications to the theory. One of these complications occurs when 'ignorance prevails over knowledge' (Keynes, 1926: 9) or, in modern notation, asymmetric information allows the better informed to prevail. Another complication is that human market behaviour is reflective in that individuals predict the actions of other individuals and then adjust their own actions. The most famous example is the beauty contest analogy in Keynes' general theory, which suggests that individual economic action, in this case price formation, is influenced by social relations, namely, the anticipated assessments of other participants. In contrast to (neo)liberal belief, Keynes saw a prominent role for non-economic elements and their possible effects on individual decisions, such as expectations, ontological uncertainty, social conventions and the role of confidence. From Keynes' perspective, the state is not an arbiter, but rather it is a policymaker. As such, its actions should not be merciless to individuals, but instead be guided by ethics and morals. Keynes seems to have been completely aligned with Polanyi, in the view that policymakers should always be committed to finding a compromise between individual freedom and the protection requirements of the masses. In this sense, and in contrast to Hayek, money is a non-neutral asset that influences individual and collective economic decisions and liquidity preferences (Guizzo, 2019), and monetary policy should be used to correct for adverse market outcomes.

The 1949 Erhard reforms in West Germany were the first example of implementing a strong rule-based state in a liberal economic order. The reforms aimed to eliminate all vestiges of the controlled economy of the national-socialist period. The reforms, which were implemented in a shock-like manner, are widely assessed as a success story. Actually, favourable foreign conditions – a rising demand from the Korean War – prevented a social disaster.[4] Latin America and Eastern Europe, where the next experiments were to follow, could not rely on such conditions. A relevant contribution to the rise of neoliberalism was its involvement in Latin American crisis countries in the 1970s and 1980s. The reform script for Chile, after the military coup of 1973, was written by economists of the Chicago School of Economics, the neoliberal centre of the US university landscape (Friedman and Hayek taught there). In Chile, the term 'shock treatment', likely coined by Friedman, became a public synonym for neoliberal reforms in which two components dominated, namely, price liberalisation and the general retrenchment of the state in social policy and through the privatisation of state property. Neoliberal reform programmes followed in additional Latin American countries that were struggling with hyperinflation and were unable to service external debts after the oil price shocks. These countries underwent harsh austerity programmes, and millions of lives were ruined as the economy was decimated when neoliberal adjustment programmes were implemented, often under authoritarian governments. In Bolivia, Jeffrey Sachs, subsequently a leading adviser to the new governments of Poland and Russia, contributed in 1985 to a programme of lifting price controls and government activities. In Mexico, the 1980s tragically became known as *La Década Perdida* – the lost decade.

In Great Britain, where the London School of Economics (LSE) sought to establish an antipole to the Keynesian centre in Cambridge, neoliberal ideas exhibited increasingly stronger influence. When England was regarded as the 'sick man of Europe' in the 1960 and 1970s, the neoliberal countermovement set in. Margaret Thatcher executed a rigid programme that included deregulation, privatisation, a reduction in the welfare state by restraining government spending and lower tax rates, and a reduction in the rights of workers and trade unions. The principles of Thatcherism extend into the governments of John Major, Tony Blair and David Cameron.

All of these streams of thought in economics and politics contributed to a new consensus for structural reforms in developing countries at the end of the 1980s – reached by Washington-based international institutions like the International Monetary Fund (IMF) and the World Bank and private think tanks. The Washington consensus drew together conservatives, liberals, former socialists and social-democrats, and later even attracted former communists from Eastern Europe. Together, they became the new (neo)liberals, if not always in their theoretical beliefs, certainly in practical policy.

The Washington consensus in Eastern Europe

> Was the Washington consensus a good policy prescription for development? I have argued that that depends critically upon how you interpret a phrase whose meaning has become hopelessly compromised in public debate. (John Williamson, 2004: 18)

Williamson, who coined the term 'Washington consensus', defined it as a list of ten commandments (Williamson, 2004) that constituted the background for the conditionality of stand-by agreements of the IMF and multilateral assistance programmes (Paris Club and London Club) at the end of the 1980s for countries with severe foreign debt, high inflation and stagnating real growth. The problems were assumed not to originate from macroeconomic weaknesses, which is the traditional view in advanced countries, but from structural weaknesses in less advanced countries. Hence, financial assistance required structural reforms and not macroeconomic policy adjustments. The consensus influenced the transformation agendas in Eastern Europe, predominantly in countries whose new governments were prepared to do anything to obtain international financial assistance.

The degree to which the Washington consensus was neoliberal is quite a controversial issue. In light of the social disasters in Latin America and later in Eastern Europe, Williamson, in defence of his ten commandments, conceded that only one of them had a neoliberal origin, namely, commandment no. 8:

> Privatization of state-owned enterprises: Privatization was Margaret Thatcher's principal personal contribution to economic policy worldwide. It is the only doctrine for which one can trace a specifically neoliberal origin that made it to my list of ten desirable reforms. (Williamson, 2004: 9)

However, Williamson was mistaken. Privatisation was not *per se* a neoliberal cornerstone. Even noted critics of the transformation agenda in Eastern Europe, such as Bhaduri and Łaski (1997), accepted some privatisation for the purpose of achieving a mixed economy, in contrast to Margaret Thatcher who was determined to eliminate any state ownership.

The neoliberal character of the Washington consensus possesses two distinct features. First, the consensus claims a best practice approach that is applicable to every country experiencing homemade economic troubles. Such a claim can be derived only from assumptions that were valid under all circumstances similar to the laws of nature, and thus irrespective of the context of a given situation. However, Eastern Europe was not Germany in 1949 nor was it Latin America in the 1970s and 1980s. Not only were the initial conditions completely different, but they also varied among the transforming countries. Second, the direction of a change is not necessarily the exclusive element of a Great Transformation, it is also its speed and extent (see also Polanyi, 2001 [1944]: 143ff.). Accordingly, the speed and extent of privatisation are characteristic ingredients of neoliberal privatisation. Indeed, the shock-like, large-scale implementation of unregulated markets is the unique contribution of both the old liberal (England after1834) and the neoliberal policy agendas of West Germany in 1949 and later in Chile, Bolivia and other Latin American countries, and finally in Eastern Europe. We also find differences between the transformation from a socialist to a capitalist economy and the post-war Erhard reforms in Germany and the Latin American adjustment programmes, the latter of which were implemented in a mixed economy with overwhelming private ownership. In Eastern Europe, the capitalist economy encompassed almost the entire national economy, including price and wage formation, foreign trade and the dominant state ownership. The Washington consensus, however, was silent regarding the speed and scope of reforms, leaving the issue, instead, to national governments. The case of Hungary underscores the fact that shock therapy was not a *conditio sine qua non* for assistance, as the

IMF accepted a more gradual course of action that Janos Kornai (1997) described as an adjustment without recession. On the other hand, Poland would not have received foreign support without a shock-like transformation approach.

With respect to Williamson's commandment no. 8, the example of overhasty mass privatisation in Eastern Europe reveals the absurdity of the neoliberal concept, complete with its damages to equality in the long run and to society's rising sense of injustice. When almost all industrial plants and farmlands are state-owned, as in Eastern Europe, there cannot be a market environment to sell state property to risk-taking investors, nor are there private savings or a guide on what the market value of the state property may be at some point in the future. As Kenneth J Arrow (2000: 14) stated,

> To value a productive enterprise requires some expectations of its future profitability. These in turn require expectations of the prices which will prevail in the economy in the future. But if a transition for these expectations is lacking [. . .] Therefore, privatization especially of capital-intensive industries, requires great preparation [. . .].

When neoliberal policymakers were in power, the classical *laissez-faire* attitude of the state authorities prevailed against state ownership. The best researched example is Russia during the Gorbachev era and under his successor Yeltsin. Opportunities for rent-seeking spread across the communist *nomenklatura*, who usually included high-level party members, managers of state-owned enterprises and bureaucrats in the state administration, all of whom had privileged access to relevant knowledge regarding profit opportunities. With domestic prices still state-administered, directors could sell the output of their enterprise to front firms and straw men, and then resell it at a higher world market price. They could even sell part of the machinery to newly founded firms at prices that nobody could verify, a practice known as asset-stripping. A new class of super-rich emerged who founded 'pocket banks'[5] to hold the profits. When, in 1995, the Yeltsin government was cash-strapped, the pocket banks proposed offering loan funds whose repayment was secured by the government's majority stake in the key strategic industries that had not yet been privatised – the so-called 'loan for ownership' programme. This period gave birth to the oligarchs and paved the way for the upcoming demolitions of social structures and solidarity (Gabrisch and Hölscher, 2006: 171–177).

In the Czech and Slovak republics and East Germany, privatisation occurred quickly, albeit in a more orderly manner. In the Czech Republic and some other countries, the privatisation of industry through the distribution of vouchers to the population was finalised in 1994. Asymmetric information led quickly to the re-distribution at very low cost to investment holdings that had often no strategic interest in running the enterprise. In East Germany, 14,000 state enterprises, 30,000 detailed and wholesale units, and 19 million hectares of farmland were privatised between 1991 and 1994 by selling to West Germany and international corporations. The East Germans – the true owner of this huge wealth – had no access due to their lack of savings and credit and legal restrictions. Accordingly, they were virtually expropriated. A huge and long-lasting public transfer programme was implemented to avoid mass emigration from Eastern to Western Germany. Nevertheless, a broad segment of the working population lost their jobs during the privatisation process and never worked again. Moreover, German authorities massaged the unemployment statistics by transferring a redundant labour force, counted in the millions, to early pension schemes, a practice similar to what Hungary and Poland were doing, or by placing the unemployed into – often ineffective – retraining programmes until they reached their pension age; once more a lost generation appeared.

The neoliberal turnaround in Eastern Europe

> Part of previously radical economists revised important elements of their thinking . . . (they) made a full turnabout and moved from Marx and Keynes-Kalecki directly to Mises and Hayek. They did not only accept the latter's criticism of orthodox socialism, which after all had been correct, but took over their extreme liberal position identifying any economic action of the state with socialism. (Kazimierz Łaski, 1992: 52)

Movements in politics are regularly preceded by intellectual movements. The Great Transformation between 1834 and 1929 was prepared by the classical economists of England, its counter-movement was promoted by Marx and the socialists, and post-war welfare capitalism was structured by the leaders of the Keynesian revolution in economics. Von Mises, Hayek, Robbins and others prepared the revival of the free-market belief since the 1930s, which aimed at the defence against world revolutionary socialism, fascism and later, at an attack on the welfare state. But how was the intellectual turnaround prepared in socialist Eastern Europe?

It may be appropriate to explain the shock-like application of Williamson's Ten Commandments in Eastern Europe using a distant incident, namely, the Tienanmen Square massacre in June 1989 in Beijing, China. With this experience, opposition leaders in Poland and other countries feared that without the immediate destruction of the communist nomenklatura's power, the road to democracy would again fail. However, this notion does not explain the sudden and diametrical conversion to neoliberalism by a considerable part of East European economists who were educated in the spirit of Marx, Lange, Kalecki and even the 'bourgeois' economist Keynes. The true explanation for the intellectual transformation is that Eastern European intellectuals were already on the quest for a new theoretical foundation of their political beliefs and practical research years ahead of the Beijing incident.

On the eve of the Velvet Revolution in Czechoslovakia, the subsequent Prime Minister Václav Klaus (1989), then a researcher at the Prague Institute of Forecasting, stated, 'The current processes can be described as "reforms without theory"' p. 89). Klaus found his guide for reforms, and he became a stern advocate of neoliberalism. Poland's Leszek Balcerowicz, along with others, converted from a market-socialist reformer and member of the communist party in 1980 to a neoliberal in 1989. His 1980 reform concept had yet to combine the idea of a market mechanism and workers' self-management as a concept corrective of or complementary with central planning, without questioning collective ownership. Balcerowicz left the communist party after martial law was imposed in December 1981 and spent a study visit in 1988 in Marburg, a centre of German ordoliberalism. In 1989, he gathered a group of advisers, which included Jeffrey Sachs, Stanisław Gomułka and Jan-Vincent ('Jacek') Rostowski. Gomułka and Rostowski were at the LSE, the neoliberal centre of Great Britain's university landscape (Robbins and von Hayek taught there). All three were decided proponents of a shock therapy, which the so-called Balcerowicz plan later implemented.

Klaus' lament on reforms without theory came close to the truth as one important intellectual development reached its definitive end in the late 1980s, namely, the idea of implanting a market mechanism into central planning. Theoretically, the possibility of a functioning market mechanism in a socialist economy had been proved by Oskar Lange and Abba Lerner in the socialist calculation debate. Lange and Lerner attempted to demonstrate that autonomous state enterprises could reconcile micro-efficiency with full employment. Many economists in the socialist world adopted the idea and influenced numerous reform experiments following Stalin's death in 1953. The somewhat bashful name for the market mechanism was the law of value, a core proposition of the Marxian labour theory of value. Even in the obdurate German Democratic Republic (GDR), changes in the political leadership brought about some experiments with 'economic levers' (incentive systems, partly of monetary character).

However, all experiments to implant a market mechanism into the centrally planned state economy failed because the so-called transformation problem could not be solved. The law of value states that the relations of the money prices of commodities reflect the relations of socially necessary labour input for their production. However, the law of value can only function in socialism when the labour values can be transformed into money prices, which proved to be impossible. Włodzimierz Brus, the most prominent author in the debate, qualified the attempts to reform the socialist economy without having solved the transformation problem as a bane (Brus, 1993). With this fundamental defect, the reforms could not deliver their basic material promises. Rather, they produced chaos, consumer goods shortages, and social and political unrest, and they delivered the case for the ruling communist elite to suppress the revisionists and their reforms. After these depressing experiences, two leading Polish reform economists summarised their distance from the socialist market concept with the conclusion that market socialism would produce few, if any, advantages compared to a private market economy, but would produce many disadvantages (Brus and Łaski, 1989: 10).

Nonetheless, the loss of the traditional reform theory based on Lange, Lerner and Brus does not sufficiently clarify the turnaround of most Eastern economists towards neoliberalism, given that a few did not change their economic theory, when based on Keynes and Kalecki, but only their political orientation. But a closer view reveals an important theoretical interference between the basic ideas of a market mechanism in the socialist economy and the neoliberal idea of self-regulating markets. Lange and Lerner had applied the neoclassical model of Walras and replaced the auctioneer with the central planning authority. The latter would calculate equilibrium prices for a full employment state and fix them for state enterprises, which would respond autonomously with quantity (output) adjustments – in a way that was similar to that of neoclassical model firms that acted as price-takers under perfect competition. This belief in the function of the price mechanism was the bridge many Eastern European economists crossed from the failed theory of market socialism to neoliberal beliefs.

How close socialist reformers and neoliberal economists were to each other is illustrated by the case of China after Mao's death in 1976, when the new leadership prepared to reform the Soviet-style economy. Despite the failure of the market mechanism model in their home country, Ota Šik (Czechoslovakia), János Kornai and Brus were invited to contribute to the Chinese reform debates in the 1980s in close exchange with economists from the IMF and neoliberal economists such as Milton Friedman. From that time, a strand of the literature discusses whether China's reform policy reflects the core ingredients of a neoliberal orientation (Weber, 2018). Initially, the Chinese reform policy focused on 'getting prices right', a practice echoed later in Eastern Europe. Milton Friedman suggested that China's reforms follow the Erhard reform method of a one-stroke freeing of wages and prices. With some reference to Lange's last publication in 1965 (Lange, 1970), Šik believed it was possible to calculate equilibrium prices by using advanced computer techniques. Indeed, the early reform concept was a 'big bang' (shock therapy) one and included price and wage formations on a large scale. However, the initial implementation attempts in 1988 provoked bank runs, hoarding and social unrest, and were halted and finally ended after the Tienanmen massacre in May 1989.

The global triumph of the unregulated capitalism and Eastern Europe's contribution

> The heyday of the neoliberal doctrine 'was probably 1990-1997 after the fall of the Berlin Wall . . .' (Joseph E. Stiglitz, 2001 [1944]: xv)

Welfare or 'Rhenish' capitalism in Germany, Austria and Northern Europe appeared increasingly to be an attractive societal alternative to the broad masses and also intellectuals in Eastern Europe, at least during the final decade of communist rule. Its sustained existence after 1945 served to mask the fact that it was the political response to the Soviet system in the neighbourhood, wherein its traits were a power balance between workers' movements and big capital, a mixed economy and elements of Keynesian demand management to ensure full employment. Internationally, it was safeguarded by the Bretton Woods system with its fixed exchange rates and cross-border capital controls, and then the General Agreements on Trade and Tariffs (the GATT system) with its gradual, albeit impressive trade integration. Nevertheless, it was a power balance on fragile grounds due to the structural predominance of capital over labour and the principle aversion of big business to full employment policies. In a 1943 article, Michał Kalecki identified three reasons for this dislike. First, full employment policies would require government spending and budget deficits, which private investors understand as undermining the state of confidence and profit realisation. A balanced budget ('sound finance') would give the capitalists a powerful indirect control over government policy. Second, full employment policies might lead to new areas of public investment via the nationalisation of transport and public utilities. Finally, full employment would undermine the disciplinary character of unemployment (Kalecki, 1943).

The fragile power balance in Western Europe came under pressure through the erosion of the Bretton Woods system and its final collapse in 1971. The collapse of the fixed exchange rate system changed the real world and its politics and drove academia from Keynesianism towards pre-Keynesian classical economics. Monetarism rested on the output-neutrality of money and promised a successful fight against high inflation in the 1970s. The efficient market hypothesis justified the re-liberalisation of financial markets as in the period of the gold standard, and the new growth theory legitimated the shift from demand-side to supply-side policies. Neoliberal governments in Great Britain (Margaret

Thatcher) and the US (Ronald Reagan) and later the European continent pressed for cutbacks in workers' and trade union social positions and reductions in taxation rates. Under the Clinton administration, financial industries were deregulated, and as a result, international capital flows soared, among them not only direct investment but also speculative flows. However, because the West European capitalist systems were the response to the communist rule in Eastern Europe and the Soviet Union, the final impulse for the global triumph of neoliberal ideas came from the collapse of this rule and with the emergence of reforming China as a new potent competitor in the Asian region. Eastern Europe offered cheap labour, new sales markets and opportunities for globally acting corporations to acquire industrial plants. This outcome led large industry associations to press for quick accession of East European countries to the EU. However, mass emigration and the capital needs for the reconstruction of industries strained European labour and capital markets. First estimates of the rate of net international transfers to Eastern Europe, including the former GDR and Soviet Union (e.g. Collins and Rodrik, 1991), suggested enormous amounts for the acquisition of state-owned enterprises and new investments that would affect interest rates worldwide if the existing restrictions on international financial markets were not lifted. Indeed, the estimated capital transfers for the reconstruction of the East German economy alone and for the fending off of mass immigration into the West German social system were high enough to create doubts in financial markets regarding the capacity of some member countries of the then European Monetary System (EMS) to service their debt obligations. During the 1992–1993 period, speculative attacks led to the virtual collapse of the exchange rate mechanism.[6] The international response to the pressures on capital markets was the foundation of the World Trade Organization (WTO) in 1994. The WTO extended the commodity trade system GATT with the General Agreement on Trade in Services (GATS), which covered, above all, the services of the banking and insurance sectors. This outcome paved the way for the massive increase in international financial flows between the advanced economies and the emerging markets, that is, developing and transformation countries. Financial institutions sought to cope with the problem of the rising uncertainty of markets by innovating derivatives and collateralised securities. The notional value of all derivative contracts increased by eight times that of the world nominal gross domestic product in 2008, when the global financial crisis broke out, compared to the doubling in 1998.[7]

Accordingly, the capitalist system switched from a regulated into an unregulated hyper-globalisation modus that East European countries had to accept as a condition of their integration into the global economic system, and particularly when they intended to become members of the EU. The political leaders of the then European Community (EC) signed the Maastricht Treaties in 1992. These treaties transformed the Common market of the EC into the Single market of the EU with the euro as the common currency as of 1999. The construction of the new union breathes the neoliberal spirit of deregulated commodity, service, labour, land and capital markets, and the retrenchment of the welfare state. The EU has 'gone far in internalising the Washington consensus' as Hölscher and Howard-Jones (2018: 3) state. The fiscal provisions that were adapted to the monetary union were incorporated into the Stability and Growth Pact (SGP) and its later reforms, the Two Pacts for increased surveillance from 2011 and the Fiscal Compact in 2012. Following the neoliberal principle of rule-constrained state activities, more than

150 fiscal rules of diverse legal form were enacted at the general or central government level in all EU countries (EU Commission, 2019) and became a strong impediment to Keynesian demand management of the crises from 2010 onward. It was the social-democratic dominated EU that implemented the neoliberal union concept. The EU members are now committed to doing everything they can to increase the competitiveness of their industries, primarily through competitive labour. While the Washington consensus virtually died in the 2000s, harsh income cuts and other fiscal and social reforms in exchange for financial assistance were required in the EU.

After eight east European countries were admitted to the EU in May 2004 and two others in 2007/2008, millions of their inhabitants acquired jobs in Western countries, especially in Great Britain, where the restrictions against immediately entering the workforce were lifted. This was in stark contrast to those countries that imposed transitional provisions of up to 7 years for labour immigration. Overall, the new EU member countries lost about 8% of their population or almost 10 million inhabitants between 1989 and 2017. The governments of the large EU members., that is, Germany and Great Britain, which were led by social-democrats, namely, Tony Blair in Great Britain and Gerhard Schröder in Germany, pressed for increased social system and labour market 'flexibility', which is a code word for self-regulating markets (long after their government, Matteo Renzi in Italy and Emmanuel Macron in France, followed in this respect). As a consequence, a considerable low-wage sector with precarious jobs emerged in the first half of the 2000s in response to the expected mass immigration from the Eastern European countries after their accession to the EU. The EU-wide labour market mutated the Eastern European workers into nomads in some segments, such as the butchery, fruit-picking and building industries. In the EU, migration from the East put pressures on the working conditions of the Western host countries, thus triggering protective counter-measures, for example, the implementing of various EU directives on the posting of workers from new member countries and the requirement that they be paid the same wages as in the host country. With the strain on the labour markets remaining high, official unemployment statistics no longer identified the true misery of labour in the globalised economy. In Germany, the rate of registered unemployed was at 5.2% of the labour force in 2018; however, the underemployment rate was about 13%, to which one has to add the hidden reserve of an additional 2%–3%.[8]

Self-protection of society and the future of the unregulated capitalism

> In effect the disintegration of a uniform market economy is already giving rise to a variety of new societies. Also, the end of market society means in no way the absence of markets. (Karl Polanyi, 2001 [1944]: 260)

The illusion of classical liberal and neoliberal beliefs in self-regulating, that is, completely, free markets rests on ignoring the protection requirements of the individual, guaranteed by the ethical rules and institutions of the society. Rather, these beliefs require individuals who think and behave, first and foremost, free of any form of social interdependence – an endeavour that inevitably necessitates the creation of a 'new person'.

Since this notion is unrealistic, ignoring humanity's social nature leads to a society that is divided economically, socially and culturally. Thomas Piketty's (2014) study *Capital in the Twenty-first Century* provides evidence that unregulated capitalism leads to an increase in inequality of wealth and income. In Eastern Europe including Russia, the post-communist transformation led to this expected increase in income inequality, not to mention inequality in equity due to the privatisation of state ownership (Gabrisch and Hölscher, 2006). Piketty concludes that increasing inequality can be reversed only by state interventionism. Without this potential reversal, any societal order is in jeopardy. The self-protection of the majority of losers against the ravages of the implementation of a utopian project may cause political instability and result in a failed society, insofar as the capability of self-destruction is inherent to utopian projects.

Using my metaphor of a far-distant mirror, we may see that the self-destruction of the utopian project and the self-protection of society form a structural similarity of different historical epochs. An eloquent testimonial to self-destruction was the failure of the first Great Transformation in the World War 1914–1918 and the Great Depression. Present-time equivalent warning signs were the Occupy movement in the US and, in Europe, the Yellow Vest movement of 2018/2019 in France, and the escalating protests against social injustice in Latin America in 2019. Another example is the shift of globalisation losers towards extreme left- and right-wing parties in the southern member countries of the EU after the Troika (the European Commission, the IMF and the European Central Bank) forced severe austerity programmes upon them. In Great Britain, the working classes suffered from the pressure on labour markets from mass migration, above all from Poland, which contributed to the anti-EU sentiments and the overwhelming 'Leave' vote in the Brexit referendum of 2016. Furthermore, spreading protests against excessively rising housing rents in Germany 2019 are the consequence of land speculation by domestic and international financial investors. Finally, we add the shift of the transformation losers in many East European countries to parties with an authoritarian programme, a shift that impairs the capabilities of the EU institutions to politically compromise.

However, the direction in which globalised capitalism will change remains a question of speculation. Even though double-movements have an open end because the history of society does not follow any universal law, speculation remains not completely undirected when we attempt to conclude by analogy. Accordingly, we can rely on two factors. Critical reflections in the social sciences, particularly in economics, shape a first possibility; they precede political changes. Today, the Washington consensus with its 'one-jacket-fits-all' approach for emerging markets is virtually dead. A new concept – Growth Diagnostics – assumes that the binding constraint to growth is different in each country, and hence, a diagnosis of the specific context is required before a remedy can be prescribed (Hausmann et al., 2006). Jason Furman (2016), a former chairman of the US Council of Economic Advisers, summarises a new view on fiscal policy among economists that relies on econometric investigations. This perspective is actually not that novel, given that it incorporates the well-known Keynesian principles of demand management, including deficit spending, when aggregate demand falls short.

Unfortunately, critical reflections have less political impact on the EU. An abundance of research articles has found that a lack of financial regulations of cross-border capital flows, a lack of appropriate fiscal risk-sharing instruments at the monetary union level and a lack of transfer payments helped aggravate the severity of the economic downturn

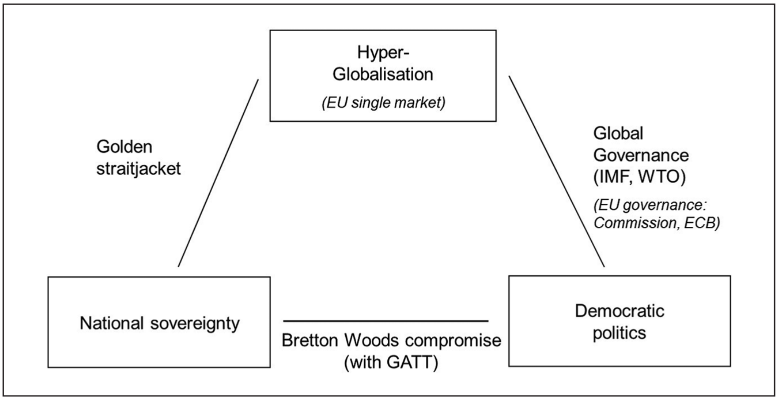

Figure 1. The inescapable political trilemma of the world economy (and the EU).
Source: Author's rendering after Rodrik (2016).
EU: European Union; IMF: International Monetary Fund; WTO: World Trade Organisation' ECB: European Central Bank; GATT: General Agreement on Tariffs and Trade.

in the euro periphery and delayed the recovery of the entire area. Nonetheless, the current reform agenda remains guided by attempts towards an ever more rule-based liberal order in the euro area, among them the Fiscal Compact of 2012 and a projected capital markets union. The former reduces further the room for policy-driven fiscal manoeuvres, while the latter aims at the lifting of the remaining restrictions on private financial services. In view of the rise of social conflicts and nationalism, it is difficult to not notice that the further neoliberal deepening of the EU project may pose a great danger to the survival of the EU, not at least owing to growing resistance among the East European nations.

The second factor is of an institutional nature. When one uses Rodrik's political trilemma of the world economy (Figure 1), a frame for feasible capitalism emerges. The trilemma states, democracy, national sovereignty and unregulated global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full (Rodrik, 2016). The Bretton Woods compromise included a controlled trade globalisation and left enough room for national sovereignty and democratic politics. If we want to proceed with hyper-globalisation, we must sacrifice either the nation state or democratic politics in favour of some technocratic global governance. However, the nation state would then find itself in a 'golden straitjacket', like that of between 1834 and 1929 with respect to the gold standard, a scenario of the future we may sum up as capitalism with a market-compliant democracy.

When we apply the trilemma to the EU, the ongoing neoliberal reform agenda enlarges and deepens the single market and raises further the role of the European Commission in technocratic governance, but national sovereignty for policy-driven actions will be further narrowed. This leads us to the Brexit tragedy. Brexit is built on the illusion that it is possible to achieve all three angles of the trilemma. Specifically, Britain would leave the largest economic area with free commodities, services, labour and capital markets, as well as the straitjacket of a common currency – the *Shangri-La* of neoliberal orthodoxy – only to restore such an order by means of bilateral free trade agreements with the EU and other world regions. Sooner or later, Britain would be forced either to give up a large part of its economic sovereignty or to narrow the realm of democratic decision and participatory decisions (e.g. by labour organisations).

How can we localise the Eastern European member and candidate states in this frame? What we may observe is a separation between two camps. The first one is formed by the six countries that have already adopted the common currency and the related requirements for fiscal and monetary policies. These countries are obliged to follow the rule-based liberal order of the monetary union and also the neoliberal reform agenda, whereby their influence on reform decisions is very limited. The second group consists of the four larger economies – Poland, Hungary, the Czech Republic and Romania. Since the outbreak of the global financial crisis and the following euro crisis, a large part of the population and many policymakers in this group demonstrate a dismissive attitude towards euro adoption. Poland, the Czech Republic, Hungary and Romania avoid the golden straitjacket and instead retain the instruments of monetary and fiscal policies for fighting adverse economic and social developments if necessary. Their governments use monetary and fiscal policies for a sovereign national capitalism. Particularly in Poland and Hungary, fiscal policy is not consistent with the restrictive rules of the EU and can be actually described as a form of Keynesian demand management. With some success, their gross domestic product (GDP) growth tends to exceed the mean growth in Eastern Europe. Indeed, global observations (East Asia) show the success of an active government, wherever it may play an important role. Unfortunately, in Poland and Hungary and until recently Romania, the return of an active government occurred at the cost of democratic politics. This has meant restricting the rule of law, the social status of workers (Hungary) and the power of parliament. That said, expansionary social programmes serve to win the support of the poorer population stratum for a nationalistic and authoritarian variety of capitalism. Seen from the perspective of the above trilemma, these governments try to instal a compromise between a nationalist, regulated capitalism and some forms of control over monetary and financial integration.

Concluding remarks

The question that guided this article was how to define the contributions of Eastern Europe to the worldwide triumph of the unregulated capitalism and to the future of capitalism in Europe. As a result, the transformation of socialist Eastern Europe served as one of the driving forces for this triumph not only in former Western Europe but on a global scale as well. With respect to the future, structural similarities in the history of unregulated capitalism, of which Eastern Europe became a part, were investigated. When Karl Polanyi's double-movement concept was applied, such structural similarities were revealed between the first globalisation wave between 1834 and 1929, that is, Polanyi's Great Transformation, and Rodrik's hyper-globalisation since the 1980s. This article's conclusion is that globalisation episodes are not the results of fundamental factors such as technical progress or demography, but rather of political projects built on influences from (neo)liberal thinkers and economic interest groups.

The most important similarity between the historical eras is indeed that capitalism is driven by a double-movement, of which the counter- movement is a protective response by society against the social and cultural ravages of unrestricted markets. Although there was not space here to catalogue these ravages, they are well-known: not only increased financial and economic instability and increasing income and wealth inequities, but also the dismantling of workers' rights, child work in emerging markets and devastations of nature. Unfortunately, as counter-movements can take unpleasant turns towards authoritarian capitalist variants, as in some East European countries, one should look for new social contracts at the national and international levels that re-establish a sustainable compromise between markets and democracy in the national and international arenas. Today, after the collapse of state socialism, the virtues of markets and their economic power are widely accepted. It is also true that democratic politics is the most powerful prerequisite for protecting society against the self-destructing power of unregulated markets.

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Notes

1. This metaphor is taken from the historian Münkler (2017: 818), who studied the structural similarities between the Thirty Years' war period in Europe and the political structures of the contemporary world.
2. Actually, 'laissez-faire et laissez-passer', literally meaning 'let them do – let them pass'.
3. In political science, a sister discipline of economics, the concept of rule-restricted politics is known as 'depoliticisation' (see Burnham, 2017).
4. The unemployment rate more than doubled from 3.2% to 8.7% between June 1948 and June 1949 (Bundesministerium für Arbeit, 1950).
5. A pocket bank is said to be in the 'pocket' of specific client. In Russia, such banks were established by their client and to exclusively serve them.
6. The UK left the system forever, Italy left temporarily and the currencies of other member states devalued; the fluctuation ranges of the band were increased from ±2.5% to ±15%.
7. Author's calculations based on data of the Bank for International Settlement (2015) and World Bank (2016).
8. Underemployment includes registered unemployed persons plus persons in labour market programmes; the hidden reserve can only be estimated. Author's compilation based on data from the Bundesagentur für Arbeit (n.d.) online.

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