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**CIVIL WAR
in YUGOSLAVIA**

Labour Focus on **EASTERN EUROPE**

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The European Community and East-Central Europe 1989-1991

by Peter Gowan

This dossier attempts to analyse the European Community's response to the collapse of the Soviet Bloc in East Central Europe (ECE) between 1989 and 1991.¹ We will look mainly at the EC's relations with three countries: Poland, Czechoslovakia (the CSFR) and Hungary.

In Part One we try to set the scene by explaining the EC's policy instruments in relation to East Central Europe, and their relationship to the institutions of the Western Alliance as a whole. In Part Two we attempt to outline the character of the upheaval of 1989, the key problems facing the new regimes in ECE and the main policy options facing the West as a whole and the European Community in particular. In Part Three we describe the policy goals adopted by the European Community and their implementation between 1989 and 1991. In the final part we try to assess the effectiveness of the EC's policies in relation to its original goals and to assess the possible outcomes of these policies in the region in the future.

Part One

EC Policy-Making Towards the Eastern Bloc up to 1989

Powers of the European Community

European Political Co-operation (EPC) had some significance for EC-East European relations in the 1970s and 1980s, thanks mainly to its role in the Helsinki negotiations on European Security and Co-operation.² But before 1989 the main policy jurisdiction of the EC relevant to Eastern Europe concerned aspects of trade policy.

In 1974 the member states of the EC ceded certain aspects of their external trade policy-making powers to the European Community.³ In particular, the EC acquired powers over its members' import policies. The EC did not control export policy, except in the field of agriculture.⁴ Member states' individual export policies towards the Eastern Bloc were supervised by Cocom and at the same time they guarded their national control of export credit policies (though these have to some extent been regulated by the OECD since 1983⁵).

In the field of import policy the EC gained the power to set the common tariffs of its members, to sign bilateral trade agreements with individual East

European states, and to handle non-tariff aspects of import policy, such as quotas and outright bans. Preferential trading arrangements with any outside state were also to be handled at EC level. Individual member states could still make bilateral agreements with East European states on scientific and technical co-operation, on investment and co-production issues and on import credits. Everything else to do with imports was to be handled on an EC level.

This transfer of policy-making to the EC meant, in practice, its transfer to two bodies: the Council of Ministers and the Commission. Later, the European Parliament also acquired a role in some aspects of trade policy.⁶ Matters to do with imports fell under the control of the Council of Ministers; in other words, of collective decision by the member states. Any negotiations with individual ECE countries would be carried out by the Commission, but under a mandate agreed by the Council of Ministers and the Council would also have to approve the final agreement. Another aspect of the EC trade regime that acquired importance in relation to ECE states has been its anti-dumping procedure. Individual member states could set the procedure in motion, but decision would be in the hands of the Commission.

The shift of powers over import policy in 1975 did not, in fact, have a major practical effect on the freedom of action of member states since they collectively agreed in the Council of Ministers to maintain the various quotas and bans that they had individually operated before the transfer of import policy-making powers to the EC. Where member states were constrained by the transfer of powers was in the field of agreements with individual ECE states to lower import barriers. Such bilateral agreements between one member state and an ECE state were henceforth outlawed.

Increases in barriers against imports could thus be imposed by individual EC member states; but decreases in barriers by individual member states to points below the EC's general norms for particular ECE states were outlawed.⁷ In other words, the transfer restricted the room for manoeuvre of ECE states in their efforts to increase exports to states within the EC.

The European Community and Alliance Policy-Making Towards ECE

But while the EC has, juridically, had complete autonomy in deciding its trade policy towards Eastern Europe, politically it has not. The region has been the buffer zone of the Soviet Union in the Cold

Table 1

AUTONOMOUS EC QUOTAS ON IMPORTS FROM POLAND

Country	1980	1983	1986	1988
Benelux	27	27	21	21
Denmark	7	6	5	5
Ireland	1	1	0	0
FRG	37	39	40	40
Greece	31	31	15	15
France	20	18	17	17
Italy	38	39	39	39
UK	15	13	12	12
Portugal			15	15
Spain			52	52

War, and as a result the basic framework of EC policy-making towards the region has been laid down by the North Atlantic Alliance and more particularly by the USA.

The relations of enmity between the Western and Soviet Blocs have ensured that all aspects of relations between them, including trade, have been governed by political considerations. And such political matters have fallen within the jurisdiction neither of the European Community nor of its individual members but of the Western Alliance led by the United States. The ebb and flow of trade has been governed by the various phases of American policy in the Cold War as much as by purely economic factors.⁸

The resulting politicisation of West-East economic relations and the corresponding leadership role of the United States has not always been to the liking of West European governments. The FRG government has notably dissented on occasions and there have been disputes across the Atlantic on some of these issues during the 1980s (the Soviet gas pipeline issue at the start of the decade and some aspects of the FRG's Deutschlandpolitik being cases in point).⁹ But on the whole the ascendancy of politics over economics and of NATO leadership over West European trade policies has been sustained.

Thus while the formal circuit of trade policy-making has been a loop within the EC passing through national governments, the Commission and the Council of Ministers, the real, political, circuit has included the NATO alliance and above all the government of the United States. And while the formal substance of policy has been technical-economic, its real basis has been the political strategy of the Western Alliance towards the Soviet Bloc. This political context has often been obscured within an official technocratic discourse.¹⁰

The government with the greatest influence by far over West European political strategy towards ECE has, of course, been the United States. And for all American administrations, the states of ECE have not in themselves had much intrinsic significance. The US has had negligible economic interests to pursue in the region; but East Central Europe has been of cardinal political importance for the US because of the great contest with the Soviet Union. And American policy

towards the region was overwhelmingly conditioned by its strategy towards the USSR.

The Substance of Western and EC Policy before 1988

One expert on US policy over East-West trade has characterised that policy in the following terms:

"U.S. East-West trade policy was highly politicised and became an economic instrument of US national security policy. The following rules were, therefore, binding in principle: not to allow socialist countries to sell commodities in a rentable way (ie not to allow them to have enough free currency); not to allow them to buy strategic commodities, and not to finance exports to these countries. These principles have persisted without substantial changes over the last 40 years."¹¹

This general hostility to allowing any large expansion of East-West trade was, however, combined with attempts to differentiate between states in ECE. In an attempt to weaken the Soviet government's efforts at economic and political integration within Comecon, ECE states which showed signs of heterodoxy in domestic or foreign policy could be rewarded with trade concessions. Poland under Gierak and Hungary under Kadar represented the first tendency; Romania under Ceausescu, the second.¹²

The US granted Romania Most Favoured Nation Status in 1978, and the EC followed suit with a trade and co-operation agreement with Romania two years later. Policies were similarly co-ordinated in relation to trade relations with Poland and Hungary. Following the declaration of martial law in Poland in December 1981, the EC followed the US lead in imposing trade sanctions and other restrictions on Polish trade with the West, making Hungary and Romania the privileged trade partners in ECE during the early 1980s. With renewed detente in the mid-1980s, Western policy laid particular stress upon efforts to open the ECE economies to the influence of Western market forces privileging those states, notably Hungary and once again Poland, moving in this direction, while downgrading Romania whose economic regime remained closed and centralised.

But this Alliance and EC policy of seeking to promote differentiations and centrifugal forces within Comecon by privileging some states and discriminating against others must be set within the wider context of discrimination against the Soviet Bloc as a whole in economic affairs. Thus, in the 1980s it is estimated that the EC's tariff barriers for such states as EFTA members or the ACP states (African, Caribbean and Pacific) were three to four times lower than those imposed on ECE goods.¹³

The great bulk of East European exports entering the EC (some 75%) have done so under Preferential Trading Arrangements (PTA). These PTAs should not be construed as a partial liberalisation of trade: they can rather have the effect of distorting an efficient international division of labour by pushing trading partners into lines of exports which favour the EC recipient but which may undermine the rational exploitation of comparative advantage in the producer country.

Non-tariff restrictions on imports from ECE states have included autonomous quotas imposed by individual member states on imports from particular ECE countries. Table 1 lists quotas imposed on Poland in the 1980s. Such quantitative restrictions are, of course, applied by the EC to other countries, notably Japan. But they have been particularly prevalent in trade relations with ECE countries.

More important non-tariff barriers have been the so-called Orderly Marketing Arrangements (OMAs) and Voluntary Export Restraints (VERs) established through sectoral agreements between the EC and ECE states. These have been used since 1978 to restrict steel imports from Comecon countries; they have also been applied to textiles since 1979 for Poland, Hungary and Bulgaria, since 1986 for Czechoslovakia and since 1987 for Romania. Others have, of course, been applied to agriculture and other products. VERs and OMAs can, of course, be viewed either as market openings up to a certain level or as prohibitions above a certain level. In one respect they are more advantageous than the annually imposed quotas, in that they give some longer term security to the exporters that their goods will be exportable to the EC up to the given limit.¹⁴

Agricultural exports from ECE countries to the EC could have been substantial but have, over the years been increasingly restricted by CAP protectionist levies.

The EC's anti-Dumping Procedure has also been a powerful instrument against ECE products, as the Table 2 indicates.

When the EC Commission decides that dumping is practised it imposes countervailing duties on the products concerned. The duties are supposed to be based upon the prices of the most efficient producer of the product in question. But the Commission does not need to specify any particular producer and may simply refer to a putative ideal producer: in short the countervailing duties are set at the discretion of the Commission.

Other non-tariff barriers imposed upon ECE products have included technical standards, packing regulations and sanitary requirements – controls which may be imposed either by the EC or by individual member governments. Special transport or insurance fees and other such impediments have been applied.

It would be wrong to view all such measures as deriving from Cold War considerations. Many, though the original product of the Cold War division of the continent into two separate international divisions of labour, have been inspired purely by EC impulses towards economic protectionism. But the political dimension has nevertheless been an essential element in the overall trade policy. The EC's import policy has been all of a piece with the Cocom controls on exports to Comecon, organised by the US government. Both sides of this policy have been geared to denying the Soviet Bloc the advantages of participating in a Western world economy whose international division of labour has always been far more advanced than that of Comecon.¹⁵

The overall effect of these Western and EC policies was that by the late 1980s the ECE countries remained overwhelmingly isolated from the Western system of economic exchanges, amounting to only 1% of total OECD trade in 1988. Thus when the

Comecon system of international exchanges started rapidly disintegrating, the countries of ECE were still largely cut off from trade with the West.

The Soviet Policy Crisis, Gorbachev and the West's Response

To understand both the dramatic events of 1989 and the European Community's response, some consideration must be given to the policy of the Gorbachev leadership and the dilemmas it posed for the Western Alliance.

From 1985 onwards the Gorbachev leadership engaged in a peace offensive for global disarmament and for the USSR's entry into the political and economic institutions of the Western world order. Gorbachev's aim was thereby to revive the socialist project in the USSR.

During 1986 and much of 1987 the West was divided on how to respond to Gorbachev's peace offensive: if they repudiated the new Soviet policy and maintained the exclusions, they could face a domestic political backlash. But if they accepted Soviet inclusion the result might indeed be a revived, but still socialised economy.

The Western alliance opted to maintain the exclusion of the USSR from the institutions of the Western world market unless and until the Soviet government scrapped perestroika in favour of a turn towards a free capitalist market. But at the G7 summit in Venice in 1987 it simultaneously adopted a declaratory policy of strong support for Gorbachev personally. The West supported Gorbachev against the opponents of the capitalist market in the USSR, something that Gorbachev himself opposed! At the same time, the Western Alliance presented the Soviet demand for inclusion in the Western world system as a demand for economic aid. It was then possible to argue that such aid would be wasted unless the (capitalist) market were introduced first inside the Soviet Union. Thus Western policy involved continued pressure against the USSR until the Soviet leadership was forced to abandon its efforts to achieve a form of market socialism.

But at the same time, Gorbachev's readiness to lift Soviet controls over ECE offered the possibility of drawing these economies out of the ruble area. The Soviet government insisted only upon a formal declaration of mutual recognition between Comecon

Table 2

Anti-Dumping Procedures Against East European States

Country	1970-1979	1980-1983	Total
Bulgaria	5	1	6
Czechoslovakia	12	16	28
GDR	10	14	24
Hungary	8	8	16
Poland	12	8	20
Romania	12	10	22
Soviet Union	9	10	19
Total E. European	68	67	135
Total Others	116	102	218

Source: Rosati, *op. cit.* 302.



Jacques Delors

and the EC as the precondition for opening wide-ranging bilateral relations between the EC and individual Comecon states.¹⁶

The brief EC-Comecon Joint Declaration was signed in Luxembourg in June 1988. Within days of the signing Bulgaria, Czechoslovakia, the GDR, Hungary and the USSR had recognised the Community. Poland followed in July. Only Romania failed to formally establish diplomatic relations.¹⁷ The path was now cleared for negotiations on Trade and Co-operation Agreements between the EC and ECE states. The first of these was signed with Hungary in the Autumn of 1988 and in December of that year an industrial trade agreement with Czechoslovakia was signed.

This transformation of the external relations of the ECE states then fed back into the domestic politics of Hungary and Poland, the two ECE states whose Communist Parties had moved in the 1980s towards introducing capitalist relations in their domestic economic life. The stage was set for the collapse of the Communist system in 1989.

During the winter of 1988-9 intense private negotiations went on between Warsaw and Budapest and the governments of the Western alliance over the terms for a combination of domestic regime change and incorporation in the Western world economy. And in preparation for the changes it foresaw in ECE, the American government led the way towards a reorganisation of the West's policy making system.

The West's New Use of the EC Commission

As in the past, a key requirement from an American point of view was to maintain a unified Alliance structure for making and controlling policy towards the Soviet Bloc. But whereas in the past that structure had been the NATO alliance and the key political discussions between the two Blocs had taken place at leadership level between the USA and the USSR, the new relationships that would unfold between ECE

states and the West could not be handled at a Soviet-American level and could not be conducted on the Western side by the structures of a military alliance, ie NATO. New institutional instruments were required.

The issue reached the top of the G7 agenda in the Spring of 1989 as the changes were beginning in Hungary and Poland and as preparations were being made for the Paris G7 summit. There were a number of obvious options. If events were allowed to take their course, Bonn and the German banks would have tended to dominate the process of change in ECE. The Mitterand administration in France wanted to forestall this by channelling the planning of ECE's integration into the West European division of labour through a new multilateral public bank which would not be dominated by the Americans.

They therefore wanted the G7 summit to take no decisions except to study the problems of Hungary and Poland while they had time to launch their rather provocatively named European Bank for Reconstruction and Development (EBRD).¹⁸ To counter this, the Bush administration, after discussions with Jacques Delors, proposed a much more formal and more governmental institutional arrangement: for the Commission of the EC to be administratively responsible for the integration of the EC, but to be responsible not to the EC but to the OECD which, for the purposes of this programme would be called the Group of 24 (G24).¹⁹

Thus the entire field of political and economic relations with ECE were to be controlled on the one hand by the IMF on currency and financial issues, and by the OECD in other areas. At the same time, the EC Commission would have a high profile role in relations with ECE countries, thus further enhancing the prestige of the EC in Eastern Europe.

The EC's place in the West's overall policy-making system for responding to the collapse in Eastern Europe is thus not a straightforward one and to understand it we need to separate out a number of levels of policy-making, particularly the following:

(a) overall policy framework - goals and criteria: these have been settled above all through the G7, which the EC Commission President attends.

(b) focused tactical objectives and lines for negotiating terms of agreement with ECE states: these matters have been handled above all within the IMF and the G24 where the specific terms for agreements with ECE states have been agreed. The EC as a whole is represented in these bodies.

(c) implementation of terms agreed with ECE states: in this field the EC Commission was given major responsibilities by the G24 and the officials established for this purpose, in a special unit within the External Affairs Directorate General of the Commission, have been linked in to a wide range of Western policy experts, creating what should be seen as a policy network. These officials could draw on the OECD's new policy unit for handling ECE affairs known as the OECD Centre for Co-Operation with European Economies in Transition, established in the OECD Secretariat.²⁰ The Western policy network has also, of course, embraced the experts and data bases in the IMF, the World Bank, the Council of Europe, Cocom and NATO.

(d) Matters within the exclusive jurisdiction of the EC: on these issues the EC retained sovereign powers, notably on its import policy, its policies for external co-operation with ECE states and its policies on EC membership. And there could be strong disagreements between the EC and non-EC Western

states on how it handled these specific issues (as well as disagreements, of course, within the EC). But we should also appreciate that in handling these issues, the EC would not step outside the general goals and guidelines laid down within the Alliance for the West as a whole.

(e) Matters within the exclusive jurisdiction of national governments, notably technical assistance, export credits and government loans. It is worth noting that some of the headline figures of EC funding programmes for the region actually refer to purely national government projects rather than projects genuinely under EC control.

It was by no means a foregone conclusion that the main Western states would reach agreement on a common policy-making institutional framework, despite the common interests that they shared in relation to the Soviet Bloc and despite the American dominance within the Alliance.²¹ The sources of Western policy lie in bargaining between the main Western political leaderships, each vying for its own interests within an alliance framework and with goals towards the USSR as the key context of policy-making towards ECE.

While Western policy is channelled *through* multi-lateral public institutions like the IMF, the OECD and the EC, the parameters of policy are not actually laid down by these institutions. They are established by the executives of the leading Western states. And the corollary of this should not be ignored by those wishing to understand Western policy since 1989: the core goals of this policy are not politically neutral, technical-economic ones. They are highly political, tied to Western state interests and values. At the same time, the political effectiveness of Western policy is greatly enhanced by the very fact that it is transmitted through such seemingly neutral, collegiate, less high-profile and technical bodies rather than through national political institutions. While informed public opinion in the West is very sensitive to the public actions of state executives, it is far from alert to the activities of these multilateral bodies precisely because they seem to be preoccupied with technical matters best left to the experts, rather than with the big political issues shaping the future structure of world politics.⁽²²⁾

Part Two

The Collapse of 1989 and the West's Policy Options

The Nature of the Collapse

During the course of 1989 the international institutions of the Soviet Bloc collapsed along with the correlative domestic political institutions in Eastern Europe. This disintegration was set in motion in the first place by the policy of the Soviet leadership and in the second place by the leaderships of the Communist Parties in Poland and Hungary.¹

In much of the region the ex-Communists emerged as the majoritarian political force. In Romania, the popular revolution against Ceausescu was channelled into support for a National Salvation Front largely staffed by erstwhile Communists. And in the elections that followed in Romania, Bulgaria, Serbia, Montenegro, and later Albania, the erstwhile Communists won.

The countries where support for the former Communist Parties declined most dramatically were paradoxically the two countries where the change towards pluralist democracy and the free market was first initiated by the Communist Parties themselves: Poland and Hungary. And the change in those two countries had occurred without any significant popular movements on the streets. In Czechoslovakia where there had been a very wide political mobilisation against a Communist government initially resisting a change of political regime, the Communist Party continued to enjoy wider popular support than its Hungarian and Polish counterparts.

All significant parties and political movements in the region, including the erstwhile Communist Parties, sought to integrate their economies into the world market. All saw this as a vital step in order to revive economic growth and raise domestic living standards. Where political parties differed was on the kind of domestic social and economic system they wished to build and to integrate into the Western economy, and on the terms on which integration should be supported. Some political groups favoured radical neo-liberal capitalist economies; others favoured state capitalism or were inclined towards market socialism; and many political groups were ambivalent or unclear about the social and economic system they favoured.

As far as socio-economic programmes are concerned, there would seem to have been a gap between popular attitudes and those of the new political elites. Thus, in Czechoslovakia public opinion surveys conducted in November and December 1989 found that only 3% of respondents favoured a free market capitalist path of development; 47% and then 52% preferred something between socialism and capitalism, while 45% and then 41% preferred a continuation of the socialist economy.² On the other hand, within the new political elite there was a majoritarian receptiveness towards programmes for a capitalist transformation, even though the main political force, Civic Forum, did not advance such a proposal in its election material in the late Spring of 1990.

In Poland there was a similar distance between a new political elite, more ready than in Czechoslovakia to embrace a radical transformation towards capitalism, and a working class, to which this new elite was nominally tied by the traditions of Solidarity, which was far less committed to such an outcome. In Hungary, the social base for a change towards a capitalist economy was more developed than elsewhere but there also popular concerns about a capitalist future were widespread.³

The Policy Environment Facing the New Governments in 1990 Three key features of the circumstances of the new governments in East Central Europe in 1989-90 must be understood in order to grasp the problems faced by the new governments of the region.

First of all, they faced a disastrous disintegration of their international economic framework of Comecon, whose two key poles had been the Soviet economy and the GDR. The GDR would swiftly disappear into the Western zone while the USSR was plunging into an unprecedented economic and political crisis. As a result of this latter crisis, the industries of ECE were rapidly facing the collapse of their main export market.

The decision of the Comecon states to quickly switch to world market prices and hard currency trade was to be a severe blow to the East Central European states short of hard currency and hitherto

able to rely upon cheap Soviet energy paid for in Rubles. (The Gulf Crisis would further hit their energy costs and hard currency reserves during 1990-1991, while blocking Iraqi hard currency debt repayments to the region's governments, particularly large ones in the case of Czechoslovakia, though this set of problems did not emerge until the autumn of 1990).

Thus these economies were to be hit by severe regionally induced recession with very grave effects both on industries exporting to Comecon countries and on industries dependent upon imports from the ex-Ruble area. They were also going to face a desperate hard currency shortage. This crisis was a particularly severe one for Czechoslovakia whose economic development for decades had been premised upon its role as a major industrial exporter within Comecon and above all to the USSR.⁴

Secondly, the ECE states were, in 1989 very largely excluded from participation in the world capitalist economy: the high tariff walls or outright bans on imports from Comecon; the wide ban on exports from the West to the East through Cocom embargoes and the exclusion of Comecon and its members from any role in the political management of the world economy. Economic differentiation, specialisation and co-operation in Western Europe developed and was consolidated through the European Community without any significant role being assigned for the economies of Eastern Europe. The main economic link which the states of ECE had with the West at the end of the 1980s was that of debt and the resulting requirement of a substantial net transfer of hard currency from countries like Poland and Hungary to the West.

The third key context facing the new ECE governments consisted of what had been preserved domestically from the Communist past after the collapse of the Bloc and the governmental changes of 1989. Universally stressed in this connection is the survival of the publicly owned and directed economic apparatus.

Non-capitalist social structures

But of far great political significance, though generally ignored in Western commentary, was the survival of the social structure created by the Communist regimes, social structures radically different from those of capitalist societies: there was no significant change in property relations, in the power or relative wealth of different social groups or indeed in the key circuits of social and economic interaction. The politics of Communism had gone: the sociology was largely unchanged. All three countries remained predominantly 'State Socialist' societies. And endogenous social forces of a capitalist kind were extremely weak or non-existent in the region.

The changes of 1989-90 in the political sphere (above all, the establishment of political pluralism and democratic elections) thus entailed elected governments and oppositions seeking to represent interests formed by non-capitalist social structures and processes. The new political forces that would win the elections of 1990 would have to try to stabilise their authority and secure their political support amongst social groups shaped by the old system with needs and interests formed by non-capitalist social processes.⁵

There was no significant private business class - private owners employing other people to work for them for private profit. Nor was there, in 1989 a significant group with money which could be

employed as capital. The IMF calculated that if total private savings in Poland were mobilised they could purchase no more than 5% of productive assets at the (very low) current nominal valuation of those assets. And those in ECE who do possess large quantities of money have gained this largely through activities considered illegitimate, if not criminal, by large parts of the population: black marketeers, currency dealers etc.

The ECE countries also lacked what might be called a capitalist middle class. There was no significant rentier group. And a Western-style group of upper middle class professionals was almost totally absent: accountants, business lawyers, banking and insurance executives, sales and advertising executives, estate agents, brokers, consultants, media professionals etc. - a very important social layer in the West with high incomes in comparison with manual workers - such groups have yet to be created in ECE. The liberal professions in the region and the cultural intelligentsia have generally been low paid in comparison with industrial workers, and managers in industry have enjoyed incomes only fractionally higher than skilled workers and have had far lower security and status than their equivalents in the West.

The great bulk of the populations of these societies, then, were wage earning employees, whether manual or non-manual. But they were not wage-earners in a Western sense because their standard of living was only to a small extent derived from money wages. Of greater importance than the money wage itself was the state subsidization of basic components of their daily consumption: nominal rents, nominal energy costs and transport costs, and very low and controlled food prices heavily subsidised by the state. Access to leisure and cultural activities was also extremely cheap under the Communist system. And all of this went hand in hand with very heavy government commitments in social policy.⁶ Thus, most East European states have had comprehensive nursery and creche facilities for all -- something virtually non-existent as a public service in the UK. If we take the level of health provision, we find in Table 3 an instructive comparison with Britain. In the field of education also we would find levels of provision as high or higher than many European Community countries.

The distribution of incomes in ECE under Communism was regulated nationally according to social priorities very different from those in the West. Skilled industrial workers would earn far more than what we in the west would call the liberal professions and not much less than many levels of management. Top industrial managers would earn only about 3 times that of a skilled manual worker (while in the West such top executives earn 20 or more times a skilled worker's wage). Highly trained engineers might earn no more than 40% above the wages of a skilled worker while white collar employees in not only clerical but also technical jobs would earn less. There was thus a qualitatively greater degree of social egalitarianism within these societies than in the West. The privileges of the state elites were, of course, considerable and much resented but these elites were small, their privileges took the form of perks rather than large money wealth or private property and they were minuscule in comparison with those of top industrial managers, never mind those of the owners of medium or large businesses in the West.

These social structures reproduce social values very different from those of Western Europe: strongly egalitarian attitudes in particular. And in

Table 3

Hospital Beds per 10 000

West Germany	111
Czechoslovakia	102
Bulgaria	94
Hungary	90
Poland	70
United Kingdom	69

Source: Vienna Institute for Comparative Studies.

such a society, any sudden polarisation of wealth through the establishment of a new capitalist class raises sharp questions of social justice, particularly over the criteria for allotting state productive assets to new private owners.

Thus the new governments of ECE had to find means to build their political authority in the context of a fast collapsing international economic environment in the Comecon area, in a socio-economic system still overwhelmingly socialised and in conditions where they were largely excluded from the institutions of the Western world economy. Their one source of hope for stabilising their new political regimes lay in a turn towards the governments of the West, above all those of Western Europe and the European Community.

ECE Dependence on The West and the European Community

The new governments emerging in East Central Europe from the upheaval of 1989 were dependent upon the main Western powers and the European Community to an almost unique degree. This dependence encompassed economics, politics, administration and ideology. To grasp the impact of European Community policy, we must appreciate the various forms of this dependence.

Firstly, let us list briefly the various forms of economic independence:

- (1) with the loss of the Soviet export market, dependence on removal of Western barriers to ECE exports to maintain industrial output. More specifically, the need for the European Community to move swiftly to remove tariff and non-tariff barriers to ECE imports.
- (2) with the loss of the ruble trade zone, the urgent need for access to hard currency arrangements for continuing trade in the region;
- (3) The need for temporary measures to end the net outflows of hard currency from the region to West in debt repayments until a new set of currency arrangements was in place and the region was integrated into the institutions of the Western financial-currency systems;
- (4) the need for the West to cancel the Cold War Cocom controls on exports to ECE states and the provision of favourable arrangements for export credits and insurance to Western exporters to ECE: in short a normalisation of trade relations;
- (5) Given the acute shortage of hard currency, the ECE states needed to use means such as counter-trade to tackle the effects of the collapse of the Soviet market, but this depended on Western readiness to use such methods;
- (6) The need for the swift normalisation of relations

with the institutions of the world economy concerned with infrastructure and communications investment-multilateral bodies such as the World Bank, the European Investment Bank and eventually the EBRD; (7) The ECE states needed long-term security for Western private investors such as normally obtains in the Western world economy. This security meant above all guaranteed, long-term free access to West European (especially EC) markets.

(8) Very importantly, the ECE countries required support for emergency macro-economic stabilisation of economies facing external market collapse in the region: the kind of measures used by the British economy in the similar circumstances of wartime isolation in 1940 may be seen as an obvious parallel. Without Western economic support along these lines the new regimes would be bound to face a crippling economic crisis with very dangerous long-term consequences. And it should be noted in passing that none of these types of support should be construed as aid: they consist rather of normalisation of relations along the lines of free trade principles.

It is scarcely an exaggeration, therefore, to say that following the upheaval of 1989, the West had the capacity to shape events in ECE to an extent that was as great as the capacity enjoyed by the Soviet Government in the region after 1945. Western policy-makers had it in their power to decisively shape the destiny of the states of East Central Europe.

The West's Policy Options

The Western powers did not respond to the challenge of 1989 in either a piecemeal or an unco-ordinated fashion. Western governments had, as we have seen, by the summer of 1989 not only foreseen the political transformations in Poland and Hungary, but had established a new machinery for handling them and had already agreed the parameters of their strategy. And in this process, the European Community did not play the role of an autonomous actor. The strategy it was to follow was to be identical in its essentials with that of the USA.

The Western alliance faced a choice between two broad alternative approaches towards the new regimes emerging in Eastern Europe from the summer of 1989 onwards: either policies geared to democratic consolidation or policies giving overriding priority to a drive for rapid social system change towards a free market (capitalist) society.

The first option would have involved creating the best possible quantitative, macro-economic environment for the states concerned and for their new governments, in other words taking action on the range of economic dependencies outlined above to prevent these economies plunging into a severe depression and indeed to provide the populations of the region with a sense of forward movement from the trauma of 1989. This would have powerfully reinforced the political links between the new elites and the main social groups and interests in the region. Those political groups representing the growing private sector interest could have become gradually more powerful, but the great bulk of the population, which stood to lose heavily from any rapid social system change, would have had space within the political system for the articulation of their interests and aspirations.

The second option involved making the main objective rapid change in the social system towards capitalism, subordinating all other goals including democratic stabilisation to that aim. The second option was the one chosen by the Western powers in

1989 and pursued with vigour during 1990-91.

It is important to underline the meaning of this strategy. It was not simply a decision to try to foster the growth of the private capitalist sector in the countries of ECE in addition to normalising political and economic relations. It was a decision to make such normalisation conditional upon rapid, total transformation of the social system. In other words Western policy-makers rejected an orientation towards a 'molecular', 'organic' growth of a private business class and free market society.

Part Three

The European Community's New Policy for ECE

System Change and Conditionality

In the Autumn of 1989, therefore, the Western powers and the European Community made it clear that the normalisation of economic relations with ECE countries would not be automatic. It would be conditional upon the willingness of the new regimes there to demonstrate to the satisfaction of the Western powers their readiness to plunge their countries into a social revolution from above, a total change in their social system: normalisation was made conditional upon a proven commitment towards decisive system-change measures.

The EC, in line with the Western Alliance as a whole, was engaged in the diplomacy of linkage and conditionality. As the leader of the EC's team of experts put it, the EC recognised the "role of conditionality that might be exercised by the European Community, in areas and ways complementary to the conditionality of the IMF programmes."¹ The new governments of the region had to pursue the 'politically correct' domestic policies; otherwise they would be excluded from the institutions of the world economy and from institutional ties with the EC.

The required domestic policies have been described in various ways: in the technical language of EC experts, what is at stake is "economic regime change"; press hand-outs more simply refer to something called "economic reform" or "market reform". We ourselves prefer the term "social system change" because it captures the key feature of the process for real people in ECE, namely the large-scale social engineering project which is involved, shifting around the social power relationships between tens of millions of people. But the language of the EC's leading economic adviser, Richard Portes, is very clear on the main issues: the ECE governments had to be persuaded to commit themselves to "a regime change - a definitive exit from the socialist planned economy - and its irreversibility."²

Of course, the G24 and EC justified this involvement in the domestic policy of ECE states by saying that this was being exchanged only for aid. But in reality what was at stake was not so much aid, which was of almost negligible macro- or even micro-economic significance, but integration into the institutions of the world economy and institutional links with the EC.

At the same time, EC declaratory policy laid as much stress upon the democratic prerequisite as upon the switch to capitalism. On this basis it would appear that the EC was simply requiring the governments of the region to respect the rights of their own people. But the meaning of this

'democracy' turned out to be acceptance on the part of the new regimes of the need to rapidly dismantle social institutions and processes inconsistent with the principles of Western capitalist societies, not respect for the perceived interests and claims of the main social groups. And "economic reforms" did not actually refer to attempts at macro-economic restabilisation of economies plunged into crisis by the collapse of the Soviet Bloc. While cast in the technicist language of economics, the measures demanded in fact aimed at social system change.

This new diplomacy of conditionality adopted in mid-1989 involved a toughening of the European Community's stance towards the states of ECE just at the moment when new popular regimes were emerging.³ During 1988, the European Community had been ready to sign trade agreements and deepen the process of normalisation with Communist regimes.

Following the June 1988 agreement with Comecon, the EC had signed a Trade and Co-operation Agreement with the Communist Government of Hungary in September 1988 and an industrial trade agreement with Czechoslovakia's hard-line government in December 1988. But with the collapse of Communist Party rule in Poland in the summer of 1989, Western policy shifted and instead of trying to draw individual states out of the Comecon circuits, the objective became gaining governments in ECE committed to domestic capitalist transformation, if necessary by refusing to integrate the countries concerned into the circuits of the Western economies. By the summer of 1990, the EC would not be prepared to sign a Trade and Co-operation Agreement with a new government in Romania elected, according to the EC's own observers, in fair elections.

The goal of regime change is spelt out in the G24's terms for a state's inclusion in its Aid programme: as the Commission made clear on 1 February 1990, the states concerned must be judged by G24 to have committed itself to "economic liberalisation with a view to introducing market economies".⁴

The same objective was pushed by the IMF. Formally, it is a United Nations body concerned with economic "stabilisation" measures. However, the director general of the IMF, Michel Camdessus, made it very clear that the IMF required governments to renounce partial reforms or a search for some "third way" between communism and free market capitalism. He demanded programmes of rapid transition to capitalism and held up the first IMF restructuring package, that for Poland, as an "extremely courageous" model for the rest of Eastern Europe.⁵ Without a clean bill of health on these criteria from the IMF the ECE state concerned would find all other lines of public Western credit blocked.

The new diplomacy of conditionality was pursued in tandem by the European Community, acting on behalf of the Group of 24, and by the IMF. The former dealt with trade and Aid; the latter with finance and Western credits: not only those of the IMF itself but credits from all Western multilateral sources including those of the European Community. No credits would be released to the country concerned until it had negotiated an agreement on its domestic policies with the IMF.

In 1990 the diplomacy of conditionality led to the exclusion of Romania and then Bulgaria from co-operation, in both cases following the holding of democratic elections resulting in regimes considered hostile to Western goals. (EC observers had accepted the elections both in Romania and Bulgaria as fair

and valid, though some American observers had not. The occasion for the break with Romania was the use of miners to clear student demonstrators in Bucharest (in a very brutal fashion). But no such action took place in Bulgaria. In June 1990 the G24 froze its relations with Romania and subsequently with Bulgaria as well.⁶

Later the same policy was to be applied towards Albania after the Communist victory in elections there in 1991. The common thread in each case was the political character and social orientation of the leadership winning democratic elections, not the degree of progress towards a democratic system of party electoral competition. Thus, Western policy towards the Polish government appointed under Mazowiecki in September 1989 was positive and friendly despite the fact that until October 1991 no full parliamentary elections were held in Poland.

The result of this drive for regime change - one particularly strongly pushed within the Western alliance by the US government - was to open up an increasingly wide geopolitical split within Eastern Europe between the Balkans and the 3 "acceptable" regimes of Poland, Czechoslovakia and Hungary.⁷

The EC and the Push for Social System Change

The European Community's strategy for ensuring that the governments of the 3 acceptable regimes carried through the rapid drive towards a capitalist society has been well expressed by Richard Portes. Writing prescriptively, he says the EC must "build in ways of committing the authorities not to deviate from their basic policies". This generates the "requirement of robust sequencing in the programme of economic transformation and the credibility of the sequenced programme. Credibility will not last if the sequence is not robust to shocks and policy errors, for adjustments will then be seen as policy changes."⁸

Portes's notion of robust sequencing refers to the EC and IMF effort to ensure that a total consensus was established in the region on the primacy of system change: all political forces resisting the official plan for such change were to be considered illegitimate and the programme for change was thereby to be placed "above politics", beyond legitimate debate. Thus, while in the West the drive for system change appeared to be a matter of sub-political technicalities, in the countries of ECE the drive has been legitimated as a destiny above politics, far too important to be brought into the arena of party debate and factional conflict.

This dual tactic of legitimation is the meaning of Portes's at first sight nonsensical notion of robust sequencing that would withstand policy errors:⁹ he means that however many mistakes were made in the drive for change, the drive itself must be beyond criticism. In line with this, in most of the countries concerned, the team placed in charge of the key economic ministries was placed above the party fray, and Western governments indicated that their confidence in the state concerned would depend upon the survival of such system-change supremos whatever other merely political changes in government composition may occur.¹⁰

A seemingly important though under-researched buttress for this robust sequencing has been the large-scale funding of political parties in ECE by Western institutions, funding channelled through the Christian Democratic and Social Democratic Parties in the West as well as through various think-tanks.

New Policy Networks

To this political fencing off of economic policy-making from democratic party politics has been added a second buttress of robust sequencing: the formation of transnational policy networks open to the policy officials of the EC-OECD-IMF-EBRD but with strong gate keeping inside the country concerned. Western experts from bodies such as the IMF, the World Bank, the OECD and the EC as well as top officials from Western states would gain direct access to a more or less full range of economic and other relevant data for policy-making in the East European states. Indeed, they supplied the hardware and software for the economic models to be used by the ECE economic policy makers and thus made themselves indispensable to the very functioning of policy elaboration.

At the same time, policy intellectuals on the margins of the new networks or excluded from them could face great difficulties in gaining access to the necessary data for formulating alternative economic strategies. Thus even within the Solidarity-Citizens' Committee contingent of MPs elected in 1989, sceptics about the Balcerowicz plan could not base alternative policy models on the range of data available to the government and the international multi-lateral institutions like the IMF.

Furthermore, since the overwhelming majority of established policy intellectuals in ECE are former Communists (because, to become holders of such positions they had to be Communists, except, to some extent, in Poland), they now had to acquire new, post-communist credentials. These could be provided easily by Western centres of authority but were otherwise very difficult to gain. Acquisition of credentials from the West depended upon gaining invitations to the many dozens of conferences and seminars organised by authoritative academic and policy-related bodies in the West. And in selecting interlocutors such Western bodies would tend to be interested in selecting those people who were inclined to further Western policy objectives in the region.

Those selected as interlocutors would then be introduced to a more or less intensive round of seminars and conferences on the Western think tank networks both of the private and public sectors, exerting a powerful cultural influence upon them, an influence all the greater since the decisions of these Western bodies would have a powerful, perhaps determining, impact on the success of any economic policy whatever in their own East European countries.

System Change Through "Stabilisation, Liberalisation, Restructuring"

The EC exerted pressure for a three-pronged programme to be followed by the new East European governments, summarised in the three words "stabilisation, liberalisation, restructuring". But at the same time, the Commission itself has not been responsible for overseeing the detailed formulation and implementation of macro-economic policy within Poland, the CSFR and Hungary. This has been in the lands of IMF/World Bank and OECD specialists. The EC's role in such policy has been important only at the crucial initiating stage: governments which did not agree terms with the IMF would not be able to normalise relations with the G24 and the EC.

Analysis of the IMF prescriptions for the domestic

Table 4. Changes in Industrial Output (%)

Country	1989	1990			
		1st Qu	2nd Qu	3rd Qu	4th Qu
Bulgaria	2.2	-8.5	-9.3	-10.4	-17.0
Hungary	-2.2	-	-9.6	-10.0	-12.0
Poland	-2.0	-27.7	-28.0	-26.2	-23.3
Romania	-2.1	-	-18.0	-27.7	-30.0
Czecho-Slovakia	-3.0	-4.0	-2.7	-3.5	-3.8

Source: Problèmes Economiques, Paris, No.2220, 10 April 1991.

policies of the three countries lies beyond the scope of this dossier.¹¹ It can best be understood as a kind of Marshall Aid in reverse. While Marshall Aid sought to overcome the hard-currency crisis in the disrupted post-war economy, IMF policy leverage rested upon a continued hard-currency crisis and continued net outflow of funds from ECE. While the operations of the Marshall Plan involved boosting effective demand and reviving economic growth in Western Europe, the IMF plans have involved the drastic reduction of domestic demand and a profound economic depression in the region, one described in the UN Economic Commission Report for 1991 as at least as serious as the depression of the 1930s in the West.

The figures for industrial output in ECE send an unmistakable danger signal (Table 4). This depression was not solely the product of IMF policy. It was partly the result of the collapse of the ruble zone and the general political collapse of the Soviet Bloc. But IMF policy was geared to exacerbating this depression on grounds of the need for "creative destruction".¹²

It should be said that the degree of European Community political responsibility for the drive to implement the West's policy tripod is far from clear. There is evidence that some of the EC's Commission officials and experts were far from happy with the drive or were very concerned with the destabilising economic effects of some parts of the drive. And the Commission has shown signs of alarm in 1991 over the consequences of the drive for social and political stability in the region. Nevertheless, there were no public disputes within the Western alliance over the qualitative direction of domestic policies for ECE

Positive Policies for Regimes that Passed the Tests of Conditionality.

Alongside the diplomacy of conditionality and threatened exclusion, the European Community has offered positive inducements to ECE states to enter the path of rapid social system change. Relevant inducements here are the EC political support for governments, EC's policies for trade, for public investment, for various kinds of technical co-operation and assistance and for Association status and ultimate membership.

The EC has laid out a hierarchy of phases of relationships with ECE states. While the governments of the region were making initial contacts with Western organisations, an EC commission team would visit the country to prepare the ground for official discussions. Then the Council would give the Commission a mandate for negotiations on a Trade and Co-operation Agreement. When the negotiations on this were completed, agreement would be reached on the country's inclusion in the EC's Phare

Programme and in the G24 aid programme. Then a new negotiating mandate would be agreed by the Council on an Association Agreement with an individual ECE state.

At the conclusion of that agreement, the transitional arrangements to its full implementation would begin and the last - and for many ECE countries the most important - issue would remain: arrangements for negotiation on full membership of the Community. By December 1991 Hungary, Poland and the CSFR had all signed Association Agreements. Other states in the region were still at various lower levels of the ladder of steps towards Association.

The EC's relations with the ECE countries are handled through the EC's Commissioner for External Relations -- since the start of 1989, the former Dutch Finance Minister Frans Andriessen. A special unit was established under the Commission for managing the administrative side of EC-ECE relations. The Council must not only control the parameters of Commission negotiations but approve the outcomes of negotiations. Trade and Co-operation Agreements must be approved by the European Parliament and Association Agreements must be approved not only by that body but by the individual member states.

Trade And Co-operation Agreements

The first symbolic demonstration of inclusion was the EC's readiness to sign a trade and co-operation agreement with an ECE state. This was achieved with many of the states in ECE including Bulgaria and was progressing with Romania until the switch to exclusion in the summer of 1990. (See Table 5)

All the trade and co-operation agreements had roughly similar form. They involved a declaration of intent to lower trade barriers progressively over five or ten year periods, but the force of this declaration was weakened by the exclusion of agricultural products, textiles and coal and steel as well as by general escape clauses covering "sensitive" products".

The importance of the agreements lay in the fact that they institutionalised a relationship between the EC and the country concerned. They would have some immediate practical benefit for some ECE exports but not very much: tariff and non-tariff barriers against ECE products would remain higher after the signing of such agreements than equivalent barriers to EFTA or ACP countries. And as to the medium and long-term economic benefit from the agreements, this too was likely to be small for one key reason: no economic actor whether in the form of a potential Western investor in ECE or in the form of an ECE enterprise could be guaranteed that market access would be and would remain fully open within the European Community. The agreements were thus cautious first steps by the EC, not a breakthrough of any kind. Their most positive function was as a

political signal of progress towards integration in "Europe" for the country concerned.

PHARE Programme and G24 Aid

Of much greater importance was Western preparedness to include a state within the so-called PHARE programme and G24 Aid. This, together with an IMF agreement on financial relations, was a strong inducement for the ECE states to reach an accommodation with the European Community and the West as a whole.

PHARE is often seen as a European Community programme, and on the funding and administrative side it is an EC instrument but it is, in fact, monitored and controlled by the OECD countries, using the name of the Group of 24. The policy decisions on the programme are taken at closed meetings of this body and not by the EC itself. The EC Commission administers the programme and the EC member states collectively prepare for G24 meetings and have a very large weight in the policy-making of the G24 on the programme.

PHARE (an acronym for "Poland, Hungary: Assistance for Economic Restructuring"), approved by the Group of 24 on 1 August 1989, is an aid programme by the West, initially for two ECE countries, but expanded in 1990 to include Czechoslovakia, Bulgaria and Yugoslavia. Bulgaria's access was frozen in 1990 but once governments deemed sufficiently oriented to social system change appeared in Bulgaria and Romania in 1991, they were brought into PHARE.

The initial scheme involved aid of 600 million ecu for 1990 (200M from the EC budget, 100M from EC member states and the other 300M from other G24 countries: this ratio of 50% EC and 50% non-EC is the general balance of commitment in G24 operations). The funds have since been substantially increased. If we take all PHARE and non-PHARE aid from the West in the form of pledged grants they amounted in the summer of 1991 to about 3.5 bn ecus, 55% of it from the European Community and its member states and the rest from the other members of the Group of 24.¹³

In tandem with PHARE is G24 aid proper - aid supplied not only by the EC but by other G24 countries as well. Initially it was agreed that G24 programmes would be funded half by EC states and half by non-EC members of G24. However, by late 1991 non-members of the EC were contributing only about one third of the funds and there were serious doubts about the future commitment of countries like the USA and Japan to the programme.

These aid programmes capture newspaper headlines in the West but their economic significance is

very small. Much of the 3.5 bn ecu total is to be spread over a number of years. At the same time, the most modest estimates of the kinds of net financial flows needed to offer the ECE states the possibility of a return to 1988 output levels by the late 1990s totals about \$20 bn.

From this we can see that investment flows from the private sector along with other forms of public loans are of far greater importance from the point of view of macro-economic development in the region than are the various forms of aid. And if the latter's impact on the micro-economic problems of restructuring and modernising is almost insignificant, its macro-economic impact may be deleterious: most of the aid takes the form not of grants of hard currency to ECE actors, but pump-priming for Western companies seeking to export to the region: the result can therefore be to stimulate an already dangerous flood of imports in the region, exacerbating the balance of payments problems and currency crisis of governments there in the medium-term.

If aid is of little economic significance at the level of public goods, it does nevertheless bring significant private benefits to emergent elite groups in the countries of the region, offering them business contacts, commissions, travel abroad and prestige, thus strengthening the socio-political base of support for the EC in ECE elites. Here one needs to count not only recipients but potential recipients as grouping political constituencies.

PHARE is a highly focused form of aid. The term "Assistance for Economic Restructuring" has a special meaning. The funds are not for public investment in infrastructure and are far less for efforts to retool the big public enterprises of ECE for an export drive to the West. The funds are for privatisation and for private sector development. In the words of its policy statement PHARE is for projects that "must benefit the private sector in particular".

Furthermore, decisions on projects to fund are the prerogative not of the recipient government but of the Group of 24. The "Commission [of the E.C.] will take steps to identify areas where such aid can be most useful". The recipient governments may or may not be consulted on the projects offered for private sector development through PHARE. In some important areas such as energy projects the recipients do not seem to have been consulted before hand. Thus the ECE governments' policy-making role is confined effectively to veto rights: they can take the given project or, presumably leave it.

On the other hand, the role of ECE governments in implementing PHARE projects is important because PHARE is based on the concept of counterpart funds. Thus every ecu of Western grant much be matched by an equal sum from the budget of the

Table 5. EC-ECE Trade and Co-operation Agreements

COUNTRY	DATE OF AGREEMENT	TERMS
Hungary	26 Sept 1988	trade and co-operation
Czechoslovakia	19 Dec 1988	industrial trade
Poland	19 Sept 1989	trade and co-operation
USSR	18 Dec 1989	trade and co-operation
Czechoslovakia	7 May 1990	trade and co-operation
Bulgaria	8 May 1990	trade and co-operation
Romania	Negotiations stalled	

Table 6. Nuclear Energy
(as % of total electricity production)

Country	Percentage
Romania	0
Poland	0
Hungary	49.8
Bulgaria	32.9
Czecho-Slovakia	27.6

recipient government. In other words PHARE is a major instrument for intervening in and shifting the priorities of budgetary policy in the recipient state. Since all the governments of ECE face severe fiscal strains with pressures for large, inflation-fuelling budget deficits, PHARE projects can have a destabilising macro-economic effect unless the shift of budget funds onto PHARE privatisation schemes is counter-balanced by cuts in other budget items such as social welfare programmes.¹⁴

One aspect of PHARE aid which has gained extensive positive publicity in the West has been that which is classified as aid for environmental protection in the countries of ECE. It illustrates some features of the PHARE approach. It focuses especially on Eastern Europe's hitherto heavy reliance on coal as a principal energy source. Coal is also a potentially important source of export earnings for various ECE states within the European Community in the event that the EC were to remove its barriers to such coal imports.

There are two ways of dealing with the pollution caused by the ECE coal industry. One way would be for PHARE to concentrate upon investment to make the industry cleaner without cutting output and export potential. But the G24 has preferred the other course: to reduce or close coal production in the region. Thus, in Hungary coal mines are being closed, subsidies cancelled and prices raised. East German lignite output will be halved during the 90s. The Czech and Slovak Republic in 1990 depended upon coal for 68% of total electricity consumption but its coal output it to be cut by 40% in coming years.¹⁵

In place of coal, the EC is hoping to promote nuclear energy in Eastern Europe, using PHARE environmental protection aid for this purpose. At present nuclear energy, as a percentage of total energy output in Eastern Europe, is as shown in Table 6.

Aid is to be used to install Western safety equipment in many of the existing nuclear power stations. The Czech and Slovak Republic has planned to construct two more reactors, putting the contract out to tender from Western nuclear construction companies. In Poland, the one nuclear power plant presently under construction, at Zarnowiec, may now be completed by a Belgian firm which will run it and R&D studies are being conducted by Western companies to explore the possibility of construction a new generation of nuclear plants.

The Hungarian government is considering a new nuclear station at Paks, in discussion with companies from Canada, France and Germany. Financing would come from loans by the supplier country. The Soviet nuclear plants in Eastern Germany are to be closed down and new ones will be build by Siemens-KWU.

Romania is expected to develop existing co-operation with Atomic Energy of Canada Ltd. Bulgaria may also be a lucrative market for the Western industry.¹⁶ (See Table 6) As part of the drive to open this market the EC is calling for East European nuclear industries to raise their safety standards to EC levels. In March 1991 Germany, France, Belgium and the UK governments issued a joint statement giving almost unqualified support to the development of nuclear power across the whole continent, justifying it on environmental grounds.¹⁷

Another main dimension of Phare are various training programmes such as the Tempus Scheme for exchanges of staff and students in higher education and vocational fields. The scheme, operational since 1990, has been heavily criticised because of the way training has been allocated without proper regard for the views of East European governments and its modest budget means that only some 12% of projects so far submitted have received funds.

Infinitely more important from a macro-economic point of view has been the improved access to the EC market offered to ECE states included in PHARE: they have been brought within the EC's Generalised System of Preferences (GSP). This, in effect, removed many EC barriers to imports from Eastern Europe except where specific barriers were agreed or in cases where economic operators in the European Community set in motion anti-dumping procedures against specific groups of products. But GSP rights are subject to annual renewal by the EC and are therefore not secure rights of entry for the countries concerned. No potential Western investor could believe that permanent access to the EC market was assured by this granting of GSP rights.

The other important dimension of PHARE from an ECE angle lay in its role as a pathway towards the really substantive negotiations on the extent to which an ECE state could prize open the markets of Western Europe via so-called "Association Agreements" with the European Community.

Association Agreements and the Crisis over EC Market Access

The governments of the ECE states did not criticise, at least in public, the terms of the trade and cooperation agreements of the PHARE and G 24 programmes and generally comported themselves as grateful supplicants toward the EC during those phases of their relations. During 1990 only the Polish government felt strong enough to directly criticise in public any aspect of Western policy towards the region and it directed its criticisms towards the West's failure to tackle the debt problem.¹⁸

But the atmosphere changed in 1991 when negotiations began on Association Agreements, when the ECE governments became increasingly preoccupied by the EC's continuing barriers to imports from the region. Such imports were vital not only to stabilise ECE industries (through compensation for lost markets in the East), nor just to gain hard currency to maintain debt repayments to the West and import vital supplies from the West, but also to give security to potential Western private investors one of whose main motivations for such investment would be to engage in enclave production using cheap ECE labour in order to export from ECE to the EC. This issue of trade barrier removal was not, of course, a matter of aid but of adherence to the West's own economic ideology: free trade. But it was infinitely more important for the ECE economies than

a dozen PHARE programmes.

The framework for negotiating the removal of such trade barriers was that of preparing for the signing of the so-called Association Agreements between the EC and ECE states. Formal negotiations on Association Agreements were set in train between the EC and Poland, Hungary, Czechoslovakia and Bulgaria during 1991. The EC decided to complete negotiations with the first three countries before embarking upon similar negotiations with other states of the region.

It soon became apparent to the EC side that, despite all the talk in the European Community about how hopelessly backward the ECE economies were, key sectors of these economies were nevertheless considered to pose a serious competitive threat within the European Community, so serious indeed that the EC could not agree to secure removal of its import barriers.

Negotiations about a permanent trade regime within the framework of new Association Agreements (now renamed "European Accords") became deadlocked because of EC resistance to the decisive removal of its import barriers during the early months of 1991.

On the trade in goods, the main sticking points were agricultural goods, coal, steel and textiles. During the first phase of negotiations the EC had insisted on a 10-year transition period for the phasing out of these barriers. (Agence Europe (AE) 13.4.91) The three ECE countries responded by pointing out that these were precisely the fields where they could hope to gain a significant market share.

For the CSFR, after discussions between President Havel and Jacques Delors in Brussels in March, the key problems were reportedly textiles and steel, agriculture being largely a non-export industry. (AE 23.3.91)

In February 1991 Poland's economic supremo, Leszek Balcerowicz, indicated that the trade issues in the Association negotiations were now a dominant Polish concern. (AE 13.2.91) When external affairs Commissioner, Hans Andriessen, returned from Warsaw in March 1991 he highlighted textiles, agriculture and coal as the key stumbling blocks. (AE 12.3.91)

At the end of the third round of EC-Polish negotiations in March, Poland's Secretary of State for External Economic Relations, Olechowski, was publicly scathing about the EC's stance. He noted that Poland's market is already fully open to EC products and he called for full reciprocity on the part of the EC. Yet the EC was continuing to insist on trade protection for its own markets. Instead of asymmetry in favour of Poland, the result was "inverted asymmetry" in favour of the EC. Since the EC is not willing to liberalise in textiles, steel and agricultural products, liberalisation in fact covers only half of Polish exports. Mr Olechowski said that no government could submit such a draft agreement to parliament for approval in Poland. He also emphasised that "this agreement will determine Poland's fate". (AE 21.3.91) The same basic problem stalled the negotiations with Hungary.

By the end of the third round of negotiations at the end of March, the negotiations were still stalled. (AE 26.3.91) By April 1991 the three East Central European states were expressing their concern and anxiety over this. The whole issue was raised at the European Council of heads of state and government on 10 April 1991, but the deadlock in negotiations subsequently continued. (AE 10.4.91) Indeed, the

range of disagreements broadened. During the fourth round in April, the further issue of labour migration became another major sticking point because of the restrictive EC attitude. (AE 24.4.91)

In April 1991 the gulf between the two sides did not appear to be deep; it was reported simply that Portugal was worried about the removal of barriers on textiles. (AE 13.4.91) But the EC was in fact facing a serious crisis. The three ECE states were privately threatening to break off negotiations altogether unless the Council gave the Commission a more flexible negotiating mandate.¹⁹

The EC's Commission proposed, as concessions, examining agricultural issues product by product and reducing the transitional period for steel products to five years. A Council meeting on 21 April accepted the Commission proposals for a gradual removal of customs duties and non-tariff barriers over five years on steel, but required a specific arrangement for coal; it continued to insist on a ten-year tariff transition for textiles while suggesting that non-tariff aspects be settled within the Uruguay Round; on agriculture it offered the removal of all quantitative restrictions but required agreements on specific goods that were deemed especially important for the East Central European countries' exports, subject to a reciprocal effort on their part. The apparent generosity of removing all quantitative restrictions on agricultural imports lies in the fact that the main barriers to such imports are not quantitative restrictions at all, but the CAP tariffs. (AE 22.4.91)

The fourth round of talks with Budapest foundered on agriculture, textiles and migration. (AE 3.5.91) "Fundamental differences" still existed in June 1991, with deadlock on textiles and "radically different approaches to the free movement of workers". (AE 31.5.91)

The greatest difficulties seem to be between the EC and Poland. While Commissioner Andriessen envisaged Hungary and Czechoslovakia as achieving Association status by the end of 1991, he could hold out hope only for 1992 for Poland. (AE 11.3.91)

The EC Lobbies Mobilise

The prospects of full trade liberalisation alerted the European Community lobbies most vulnerable to an East European export drive, notably textiles and steel. The European Community's textile and clothing industry employs some 3 million people and has an annual turnover of some 150 billion dollars. Its output has been in decline since 1980, especially in clothing, and the EC's trade deficit in textiles in 1989 stood at 10 billion dollars. The industry occupies a particularly important place in the economies of the South European EC member states. The structure of the industry is highly decentralised, involving about 100 000 companies, but the EC lobby, ELTAC (The European Largest Textile and Apparel Companies) has been clamouring, since the start of 1990, about the threat from Eastern Europe which, together with the ex-USSR, has about three times the capacity of the EC and much lower wages. ELTAC's leadership has argued that concessions could not be made to both Eastern Europe and Asia. Some Western governments, notably the Italian, have argued that ELTAC's warnings are much exaggerated because of the poor quality of East European output. And the EC Commission has tried to argue that the opening of trade relations with Eastern Europe even offers new opportunities for the EC industry in the export field. But ELTAC has been successful in insisting upon a protracted transition (over at least ten years) towards

full trade liberalisation, a stance repudiated early on by all three East European governments negotiating on Association as unacceptable.²⁰

West European steel interests, a much more tightly organised industrial group, were swiftly put on guard because of a Council decision to increase the quota of East European steel imports into the EC by 15 per cent for 1990. Five meetings of Coreper were needed to approve a draft negotiating mandate to maintain this quota for 1991. (AE 3.4.91) One reason for this delay was that the Commission insisted on the East European countries being allowed 30 per cent flexibility between categories of steel products in 1991. (AE 7.3.91) Experts from some member states feared that this would allow East European industries to concentrate their exports in a few particularly sensitive products and thus create disorder in the market. The Commission responded that member states could apply the safety rules if this happened. (AE 21.2.91) At the same time, stricter regulations for monitoring these imports were instituted, requiring the exporting countries to provide greater information before an import document is issued. (AE 11.3.91) But the Commission's efforts to lift the quota on pig iron was rejected by France and Spain, the EC's main pig iron producers.²¹

To appreciate the scale of the "threat" from East European steel, we should note the figures for total steel production in Table 7. The total quota for steel from Eastern Europe (excluding the USSR) for 1991 was set at 2.657 million tons, just one per cent of total raw steel capacity.

The prospect of East European steel producers being able to flood West European markets if import barriers were removed does not seem to be borne out by research. One German study of the problem argues that high transport costs would prevent a major influx.²² Projections of EC economic growth in the 1990s would suggest that the extra steel capacity in the East could be absorbed.

But this is not the view of the EC's steel lobby. The president of the German Steel Association (Wirtschaftsvereinigung Eisen und Stahl) spoke out in March against any rash liberalisation of trade for East European steel. He declared that there was now huge overcapacity in steel across Europe and that rapid liberalisation of imports would lead to massive defensive measures in the context of GATT. He pointed out that the East European states are dependent on West European know-how for updating their technology and such know-how transfer requires acceptance of consensus on trade matters. (AE 8.3.91)

The alternative proposed by the EC steel lobby is for the East European steel industry to be restructured. The big Western steel companies would be happy to cooperate in this and massive Western credits should be offered for the whole operation. In return for technical and financial aid, the East European countries will have to agree to reducing overcapacity and to either privatising or at least

adopting the management principles of privatised companies in those that remain nationalised. EC steel companies could train both the managers and work forces of Eastern Europe and Western experts could advise steel companies there on restructuring via on-site consultations. At the same time, East European steel experts could be integrated into the West's steel organisations and participate in the work of their technical bodies.

The meaning of such proposals for restructuring has already been demonstrated in the case of the former GDR. During 1991 output there was reduced to 45 per cent of its level in 1988. The work force in the East German steel industry, which stood at 67 000 in July 1990, will have dropped by 60 per cent to 30 000 by the end of 1992. (AE 1.5.91)

Western Private Sector Planning of the New ECE Division of Labour

The German steel lobby's proposals for fitting the industries of the two halves of Europe together in a new European division of labour typify the approach of the private sector industrial giants of Western Europe. The same general approach has been advanced by the Chemical industrial lobby. CEFIC, the European Chemical Industrial Council, has issued its positions on EC relations with Eastern Europe, warning that efforts to achieve free market economies in Hungary, Poland and Czechoslovakia "must not be at the expense of the long-term viability of Western Europe's own chemical industry". It called on EC and EFTA governments to establish "imaginative" financial support structures for Western companies moving into Eastern Europe, including investment guarantees, systems of tax relief and subsidised loans. The chemical industries of the West should ensure the creation, in the East, of legally constituted trade federations on the pattern of the industry in the West. (AE 25.4.91)

Such ideas mean in practice maintaining export barriers to the West while the EC's private sector decides which parts of their East European counterparts to buy up and absorb into their own international operations. The remainder of the given industry can then be scrapped with generous arrangements for redundancies, funded by Western aid. The enclaves of continuing East European output will then be modernised, again with public sector aid from the West, or with an equity stake being bought by the Western company. Such schemes avoid the risk of the future place of East European industry in the international division of labour being decided either on the free market or through public planning (a coherent industrial strategy) on the part of the East European governments. The planning would be done by the private sector in the West, to fit in with its current dominant interests and its industrial strategy.

Despite their resistance during the Association negotiations, East European governments will probably have to accept this approach so long as they

Table 7. 1989 Steel Capacities

	raw steel	rolled steel	steel consumption
EE & SU	260m tons	200m tons	160m tons
EC	190m tons	145m tons	112m tons

Source: Agence Europe, 9 March 1991

continue to pursue integration into the Western market. But the resultant highly unfavourable insertion of the ECE economies into the Western international system will not have been the result of the verdict of neutral market indicators; it will have been produced by the superior political muscle of the European Community's dominant interests over the political capacities of the ECE states at a moment in their history of maximum vulnerability and dependence on the West - a vulnerability deriving especially from the collapse of their former Comecom and above all Soviet markets as well as deriving from their own internal political weakness.

For Poland and for Hungary, the deadlock with the EC is especially intractable because the agricultural sector is important economically and politically in both countries. Hungarian agriculture has been an outstanding success story in productivity terms since the 1960s and both countries would hope to gain substantially from the removal of tariff barriers on their exports to the West. (As far as Czechoslovakia is concerned, its agriculture is more geared to import substitution and the domestic market.) Yet agricultural tariffs are integral to the Common Agricultural Policy (CAP). The EC farm lobby is immensely strong, is facing a major challenge from the USA in the GATT negotiations for the Uruguay Round, and is in no mood to destroy the integrity of CAP for the East European farmers. The EC-wide farmers' organisation, COPA (Committee of Agricultural Professional Organisations of the EC), has made this very clear. (AE 25.5.91) The agricultural issue also poses major problems for any future transition to full EC membership for a country like Poland.

On the other hand, for the CSFR, if the long term prospects could be brighter, the short-term fate of its manufacturing industries and especially its engineering industry, and for the important textile industry, hangs in the balance. The country's prosperity and growth in the Communist period derived from its special role in Comecon's division of labour: supplying, above all, engineering output to other Comecon markets, especially the USSR, without a large involvement with the West. The collapse of its Comecon markets and its continuing exclusion from free trade with the EC threaten the very existence of its industrial base.

One important dimension of this dispute between the EC and the ECE states over EC trade barriers should be mentioned: the open split between the EC and the USA (along with the Thatcherite right in the UK) on the issue of free access for ECE exporters. There is a coincidence of interests between ECE and the USA over EC import barriers and the CAP, a coincidence strengthened by the current difficulties in the Uruguay Round of GATT negotiations. This alliance with the USA on the trade issue may give the ECE states the extra political leverage they need to gain at least some of the goals in the negotiations over Association status.

Deadlock on Migration Safety-Valve

The governments of Eastern Europe, already facing a mounting social and political crisis as a result of their first moves towards a domestic capitalist system, blocked in key export sectors by EC tariff barriers and being offered restructuring projects for their still state-owned industries involving huge redundancies, see one way of easing their difficulties through gaining a free movement of labour into Western Europe. Such an open door could ease the crisis of unemployment (and the fiscal crisis linked to it),

could gain hard currency earnings and could improve skill levels amongst temporary workers in the West returning to their country of origin.

But the principle of free movement of labour westwards on the part of the countries with Association Agreements with the EC is being resolutely resisted by the 12 member states of the Community. They are already facing high levels of structural unemployment in their own countries, increasingly significant political backlashes against the social effects of the long-term economic crisis in Western Europe in the 1980s (the waves of riots in France in 1990-91 being one example of this) and a growing mobilisation of extreme right-wing forces using the issue of immigration (the Front National in France, the Republikaner in Germany, the Lombard League in North Italy, the Vlaams Blok in the Antwerp region of Belgium, etc).

In addition, the EC is already predicted to face a large increase in political migrants from the East. According to expert estimates, between 3.7 and 8 million people in this category are liable to move westwards in the coming years, though not by any means all will be wanting to settle in the EC. The EC Commission estimated in January 1991 that some 800 000 political-economic refugees could leave ECE and Eastern Europe for the Community each year between 1991 and 1996. The figures break down as follows: 1.3 million Germans from Poland and Romania and another 1.7 million from the USSR; 1.5 million Jews from the USSR (though few are expected to stay in Europe); a large movement of perhaps as many as 9 million Armenians from Azerbaijan and Georgia (most wanting to go to the USA or France); and refugees from political violence against minorities brought on by economic hardship and nationalist ferment, especially against the 2.5 to 4 million Roma and Sinti in Romania and Yugoslavia. (AE 16.1.91)

There have been further worries about the danger of a mass exodus from the USSR or Romania as a result of near-total economic collapse. During the Cold War one of the most insistent human rights demands of the West on the Soviet government was for freedom of travel and emigration for its citizens: the demand was still being made a precondition for normalising trade relations in the USA in 1991. But the Soviet government's readiness to legislate such freedom in the spring of 1991 caused some alarm in the West. The Soviet representative at the Council of Europe conference on migration in January 1991 reported that "we have learned through diplomatic channels that it would be appreciated if we slowed things up" over the passing of the legislation. (AE 26.1.91)

Against this background the EC has been taking a very restrictive stand against migrant labour from those states currently negotiation association agreements. The Shengen countries (Germany, France, Italy and Belgium) have agreed to the scrapping of tourist visas for Poles and to allowing them to enter for three months provided that they don't work. But this agreement has been possible only because the Polish government has promised to accept the forced repatriation of Poles trying to stay beyond the time limit or to gain regular employment. Polish agreement on this was made a sine qua non of the abolition of visas by the Dutch and Belgian governments. (AE 26.3.91)

There has been strong criticism of the EC's stance on political migration on the part of human rights lawyers.²³ The Council of Europe has also attacked

the EC on its immigration policy, notably for its effects on youth mobility in Europe.²⁴

The Association Agreements were eventually signed in December 1991 and had to be forwarded to national governments in both ECE and the EC for approval during 1992. The consequence is that the EC will have to adjust very little its division of labour to accommodate competition from ECE states: the three countries must rather bear the brunt of adjustment and find what economic roles they can within the heavily protected EC markets. They have managed to persuade the EC to contemplate in writing the possibility of their eventual EC membership but have failed to achieve even a commitment to their eventual membership without a target date.

What the Association Agreements have done is bind the three states into close political relations with the EC, thus opening the way for greater involvement in Western security discussions.

PART FOUR

Outcomes, evaluations

It is far too early to make definitive judgements on European Community policies since 1989 towards the countries of East Central Europe. The region is still in turmoil -- in part because of what the West has done and refused to do about it -- and the outcomes of this vortex of systemic change are far from clear at the time of writing. But we will attempt some tentative conclusions.

Effectiveness of EC in System Change As we have tried to demonstrate, between 1989 and 1992 the overriding goal of the EC along with the rest of the Western alliance was to achieve rapid social system change to capitalism in ECE. To achieve this two things were necessary above all others: first, acceptance of this policy by public opinion inside the EC and the West as a whole; and secondly a qualitative change in the logic of social processes in ECE itself.

The EC has been extraordinarily successful in gaining consent in the West for the drive for system change. It has even ensured acquiescence in the coercive aspects of Western diplomacy, the politics of conditionality. It is difficult to disagree with Herman de Lange, the EC official in charge of G24 co-ordination, who argues that building the consensus on conditionality has been one of the EC commission's main achievements.¹

This consent has been achieved through the elaboration of a declaratory policy which both conceals the real processes of policy and at the same time sanctions those same processes. The drive for decollectivisation was discursively transformed from being a problem of social engineering into a technical economic issue and thus non-political (since late 20th century Western liberal thought insists that economics and politics are entirely separate spheres). The economic relations between ECE and the West were presented as basically equal exchanges in a non-political market: those states which do badly are thus viewed as states with nothing much to exchange.

On the political side the EC's emphasis on the need for democracy was very important as a justifying argument for coercive conditionality: the West was helping to provide a better political system. And the fact that forced decollectivisation in ECE had imposed gigantic strains upon the nascent democratic

interplay between the new political elites and wider social groups in ECE has been explained away by supposed endogenous factors such as the 'traditional political cultures' of a fundamentalist sort in the region. All in all, there has been a consensus in the West that the entire quality of Western and EC policy has been that of 'help' for ECE and the only issue of debate has been a quantitative one: has the West and the EC helped 'enough'?

But there is another reason why consensus has been achieved: the lack of political saliency of EC policies and the benefits of these policies for key constituencies in the West. Media attention and public political scrutiny in the member states of the EC is overwhelmingly focused on national politics and policy and on EC policies for Western Europe. The activities of the EC, the G24 and the IMF towards ECE have never been more than peripheral to the main political movements and interests in Western Europe.

Irreversible change

If we turn to the operative side of the policy within ECE, we can probably agree with the judgement of the Phare group of experts that the key objective of irreversible regime change, has been achieved.² At least it has been achieved in a negative sense: the old system of centralised material output planning has been broken and insofar as any regulative principle is operating, it is that of the capitalist market.

The reason why the system change in irreversible lies in the realm of politics rather than economics: to revive a socialised economic system would require a mass political movement because any form of non-market economic regulation requires an organised mass political regulatory mechanism, such as the old Communist Parties. There is no foreseeable possibility of such a system returning.

Yet at the same time, capitalist social relations are not by any means fully established and consolidated in the region. While the rapid rise of unemployment has achieved the beginnings of a capitalist labour market and working class, this task has still not been carried through to the end: the bulk of industrial workers's employment is still not fully dependent upon the current profits of their enterprises; and at the same time, the profits of enterprises are still not going to a class of private profiteers and rentiers. There is still a good deal of what Western economists disparagingly call state tutelage: without it there would have been the kind of socio-economic devastation that occurred in Eastern Germany in 1990-91 -- but without the huge influx of West-Marks to cushion the blows.

This half-way-house social condition in ECE is expressed above all in the crippling budget crises of the governments and general macro-economic instability. Either a macro-economic stabilisation can occur, devastating the micro-economic performance of enterprises; or the social crisis can be alleviated at the cost of long-term macro-economic and budgetary crisis. In the absence of a Western Marshall Plan for the region, there is no third alternative over the next 5 years. And even the revival of some economic growth will not restore macro-economic stability: it will involve huge balance of payments deficits and currency crises which the governments of the region will not be able to solve on their own.

Nevertheless, overall, the EC's drive for social system change have been remarkably successful.

What Kind of Market Economy?

But if the EC has played a central role in achieving a capitalist market economy in ECE, an important question remains: what type of market economy is likely to arise in these states. Broadly speaking there are two types of market economy in the contemporary world: those embracing the overwhelming majority of humanity; and those embracing a small, Western/Northern minority. The first kind of capitalist market entails great poverty and backwardness and has, in the 1980s, been falling increasingly further behind the GDP per capita of the West; the second kind is the market of a small number of advanced capitalist economies. The old Communist systems, before the onset of their terminal crisis were behind the advanced capitalist countries but were well ahead of most of the others in terms of basic indicators of human welfare.

As the Communist systems collapsed in 1989 the message from EC countries dove-tailed with the propaganda of the new elites in ECE: this message was that the Communist system had failed and the market system was the road to prosperity. The populations of the region were invited to draw the obvious conclusion: that by swiftly adopting the market capitalist system they would soon gain the living standards of Germany or France. But unfortunately this thesis is thoroughly speculative. There is no agreement as to why the Western economies are so wealthy: some may consider their wealth derives from particular internal institutional mechanisms; others may consider their wealth derives from the fact that they have organised themselves collectively under American leadership to ensure their continued control of the institutions of the world economy. If the latter is the case, then the internal system changes in ECE may not necessarily produce greater prosperity for their the bulk of their populations, though it will undoubtedly enrich their newly emerging social elites.

It is too early to predict with any certainty what the future economic destiny of ECE will be. But there are reasons to doubt that the outcome will be dynamic growth and high living standards in ECE itself. The reason for this lies in the extreme socio-political weakness of the new regimes in the region. The switch to the capitalist market has not been a genuinely endogenous development in Poland, the CSFR and Hungary. The populations of these countries found the old Communist system collapsing and voted against its continuation. But there was no organic internal drive for capitalist social relations. As a result, the new political elites lacked a strong domestic social base for an economy based upon private business yet were themselves fully committed to such an economy. They therefore found themselves overwhelmingly dependent upon external support for the survival and development of their project and entirely lacked the domestic base for a genuine national strategy for development. Instead, they treated the EC and Western states as their guides and masters in the drive for change, competing with each other for the closest, most privileged relationship with the EC.

But the European Community is not the kind of organisation that can play the role of advising ECE countries on national economic strategies. Its central institutions are far too directly tied to the interests of national and multi-national business in Western Europe. Indeed the EC has developed and won support in Western Europe very largely because of its capacity as a protective organisation for West

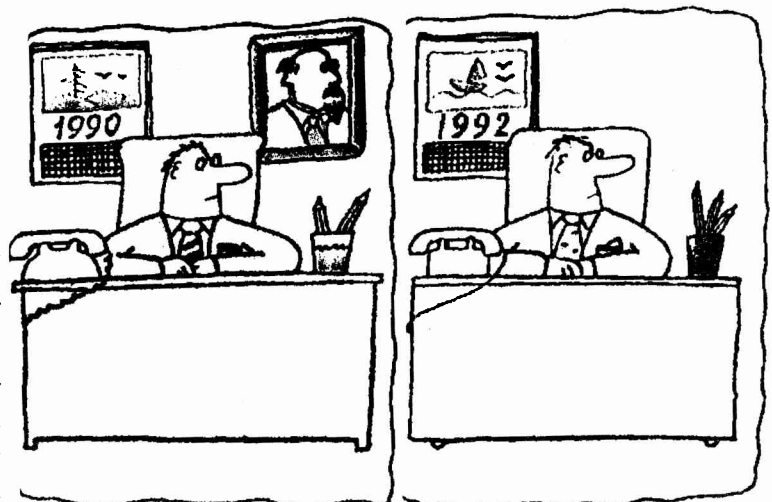
European business interests. Its whole decision-making process is brought into focus by these tasks rather than by long-term strategic operations which rise above the immediate defence of the collective interests of its member states and their business lobbies. The negotiations over Association Agreements illustrated this truth in the most graphic way. As a result, the thrust of EC positive policy for the region has been to create, as rapidly as possible, the best conditions for the secure operations of Western multi-nationals in the region: suitable legal frameworks, infrastructural arrangements etc. complying with EC practice have been urged upon the governments there, while the power structures of Western industries and markets have been presented to ECE as a given to which they must adapt.

This might have been a viable growth strategy for ECE if there were large masses of Western capital accumulating on the borders of Poland, the CSFR and Hungary ready to flood in as soon as the institutional framework was right. But there is no evidence that this is the case.

First of all, the lion's share of Western investment will now go to the former GDR: it is likely to receive substantially more than all the rest of Eastern Europe put together over the next ten years. One study by the Washington based Institute for International Economics offers three estimates of capital flows, a pessimistic scenario (\$12 bn), an optimistic scenario (\$24 bn), and a middle variant (\$18 bn). The authors consider that even the most optimistic scenario will leave Eastern Europe far behind the West in ratios of capital per worker after a decade. More worrying, IMF experts calculate that an annual influx of \$20 bn is necessary even to return these economies to their 1988 levels of output by the latter part of the decade. Yet the figures above suggest that to hope for this minimum is likely to involve erring on the side of optimism.

Much Western commentary on the problems of generating adequate flows of private capital into ECE concentrates upon the the centrality of providing adequate legal and institutional frameworks in ECE itself. But at least at the legislative level these problems have largely been tackled. A far more fundamental problem has been the lack of security of access to the EC market for Western companies investing in ECE for export back to the EC. Until this issue is dealt with, hopes for a large influx of Western private capital are probably illusory.

Yet the entire economic strategy pressed upon the ECE countries has its rationale only in large-scale



enclave production by Western businesses, directed towards sales in the Western markets. The emphasis of policy has been on destroying local effective demand through ferociously depressive fiscal and monetary policies, reducing the domestic markets in ECE to far smaller sizes than under Comecon. This creates the worst possible conditions for fostering a modern, indigenous capitalist sector or for reviving the state industrial sector.

Neither has there been any serious drive to reconstruct regional economic links within the old Comecon area. The only forces actively trying to maintain the size of domestic markets in the region are the trade union movements seeking to maintain the purchasing power of their members. These trade unions – the largest organisations of civil society in ECE – are however being almost universally attacked by the new elites as supposed central obstacles to economic progress. The likelihood is, therefore, that for years to come the region will consist of small, fragmented markets and dual economies consisting of a small enclave of largely Western owned export producers alongside a large mass of impoverished consumers including very large numbers of the structurally unemployed. The states will face permanent budgetary and monetary crises, and the educational systems, health and housing conditions will be ever more severely degraded. The new business classes will be heavily rentier in character, tending to invest their capital abroad for greater security and returns.

This is not an inevitable prospect. An alternative approach may arise, involving indigenous political leaderships devoted to a genuinely national economic growth strategy with a clear industrial policy ready to protect domestic producers and create the conditions for a revival of domestic consumer demand. Such leaderships would have to scrap plans for wholesale privatisation and offer a perspective to the nationalised industries and it would also have to maintain controls on the movement of capital and on convertibility. But this type of strategy is not at present being advanced by the governments of the region.

The EC and Democratic Stability in ECE.

The EC's declaratory policy has stressed that its overriding policy objective has been to strengthen democracy in ECE. But it is in this area that EC policy is most difficult to justify. Far from strengthening the nascent democracies of the region, the EC has contributed to their destabilisation.

If the EC and other Western agencies had been doing what they seemed to be doing – namely helping to stabilise the quantitative macro-economic balances in the economies of ECE – they would undoubtedly have assisted democratic development. But the drive for social system change has destroyed the already fragile budgetary and financial regimes and threatened devastating rises of bankruptcies and unemployment. If at the same time, the EC had been ready not to give aid but simply to remove all barriers to ECE exports then this also would have assisted economic stabilisation. But this has not occurred.

Only against this background is it possible to understand the domestic political dynamics of the countries of the region. Tensions between the Czech lands and Slovakia are evidently linked to conflicting economic interests. For Slovakia both the steel and

textile industries are very important, but the policies of the EC coupled with the generalised Western pressure for rapid system change were bound to hit Slovakia especially hard. It was not, of course, a major preoccupation of EC policy-makers to anticipate the socio-economic concerns of the people of Bratislava or Banska Bystrica. At the same time, policy-makers in Prague were overwhelmingly preoccupied with gaining and sustaining support for themselves from the West.

One of the arguments strongly used by Western pundits has been that liberal democracy depends upon the existence of a private capitalist economy. This may or may not be true, but it does not provide a democratic justification for rapid, large scale social engineering towards capitalism since the latter does not at all require a liberal democratic political system. There are plenty of examples of private capitalist markets without liberal democratic regimes.

Few can doubt that since 1989 in ECE there is a trade-off between the achievement of rapid social system change and the survival of the nascent liberal democratic political orders in the region. The rise of political movements like Tyminski's Party X in Poland and the pressures towards an authoritarian state within the Walesa wing of the Polish establishment parties indicate that an effort to rapidly consolidate the regime change will probably entail abandoning, or at least heavily curtailing, commitments to liberal democracy. In Hungary the electoral system is suffering a profound malaise expressed in the fact that the overwhelming majority of the population has been abstaining in elections. And the social crisis throughout the region is generating various kinds of authoritarian populism, mainly of a Catholic nationalist variety.

Some academic commentators in the West have tried to ignore these external sources of political crisis in the region, turning instead to theories of national political culture for their explanations of political malaise in ECE. These stress either the value systems inherited from Communism, or alleged national cultural traits suppressed by Communism but now returning to the surface, traits involving various brands of authoritarianism. The persuasive power of such theories lies in the fact that their stress on essentially spiritual factors – national character on totalitarian values – relieves their proponents of the need for careful empirical analysis of political trends. Such culturalist theories explain everything without having to explain anything in particular.

Thus, one prominent Western expert on ECE politics has argued that in ECE today there is a popular penchant for Leaderism, in other words a cultural inclination towards authoritarianism.³ He cites the cult of Antall in Hungary as an example. Yet he does not bother to mention the current abstention rate in Hungarian elections, running at between 70 and 80%. This hardly suggests that the Antall leader cult has strong popular roots: it rather suggests that there is a crisis of political representation in Hungary generated by the fact that there is a consensus in the new political elite on the need for a social system change which is producing great social distress in very large parts of the population.

Similarly in Poland the collapse of the Mazowiecki leadership in 1990 cannot be explained in terms of Leaderism. At the start of 1990 when the IMF-Balcerowicz Plan was begun the Mazowiecki government was enormously popular with some 80% support in the opinion polls. The collapse of that support by December 1990 can readily be explained

by the catastrophic social and economic effects of the Balcerowicz Plan. Analysis of the subsequent crisis of the Walesa-led government in 1991 must surely place at the centre of attention the fact that it promised an alternative socio-economic strategy to that of Balcerowicz, but was unable to deliver, in part because of Western pressure, a pressure which insisted upon the continued ascendancy of Balcerowicz himself over economic policy.

In conditions of devastating social crisis in any society, sections of the population are inclined to search for a charismatic figure, a Leader invested with miraculous powers and with a strength which is the psychic compensation for the followers' social weakness. Explanations of such Leaderism of the Tyminski variety do not require excursions into theories of ECE national character or culture.

The crucial problem of domestic politics within the ECE states today seems to be that of strengthening the links between social interests and political representatives -- the cardinal requirement for maintaining a pluralist democratic order. Yet building such links requires new sets of socio-economic policies and more integrative and corporatist styles of policy-making, all of which can prompt accusations in the West of rejecting marketisation and regressing to quasi-communist models of centralised economic control.

And such a domestic turn is made all the more difficult by the fact that the EC member states are giving substantial amounts of "aid" to the political systems of the region: there are very few "legitimate" political parties in any of these countries which are not very largely funded by Western agencies. This is the case not only for parties of the right but also of the left. This funding is not a specifically EC programme but it cannot be considered a suitable method of ensuring an organic development of links between parties and social groups.

Future Relations Between the EC and ECE.

Throughout the period since 1989, one large question-mark has preoccupied the new elites of ECE: their future relationship with the European Community. It is beyond the scope of this dossier for us to analyse the possible variants of future relations between the European Community and the states of ECE. At stake is the debate within the EC itself at present on the entire future identity and roles of the EC itself. We will thus conclude this dossier by summarising the debates between 1989 and 1991 on the question of future EC membership for the countries of ECE.

The governments of Poland, the CSFR, Hungary and Bulgaria have repeatedly affirmed their desire to join the EC and have pressed the EC for a commitment on its part to their eventual membership. Yet from the start the EC Commission and the EC Council of Ministers refused to make any such commitment and indeed made a point of stressing that the establishment of Association Treaties between the EC and individual ECE states must not be interpreted as a transitional step to future membership.

When the negotiations on Association became deadlocked on trade issues, pressure grew on the EC to make concessions on future membership. Awareness of this increasingly critical relations with ECE on this issue was most intense within the Commission. Its external affairs officials therefore searched for ways of offering a more definite political perspective

of eventual integration into the EC. But throughout the first half of 1991 the EC's Council of Ministers refused to give the three northern tier countries what they asked for: a definite commitment to their eventual membership. The furthest that the Council would go in the Association negotiations was to allow the preambles to the agreements to refer to accession as an ultimate, but not an automatic objective for the three countries. And conditions would have to be clearly spelt out: political (multi-party democracy, human rights) and economic (market economy) conditions are established in the preamble and the Association Council will check that these conditions are stuck to.⁴

The External Relations Commissioner indicated a distinction between Czechoslovakia and Poland, saying that full Polish membership would not be possible "before the end of the decade at least", while hoping Czechoslovakia might become a full member before the end of the nineties.⁵

It seems that by the spring of 1991 the German and Dutch governments had also accepted the need to offer at least some of the East European states a definite commitment to eventual membership. The Dutch Foreign Minister, Hans van den Broek, called for the East European states to be offered the perspective of joining the EC by the year 2000.⁶ And, of course, the British government has been strongest in its insistence on the need to draw these states into the EC as early as possible.

These different appreciations in the member states of the EC have been linked to wider, power-political rivalries which have intensified in the West as a result of the collapse of the Soviet Bloc and of German reunification. British policy has been geared to preserving as much as possible of the Western, American-led power structure from the old days of the bipolar political order in Europe.

These differences among the main West European states could make EC policy towards ECE increasingly incoherent in the future as rivalries within the EC intensify. Thus, while the EC has deplored the break-up of the CSFR, the right wing of the Bavarian CSU has been funding the Slovak party pushing for independence.

The major issue which will determine the fate of the countries of Eastern Central Europe will therefore be that of whether the main member states of the European Community can both deepen their internal coherence and find the political will and collective resources for allowing Hungary, Poland and the Czechs and Slovaks both economic growth and the conditions for democratic stability along with eventual membership of the European Community. At the time of writing this does not seem impossible. But it does seem unlikely.

Socialist Alternatives

is a semi-annual journal, appearing in Russian and English editions. In the current issue:

Laszlo Andor on Transition and Privatisation in Hungary; **Oleg Pchelintsev** on Privatisation in Russia; **Colin Leys** on the Myth and Reality of Thatcherism; Interview with **Tatyana Markova**, labour and woman's activist in Russia; Statement by Moscow car workers against privatisation; Interviews with members of Independent Miners Union.

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Notes to Part One

- [1] Throughout this dossier we will use the term East Central Europe in order to denote the belt of states from Poland's Baltic coast to the Adriatic and Turkey's and Greece's borders with Bulgaria.
- [2] The European Community states acted as a cohesive and fairly effective force in elaborating the details of the Helsinki Agreements of 1975, including much of Basket Three on Human Rights.
- [3] Until 31st December 1969, EC member states had retained an exclusive right to negotiate trade agreements with 3rd parties. But from 1970 onwards, in line with Article 113 of the Treaty of Rome this competence was transferred to the EC. In 1974, the EC took the initiative of seeking to apply this procedure to the establishment of relations with the states of Eastern Europe.
- [4] In this field the Common Agricultural Policy sets the framework for most agricultural imports and exports.
- [5] The Co-ordinating Committee for Multilateral Export Controls (Cocom), run from the basement of the US Embassy in Paris, has operated since January 1950 and at the most intense phases of the Cold War it covered half of all items traded on the world economy. It is still in operation against Russia.
- [6] In particular, the European Parliament must ratify trade agreements before they come into force.
- [7] An exception to this rule was inter-German trade between the FRG and the GDR.
- [8] See Valerie J. Assetto: *The Soviet Bloc in the IMF and the IBRD* (Westview Press, London 1988) for a general discussion of these issues. She distinguishes between IMF/World Bank policies for countries in the 'Technocratic Arena' and for countries in the 'Political Arena' -- ie in the Soviet Bloc. The same distinction applies to EC policies. For detailed treatment of the politics of various fields of West-East economic policy see also G. Bertsch and S Elliott-Gower (eds): *The Impact of Governments on East-West Economic Relations* (New York University Press, 1991)
- [9] For useful information on divergences between Western Europe and the US on trade policy towards the East in the 1970s and early 1980s, see Stephen Woolcock: *Western Policies on East-West Trade* (Royal Institution of International Affairs and Routledge & Kegan Paul, 1982)
- [10] For a sophisticated discussion of EC-ECE relations which nevertheless exemplifies this refusal to situate EC trade policy within the framework of West policy in the Cold War, see Sophie Verny: "Le CEE et CMEA", *Le Courier des Pays de l'est*, No.305, April 1986. Typical technocratic themes include the idea that the key variable affecting the level of ECE exports to the West has been economic backwardness: this makes Romania, which had a substantial trade surplus with the EC during the 1980s, the most advanced ECE economy. Another argument is that the state trading character of ECE states creates insuperable technical obstacles equitable trade expansion. Yet in 1944-46 the US exerted pressure on the USSR to join the IMF and the GATT -- guardian of free trade -- allowed Poland full membership in 1967, the thoroughly centralised Romania full membership in 1971 and Hungary membership in 1973. See Bertsch and Elliott-Gower, op.cit.
- [11] Ursula Plowiec: "US Foreign Economic Policy towards Eastern Europe" in G. Bertsch and S Elliott-Gower, op cit, page 96.
- [12] A classic example of the political determination of trade policy is provided by American fodder

exports to Poland in the 1970s. The US decision to provide the necessary export credits to supply large quantities of fodder for Polish meat production was taken in 1976 through the State Department and National Security Council over-ruling the Commerce Department's purely economic approach. Between 1976 and 1980 the Polish government became progressively more dependent upon such fodder imports for its politically sensitive drive to expand meat output at controlled prices. In May 1980, the US government suddenly blocked all further credits for fodder exports-- again as a result of purely political considerations to do with the change in US policy towards the USSR and the Soviet Bloc. This decision forced the Polish government to risk the July price rises which precipitated the strikes which produced Solidarnosc. On this, see my article 'The Polish Vortex' in *New Left Review* 139, May-June 1983.

[13] See Dariusz Rosati: "The Role of the West European and Japanese Governments in East-West Economic Relations", in Gary Bertsch and Steven Elliott-Gower (eds.), op cit, page 299. See also Alfred Tovias "EC-Eastern Europe: A Case Study of Hungary", *Journal of Common Market Studies*, Volume XXIX No.3 March 1991, for a detailed break-down of the tariff and non-tariff barriers facing Hungary, which, in the 1980s, has in many respects had the most favourable of ECE trade relations with the EC.

[14] On these issues, see John Maslen: "A Turning Point: Past and Future of the European community's relations with Eastern Europe", *Rivista di studi politici internazionali*, Firenze, No.4, October-December 1988.

[15] On these issues see Leah Haus: "The Western Politics of East-West Trade Negotiations", in G. Bertsch and S Elliott-Gower, op. cit.

[16] One of Gorbachev's first moves after becoming general secretary of the Soviet Communist Party was to inform Italian Prime Minister Benito Craxi in May 1985 of his readiness to break the deadlock between the EC and Comecon. Poland and Hungary had already been seeking to re-open relations with the EC since 1983 and the West was well aware that most of the ECE states were desperately keen to expand relations and were ready to recognise the European Community. On these issues see John Maslem: op.cit.

[17] *ibid.*

[18] The French name was a deliberate reminder of the fact that the bank would be challenging the role of the World Bank, whose full name is the International Bank for Reconstruction and Development. The bank was a direct challenge to US dominance in the politics of international finance for it was to be the first such multilateral body of this kind which the American government would not, in effect, control. Insofar as the 12 EC members pursue a united policy within the EBRD they will have a majority within its policy-making body. The French gained British support for their proposal by suggesting that its headquarters should be in London. The German government was not enthusiastic about the idea of the bank but did not oppose it. The American government, on the other hand, was strongly against the entire concept of the EBRD and threatened to boycott and oppose it publicly. It was perceived as a threat to US political dominance in the field of finance and, with the proposal to denominate EBRD funds in ECUs rather than Dollars, as a challenge to American currency dominance as well. On this see *the Guardian* 13th March, 1990. Their final acquiescence was gained only through the EC governments agreeing to a key American demand: that the EBRD

should be excluded from significant involvement in the USSR itself.

[19] One of the few published accounts of the background to this important G7 decision can be found in Gilles Merritt: *Eastern Europe and the USSR - The Challenge of Freedom* (Commission of the European Communities and Kogan Page Ltd. 1991.) Unfortunately Merritt personalises the decision as a consequence of Bush's respect for Jacques Delors, obscuring the deeper political logics and interests. Interestingly, Bush and Delors seem to have arranged for Chancellor Kohl to formally propose the new arrangements, presumably to bring the French round more easily. On G7's functioning see Cesare Merlini (ed.): *Economic Summits and Western Decision-Making* (European Institute of Public Administration and Croom Helm, London, 1984), especially Ch.2 by Robert Putnam.

[20] On this new Centre, see the OECD Observer, April/May 1991, page 7.

[21] The threat of such a free for all emerged in early 1990 when Japan moved into Eastern Europe and handed out substantial credits, notably \$1 billion to Poland without clearing this operation through the IMF. It thus graphically demonstrated its financial-political muscle in comparison with the USA which, as the world's major debtor country, lacks the financial muscle for such action. But subsequently, Japan has drawn back from such unilateralism and has pursued a cautious, low-key policy towards the region, partly governed by fears of provoking West European wrath before the completion of the 1992 programme and partly perhaps governed by a feeling that since Germany would be the chief beneficiary from the collapse in ECE it should also pay for the region's future development.

[22] See Susan Strange: *Casino Capitalism*, (Basil Blackwell, 1986) for a realistic assessment of the role of such multilateral organisations. See also the essays in *Paths to International Political Economy*, (Allen & Unwin 1984), edited by Susan Strange.

Notes to Part Two

[1] By the late 1980s, the Communist Parties of Poland and Hungary were abandoning any hopes of reviving their economies on a non-capitalist basis. Both regimes faced a desperate policy crisis: Poland's debt burden had reached 40 billion dollars, Hungary's stood at 11 billion, and repayment requirements were rising steeply, threatening the need to default. At the same time industrial production went into decline in 1988, and in Poland there were signs of mounting industrial unrest. The only solution seemed to lie in a rapid growth of hard currency exports to the West but these were blocked by Western barriers, exacerbated by effective competition from NICs like Brazil, acquiring a place in the international division of labour to which the East European states had aspired in the 1970s. To the Cold War barriers were added the West's own economic malaise (high levels of structural unemployment, intensifying trade conflicts) and the drive towards closer West European integration through the Single European Act and the 1992 Programme.

If the Soviet economy had been booming the Polish and Hungarian governments might have been able to turn East for hard currency, expanded markets, extra supplies of cheap energy. But the reverse was the case and indeed the Soviet government was demanding the repayment of hard currency debts from Poland, was wishing to switch its energy sales to the hard currency West and was

increasingly restive about having to make do with imports from Eastern Europe that lacked the quality of equivalents on the world market. Thus, the Soviet leadership was willing to cut Poland and Hungary loose and to sanction moves towards capitalism in these two countries. It set the stage for such a transition through agreement between Comecon and the EEC in 1988.

The Comecon-EEC declaration opened the way for Poland and Hungary to start the process of negotiating their entry into the Western world economy. It was followed by major internal debates within the Communist Parties of the two countries concerned, debates which culminated in decisions by the central committee of the Polish party in January 1989 and by that of the Hungarian party in February 1989. The substance of these decisions was to switch over to a pluralist political system and to a market economy. The stage was set for the dramatic upheavals across Eastern Europe later in the year.

[2] Jan Herzmann "Zprava z operativniho vyzkumu c. 89-14". *Ustav pro vyzkum verejneho mineri pri Federalnim stistickem uradu*, December 1989, cited by Sharon L. Wolchik, *Czechoslovakia in Transition: Politics, Economics and Society*, Pinter, London 1991, page 118. For an interesting survey of social and political values in Czechoslovakia before 1989, see James P. McGregor: "Value Structures in a Developed Socialist System: The Case of Czechoslovakia", *Comparative Politics*, Vol. 23 Number 2, January 1991.

[3] The crude trade figures for ECE states broken down by export destination show how both Hungary and Poland had, during the late 1980s, been able to shift the direction of their trade away from Comecon towards the West. In 1988 the West's share of Hungarian exports was almost as large as Comecon's share; its share of Polish exports was actually larger than Comecon's. But such figures fail to reveal the fact that for the industrial sectors of both countries, both imports and exports within Comecon were absolutely central. For the statistics of trade flows see: M. Landesmann, A. Nesporova and I. Szekely: "Industrial Restructuring and the Reorientation of Trade in Czechoslovakia", *European Economy*, Special Edition 1991, Table 6, p.64.

[4] See Paul Hare: "Reform of Enterprise Regulation in Hungary - from 'Tutelage' to Market", pages 48-51, *European Economy*, 1989.

[5] Most mainstream Western accounts of the transition to capitalism in ECE ignore issues of social structure. A classical expression of this approach can be found in John Pinder: "1992 and Beyond: European Community and Eastern Europe", *The International Spectator*, Volume XXV, No.3 July-September 1990. The policy correlate of this type of analysis is the notion that the turn to a free market is about nothing more than a change of attitudes among individuals: if you suddenly bring about the collapse of the structures of the planned economy at a macro-economic level you will 'force' individuals to adopt the habits and attitudes of the 'market'.

[6] In Poland in 1989 subsidies to both households and enterprises made up a staggering 30.9% of the state budget on 15 February and 32.2% on 1st November. See the important article on budgetary matters by Stanislaw Gomulka: "Reform and Budgetary Policies in Poland 1989-90", *European Economy*, 1990, No.43.

Notes to Part Three

- [1] R. Portes, Introduction to *European Economy* Special Edition No.2, 1991.
- [2] *ibid.*
- [3] On the general practice of conditionality developed by the IMF and World Bank see John Williams (ed.): *IMF Conditionality* (Institute for International Economics, MIT Press, 1983)
- [4] Commission of the European Community, 1 Feb 1990.
- [5] See the report of his speech in *Le Monde*, 21st April 1990, page 21.
- [6] The targets of European Community exclusionary tactics seem to have been those leaderships in the region that were felt to be unreliable in relation to the EC objective of rapid social system change, above all proponents of 'third way' development strategies. The Romanian National Salvation Front leadership put forward a domestic strategy of a long transition period of state capitalism, combined with a series of social guarantees. And the Front's leader and directly elected President Ilescu made repeated suggestions of the desirability of a 'Third Way'.
- [7] The December 1990 Council of the EC reversed the policy of exclusion by agreeing to open PHARE to both Romania and Bulgaria: Romania was formally admitted on 30th January 1991 and the Commission agreed its first project - for importing cattle food into Romania - on 1st April 1991.
- [8] R. Portes, *op.cit.* Portes has been the co-ordinator of the EC-Group of 24 Phare programme's policy experts and therefore has been at the very heart of the EC's operations towards ECE.
- [9] The naive might be forgiven for wondering how sequenced policies could both contain errors and be 'robust'!
- [10] In Poland even after the crushing defeat of Balcerowicz's prime minister, Mazowiecki, in the December 1990 Presidential elections, Walesa felt obliged to keep reform supremo Balcerowicz himself in office in order to reassure Western policy-makers. In Hungary, the election victory of the Democratic Forum led swiftly to warnings of the danger of a capital flight and financial panic, since the Democratic Forum was suspected of being luke warm towards radical restructuring measures (a charge made against them by the Free Democrats and the Young Democrats). These worries were halted only by the decision of Jozef Antall, the Democratic Forum's leader, to include suitable non-party 'academic experts' as Finance Minister (Ferenc Rabar) and Minister for International Economic Relations (Bela Kadar).
- [11] But see Peter Gowan: "Old Medicine, New Bottles: Western Policy Toward East Central Europe", *World Policy Journal*, Winter 1991-2.
- [12] The writings of Jan Winiecki in *Soviet Studies*, Vol.43, No 4 (1991) and elsewhere exemplify this approach.
- [13] See the *Economist*, 29th June 1991.
- [14] See the article by Mario Nuti on this problem in *European Economy*, Special Issue, No.2 (Commission of the European Communities, 1991).
- [15] See the *OECD Observer*, June/July 1991, page 20.
- [16] *ibid.* page 23.
- [17] *Financial Times*, 26 March 1991, page 2.
- [18] Except in the case of Poland. In March 1991 it won a deal which should reduce its official debt by 50 per cent by 1984. On the 1991 negotiations see Gilles Merritt, *op cit*, pp 218-220.
- [19] Gilles Merritt reports that in April Andriessen warned EC foreign ministers that unless conces-

- sions were made the Association Agreements would collapse in deadlock. See Gilles Meritt, *op cit*, p. 41.
- [20] For a survey of the problems see the *Financial Times*, 20 March 1990, p.9.
- [21] *Agence Europe* (AE), 26 February 1991. The UK and Denmark were supporting higher steel quotas in general; France, Belgium, Italy and Luxembourg wanted to lower the 1990 quotas.
- [22] See Helmut Wiener, "Die Stahlindustrie Osteuropas - Entwicklung, aktuelle Struktur, Probleme und Perspektiven", *RWI Mitteilungen*, No. 40, 1989.
- [23] A conference on the problem of refugees, organised in Brussels (29 January 1991) by the European Parliament's Committee on Development and Cooperation and by the UN High Commissioner's Office for Refugees, heard strong criticism on this score. See AE 30 January 1991.
- [24] See the Report of the Vienna conference of the Council of Europe on this subject in AE, 25 January 1991.

Notes to Part Four

- [1] Cited by Giles Meritt, *op cit*, p. 24.
- [2] See R. Portes, "Introduction", *op cit*.
- [3] See George Schöpflin, "Post Communism: Constructing New Democracies in Central Europe" *International Affairs*, No. 2, 1991.
- [4] AE 22 April 1991, p. 7.
- [5] AE 11 March 1991.
- [6] In a speech before the Eurochambers of Commerce Assembly. See report in AE 20 April 1991.
- [7] AE 29 April 1991.
- [8] AE 11 April 1991.
- [9] *The Guardian*, 8 June 1991, p. 7.
- [10] The funding came through the CSU-linked Seidel Foundation.

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Wages and Reconstruction in Eastern Europe

by Andrew Glyn

In the voluminous discussion of the transition of East European countries from centrally planned to market economies there has been little discussion of the appropriate level of real wages. This is surprising since the level of real wages has played a decisive role in the course of events. The very large cuts in real wages, which have generally accompanied liberalisation, provided opportunities for rapid reconstruction. But this potential could only be realised by buoyant investment or public expenditure. The uncertainties of the transition made an investment boom most implausible, leaving a crucial role for public expenditure. But the ideology of transition governments, stiffened by advice from the IMF and other authoritative sources, favoured as rapid as possible a reduction in the role of government. Financial orthodoxy has introduced a fundamental macroeconomic contradiction into the transition process as the sacrifices of living standards incurred by the mass of the population are frittered away in slumps.

A brief overview of macroeconomic developments.

We take the cases of Czechoslovakia (CSFR) and Poland to illustrate the argument. Poland was the first to implement comprehensive reforms (January 1990) and from a very unstable macroeconomic position (see Lipton and Sachs, 1990). In the CSFR reforms were similarly dramatic, but from a much more macroeconomically stable starting point (see Hrnčir and Kláček, 1991). Table 1 presents some basic macroeconomic data.

GDP is estimated to have fallen by around one fifth in both Poland and CSFR between 1989 and 1991. The biggest annual decline, took place in the CSFR, 16% in 1991, the year of price liberalisation and the strongest impact of the events in USSR. Industrial production fell more than total GDP, reflecting the growth in some service sectors. Price liberalisation lay behind price increases of 132% and 35% in Poland and CSFR in the first quarters of 1990 and 1991 respectively contributing to very rapid inflation in those years. Employment fell much less than production, reflecting worker resistance to, and lack of enterprise incentives for dismissals. The current account of the balance of payments was in surplus in both Poland and CSFR in their respective years of liberalisation.

It has been argued that the falls in output which have been reported have been exaggerated by insufficient coverage of the growing private sector, especially services (Berg and Sachs 1992). The consensus view, however, is that these and other statistical deficiencies do not alter the picture of very large falls in output (see IMF 1992 p 30, UNECE 1992

p60). So in what follows we will assume that figures of table 1 give at least the correct orders of magnitude of what has occurred.

Real wages and consumption

The stabilisation programmes in Poland and CSFR led to enormous reductions in measured real wages; in the first quarters (of 1990 and 1991 respectively) real wages were some 25-30% below the level of the previous quarter.

In Poland indexation of wages in the first 4 months was set at 20-30% of cost of living increases, with indexation of 60% thereafter. In the early part of 1990 wages grew less than allowed by the norm. Wages then caught up and substantially exceeded the norm at the end of the year. But the faster than expected inflation meant that real wages were still down by more than 20% at the end of 1990 (see chart 1). Subsequently wages grew within the norm (itself adjusted upwards at the end of 1990) and by the third quarter of 1992 were nearly 40% below the level of end 1989. In CSFR an agreement with the unions was supposed to limit real wage reductions to 12% in the first quarter of 1991 with slight recovery thereafter. But the first three quarters of 1991 saw wage increases well within the norm (OECD 1991 p27) and even a surge in the final quarter left real wages some 15-20% below the level of the previous year during the first half of 1992.

Official figures show falls of 16% of personal consumption in Poland in 1990, (where the effective purchasing power of real incomes in Poland in 1989 was exaggerated by the widespread shortages) and 33% in CSFR in 1991. There may be some exaggeration in these estimates of the decline in consumption, and not all the decline in consumption was due to declining real wages (agricultural incomes for example fell much more than wages), but the fall in real wages undoubtedly made a substantial contribution to falling demand.

The indexation provisions make it clear that substantial reductions in real wages were envisaged by the stabilisation plans in Poland and CSFR. As a result of faster than expected inflation, and of wage increases trailing the norms, especially in the first months of the plans, the cuts in real wages tended to be bigger than expected. According to Gotz-Kosierkiewicz and Kolodko (1992 table 1) a fall of 20% in real wages was envisaged in the Polish stabilisation plan for 1990 whilst on average during 1990 measured real wages were 30% below the level of the end of 1989. In the CSFR real wages were on average some 24% lower in 1991 than at the end of 1990 as compared to the agreement aimed at limiting declines to 10-12%.

The bigger than expected price increases

Table 1. Basic Macroeconomic Data
(% change year on year)

		CSFR	Poland
GDP	1990	-0.4	-11.6
	1991	-16.4	-8.0
Industrial Output	1989	0.8	-0.5
	1990	-3.7	-23.3
	1991	-23.1	-11.9
Consumer prices	1989	1.5	244
	1990	10.8	586
	1991	58.7	70.3
Employment	1990	-0.1	-2.6
	1991	-6.6	-2.4
Current Acc (BOP % GDP)	1990	-2.9	4.0
	1991	-2.1	-2.1

Sources: IMF 1992 table 8; UNECE 1992 table 3.2.6; UNECE 1990 table 3.3.20

reflected the exercise of monopoly power by the newly liberated enterprises who could pass on to consumers higher interest and depreciation costs (Blanchard et al 1991, Berg and Blanchard, 1992). Something of a reaction to the much larger than expected cuts in real wages soon occurred; despite very high taxes on wage increases in excess of the norm, workers were in a strong enough position within firms to force wages up to, or even beyond, the norm at the end of the first year. But in Poland at least, real wages fell back again sharply after a period of catching up. It remains to be seen whether this pattern will be followed in the CSFR as pressure on workers mounts from rising unemployment and deteriorating enterprise finances.

Were workers willingly sacrificing current living standards in order to reconstruct (and in Poland stabilise) their economies? As a description of at least the anticipated part of the real wage declines in the early months of the stabilisation plans in Poland and CSFR this does not seem too far-fetched. A fall in real wages represents an opportunity since it represents potential for an increased level of spending on investment or by the government. Resources are released by the reduction in workers' consumption, making room for these other elements of spending to be expanded without increasing aggregate demand. Given the widely recognized need for a major investment effort to restore the infrastructure (transport, communication and so forth) and modernize industry, the reduction in real wages could have been put to good use.

The cut in real wages also represented a threat, however. As explained so clearly by Kalecki (1971 [1935]) because the level of real wages determines the level of workers' consumption it potentially plays a key role in the determination of the level of demand. A lower level of real wages would reduce aggregate demand and thus employment unless the resulting fall in workers consumption was matched immediately by increases in other expenditures (business investment, government spending or net exports). Otherwise the additional potential profits created by the wage reduction would accrue as unsold stocks rather than being realised in money form. Enterprises would cut production and employment, incomes and demand would decline, and the surplus, over and above workers' take home pay, would fall back until it was no larger than the going level of expenditures other than workers consumption. To analyse the course of the slump we must look next at enterprise investment.

Profitability and investment

The sharp decrease in real wages after price liberalisation suggests a substantial increase in profitability. Data for Poland show a high (though declining) level of profitability in 1990; figures for CSFR suggest real profits doubled in the early months of 1990 before dropping sharply (Statistical Bulletins). But accounting data are notoriously difficult to interpret when prices increase very sharply (stock appreciation, valuation of depreciation and so forth). Moreover industrial output fell by about one quarter immediately in Poland and within three or four months in CSFR, so that actual profitability was sharply reduced below potential levels, especially since employment cuts lagged far behind output falls. Accordingly a better indicator of what happened to underlying profitability, purged of both the distorting impacts of price hikes and output falls, is gained by looking at the "product wage" or real cost of labour to employers (money wage deflated by producer prices). Product wages fell by 33% in Poland in 1990 (as compared to the end of 1989) and by 29% in CSFR in 1991 (as compared to end-1990). This represented a massive increase in potential profitability.

One way such potential profits could have been realised would have been through corresponding increases in enterprise investment. But enterprises in these countries faced an extraordinary degree of uncertainty as to their position. IMF authors, writing about CSFR (Aghevli et al 1992) explained: "From the point of view of enterprises, large investments were almost precluded in the transition phase because of uncertainty and the expectation of privatization. Uncertainty about future rules and regulations concerning a broad spectrum of legal, tax, and environmental issues, and even about the structure of relative prices makes it difficult to evaluate any investment project. And the prospective privatization would likely entail changes in corporate strategy, and the logical decision by management would be that any large approval of funds should wait for the approval by the new ownership." (p 30). To which might be added further factors - uncertainty about demand, tight monetary policies with very high real interest rates and perhaps even the self-interest of some managements to do little to improve the immediate profitability of their enterprises whilst it was possible that they could obtain ownership cheaply during the course of privatization.

Initially there were optimistic expectations as to the scale of inward foreign direct investment. Whatever its benefits in speeding industrial modernization, foreign investment was never likely to have a major influence on aggregate demand. Some of it would represent payment for existing assets, and a substantial part of expenditure on new assets would take the form of imported capital goods. In any case foreign investment was subject to many of the same deterrents as domestic investment and was worth only \$100 million in Poland in 1990 and \$500 million in CSFR in 1991.

The data confirm a gloomy picture for fixed investment; down by 18% in Poland between 1989 and 1991, 36% in CSFR in 1991 (UNECE 1992 table 3.2.4). The UNECE comments: "Since investment performance was weak in the 1980s, the volume of investment in 1991 is now at a very low level. Thus the process of aging of fixed assets has continued or even accelerated. Taking into account the fact that the fundamental transformation now under way in east European countries has made a large part of the fixed

capital stock technically and economically unviable, the process of restructuring and economic recovery will be slowed down by strongly depressed investment levels." (UNECE 1992 p 65).

The fall in production rapidly cut profits. Profit margins were reduced below the potential implied by the fall in product wages as productivity was reduced by some 14% in both CSFR and in Poland in the first year of the stabilization plans. Increased weight of fixed costs (such as depreciation) also contributed to sharply reduced reported profitability. The reduction in capacity utilisation and profitability must have further depressed the incentive to invest. Only very high levels of government spending could have put the sacrifices of reduced real wages to use for reconstruction, simultaneously preventing this disastrous downward spiral of decreased demand and falling output.

Public expenditure and budget deficits

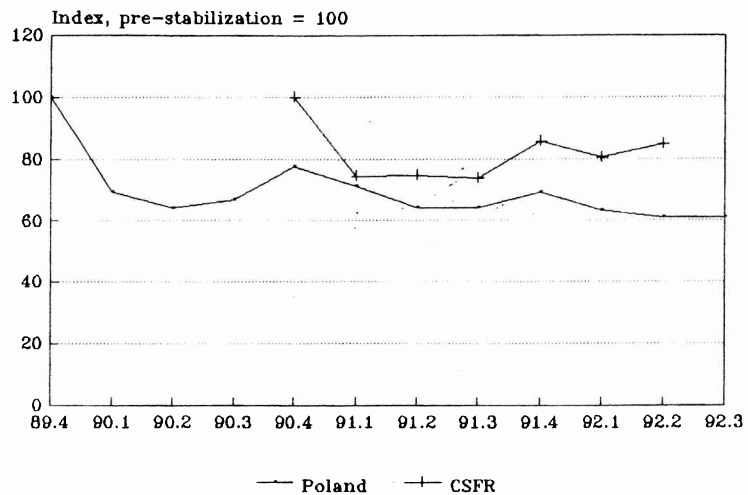
The CSFR had levels of government spending around 60% of GDP at the end of the 1980s; whilst the Polish level (some 47%) was only just above the EEC average. CSFR had a high level of expenditure on goods and services (current and capital); whilst both countries had very high expenditures on subsidies and transfers to enterprises (19% of GDP in CSFR, 17% in Poland compared to 3% in the EEC) Financial deficits were no more than 1% of GDP, and apart from the Polish overseas debt burdens, interest burdens were low due to the hyperinflation in Poland and fiscal prudence in CSFR.

Subsidies were cut sharply between 1989 and 1991, by 14% of GDP in CSFR, and 13% in Poland (OECD 1992b table 5). For CSFR the OECD estimates (1992a p36) that there was a 16% fall in the ratio of government spending to GDP. But with a 16% fall in GDP this implies a very substantial fall in the real level of other types of spending in addition to the slashing of subsidies. In fact spending on transfers fell by nearly 30% in real terms over the two years and "social consumption" (a narrower category than current expenditure) fell by 33% in 1991 (UNECE table 3.2.3). Government consumption was constant in Poland in 1990 and transfer payments rebounded in 1991 as unemployment rose, but the fall in subsidies suggests a large cut in the overall ratio of government spending to GDP at a time of massive slump.

In CSFR the impact of reduced government spending was compounded by a planned move from small deficit to small surplus (OECD 1992a chart 8). In the event taxes on enterprise profits slid; but there must still have been a huge rise in the structural (cyclically adjusted) surplus implying a tighter fiscal stance. In Poland revenues declined by some 8% of GDP in 1991 and the budget deficit was put by OECD at 4% of GDP. But given the scale of the recession this represented a much tighter fiscal policy than in 1989 (deficit of 6% of GDP) and rather tighter than in 1988 (rough balance) before the hyperinflation.

Even with incomplete information the conclusion on government expenditure and fiscal policy seems clear. Far from increasing government expenditure on goods and services to make up the demand

Chart 1. Real Wages 1990-92
Base: 4/89 Poland, 4/90 CSFR



gap left by the cut in real wages, government expenditure (other than on subsidies) has generally been reined in. Nor can this be justified by collapsing government revenue. It is true that enterprise tax payments fell sharply as their profits fell. But this reflected the impact of the slump, with profits being especially vulnerable to falling output. Not did necessary tax reforms (introduction of VA, extension of income tax and so forth) imply reduced tax receipts in the interim. If the extent of the slump had been minimised so would the cut in tax revenue. In this sense much of the higher level of government expenditure would have been self-financing. Moreover if the counterpart of the reduced real wages is uninvested enterprise savings then the government should run a corresponding financial deficit if demand is to be maintained. Failure to accept this rise in deficit leads to reduction in demand, output and incomes until the "excess" profits and savings of the enterprise sector are eliminated.

It should be emphasised that much of the required government borrowing would not represent a Public Sector Borrowing Requirement. One part of the public sector (General Government) would borrow from another part (Enterprises). If the government is inhibited from taking the extra profits from the enterprises via some form of excess profits tax (such as many capitalist countries used in World War II) then the sale of some long-term bonds to them would be necessary. Enterprise balance sheets would improve, but either enterprises or workers would have to pay more taxes in the future to finance the interest. Hopefully the government's reconstruction investments financed by these bonds would bear fruit in an enlarged tax base so that higher tax rates would not be required. Society would gain from the increased productive potential and, with the resources deployed for reconstruction otherwise wasted by recession, there is no cost.

Structural change

Could the dynamism of the expanding private sector overcome the demand problems discussed earlier? To the extent it generates real investment and/or net exports in excess of its own savings, then aggregate demand for the still dominant state sector would increase. But it would be very unwise to expect too much from this source. Expansion is likely to be fastest in the sectors where capital intensity is low

(and much of the capital is existing buildings) so that the impact on aggregate investment spending is limited. It is hardly likely to much diminish the need for a high level of government expenditure to maintain aggregate demand, and thus transform low workers' consumption into high levels of reconstruction spending.

A widely discussed feature of the transition has been the slow rate of "rationalisation" by state enterprises; privatisation is supposed to speed this up. But the "demaning" of factories promises to exacerbate the demand situation. The workers who remain in the rationalised factories would be more productive. Unless real wages rise in line, potential surplus is increased. Whilst exports should be increased through greater competitiveness, and investment by greater profitability, there is no guarantee that these responses will be large and quick enough; a rising trend of government spending may well be required to maintain employment and thus to take advantage of the extra surplus created through the rationalisation process. Rising payment of unemployment benefits will tend to play this role of helping to maintain aggregate demand but may well be insufficient. Moreover it is obviously much more desirable that the public expenditure should be on infrastructural projects rather than the dole. To the extent that such projects make use of otherwise unemployed labour their real cost, even in terms of public expenditure, is much lower than the gross cost.

External shocks and the external balance

The emphasis of this paper has been on the role of cuts in real wages in generating the recessions in Eastern Europe. The intention has not been to claim that it was the only influence. "External shocks", that is, "a sharp deterioration in the region's terms of trade following the move to world prices for inter-regional trade; the collapse of trade among the former members of [CMEA]" (IMF 1992 p n30), have been a factor. But there has been a tendency to exaggerate their role (see the examples quoted in UNECE 1992 p 62 footnote). Positive factors on the external front account for the positive factors, and policy errors have often been ignored. For example the opening up of export markets in the West led to rapid expansion of exports, the likelihood was that quite substantial overseas deficits could have been financed and it is arguable that more caution should have been shown with the pace of import liberalization. It seems that whilst external shocks clearly had important consequences it would be incorrect to regard them as the dominant cause of the declines in output.

What happens to the balance of payments does of course depend on the level of real wages (measured in terms of international prices of traded goods rather than of consumption). Whilst lower real wages reduce domestic demand they increase external competitiveness and thus increase overseas demand and improve the external payments position. Even if this effect is limited in the short-run, as external markets take time to develop, it is an advantageous by-product of workers accepting a real wage cut in the interests of reconstruction. But it is most implausible that export booms could conceivably generate enough demand to remove the need for a higher level of government expenditure to maintain demand when real wages were cut. Indeed if export

surpluses were sufficient to realise the extra profits, then the cut in real wages would be reflected in net investment abroad rather than expenditure on reconstruction - an unjustified absorption of resources unless absolutely unavoidable due to international intransigence over debt repayment.

The orthodox approach

The above account of the role of real wages and public spending is quite explicitly demand oriented. The orthodox approach puts almost exclusive focus on supply considerations. The following propositions seem to capture the central ideas:

(i) The transition to a market economy involves substantial changes in relative prices, as prices are liberalised, subsidies removed and producers subject to varying degrees of international competition.

(ii) Such changes in relative prices render part of production unsustainable in the new market-determined environment; demand "shocks" from the breakdown of CMEA trade, especially with the USSR, compound this problem of maintaining output in the transition.

(iii) The impact on output depends on whether there is a "flexible supply response" - factors have to be sufficiently mobile, and factor prices sufficiently flexible to ensure rapid reallocation. Boosting demand would have little effect on output.

(iv) The bigger the fall in real wages the less will be the fall in employment and output.

v) The task of macroeconomic policy is to ensure that the price increases from liberalisation (and any inherited inflation) are not transformed into persistent inflation. This requires, inter alia, cuts in government spending (most obviously on subsidies), balanced budgets and incomes policies to induce acceptance by workers of current real wage levels.

(vi) The size of the recessions is an indicator of the inflexibility of supply, implying the necessity for further reforms. Tight financial policies only contribute to the fall of output because of inflexible supply.

(vii) The tasks of reconstruction require the speedy creation of market incentives. Whilst the importance of government infrastructural investments is emphasised, and other demands on government expenditure recognized, the need for the government to ensure the full utilization of resources in order to expedite reconstruction is never mentioned.

The general line from the IMF comes out clearly in the following quotation from the May 1992 *World Economic Outlook*:

"In general the policies pursued in 1990-91 by the Eastern European countries to achieve macroeconomic stability appear to have been relatively successful, although inflation in the region remains too high. Far reaching reforms - such as price and trade liberalization, privatization of small enterprises, and the establishment of two-tier banking systems - have also been implemented. However, the supply response to the sharp changes in relative prices has been disappointing and further important reforms are urgently needed to limit the costs of transition.... The key issue... is how to stabilize their economies while implementing structural reform and building market institutions as rapidly as possible to ensure the supply response is forthcoming." (IMF 1992 pp42/3)

It must be said that the IMF is curiously reticent about exactly what "supply responses" they have in mind. Do they think that the problem is too high a level of real wages (traditional classical unemployment)? It hardly seems so given the big declines in real wages which have occurred. Is the problem the

general level of money wages and prices which has been too resistant to macroeconomic discipline and thus, through tightening monetary conditions, reduced aggregate demand? Is the problem a microeconomic failure at the enterprise level to take advantage of the low real wages and the openness of foreign markets to upgrade the quality of production and boost sales of exports and import competing products more rapidly? Whatever combination of these effects (or other more subtle ones) are supposed to lie behind the output collapse, the clear impression is that increasing public expenditure or deficits would in general make matters worse on the supply side (incentive effects, crowding out, inflation) rather than better on the demand side.

But could a policy of keeping government spending and deficits at levels sufficient to maintain aggregate demand be credible in Eastern Europe? Even those sensitive to the problem of demand deficiency have insisted that demand management could not be used to offset the recession: "the more conventional fiscal and monetary tools are simply not available. Further budget deficits, or even deficits at their current level, are likely to lead to a confidence crisis and to depreciation and inflation." (Berg and Blanchard 1992 p 28).

The basis for such a conclusion cannot be the size of the deficits or public spending levels in the abstract, which are not out of line with experience in OECD countries. Rather it must lie in recent history of rapid inflation and the fear that the social conflicts which underlay that inflation would soon return if demand were high. In the case of Poland, to which Berg and Blanchard were explicitly referring (and other countries with very high inflation), such a pessimistic conclusion may have been justified. Despite the new political conditions it may indeed have been impossible to secure a sufficiently durable social compromise which would have combined acceptance of sharp cuts in real wages after price liberalization with high enough levels of reconstruction expenditure to maintain aggregate demand and output. The slump has played the disciplining role of forcing acceptance of real wage cuts and some industrial restructuring, even in a situation where workers retained considerable power within enterprises.

But the essential point is that recent experience of rapid inflation, and consequent pessimism about social compromise even under the new political conditions, has not been the necessary condition for the espousal of orthodox policies and consequent slumps. In the CSFR, which was notorious for its macroeconomic stability prior to the fall of the communist regime, exactly the same type of policies were promoted by international organizations and implemented, exceptionally zealously, by the post-communist government. Fear of rekindling rapid inflation has been a plausible justification for orthodox policies in countries such as Poland, but the case of the CSFR shows decisively that the proponents of the orthodoxy rest their case on more fundamental pro-market considerations. Effecting a social compromise based on rapid reconstruction and high employment, real wage restraint and high levels of government expenditure would never have been easy in Eastern Europe, even in the favourable political circumstances immediately following 1989. But the bitterness and resentment stoked up by the real wage cuts combined with slump and sharply rising unemployment, have surely rendered an agreed programme for economic reconstruction that

much more difficult to achieve despite its enormous potential benefit.

Conclusion

It is increasingly argued, for example by Carlin and Mayer (1992), that successful industrial restructuring of previously planned economies requires a high degree of government intervention rather than leaving the process to market forces. This paper makes a parallel macroeconomic argument that only increased levels of government spending on programmes designed to bolster reconstruction could put to productive use the sacrifices of current living standards imposed on East European workers by liberalisation. Such policies were rejected by the orthodox financial opinion both within transition governments and internationally. In the absence of appropriately high levels of government spending to put the potential economic surplus to productive use East European workers have ended up with their sacrifices squandered in the form of the slump. The economic necessity for, but ideological intransigence towards maintaining or increasing government expenditure, may be termed the "fundamental macroeconomic contradiction" of the transition to the market. It is noticeable that, as the consequences of this contradiction are born by the mass of workers, there have been moves within the labour movement, in Poland at least (see "Twenty one demands" printed in *Labour Focus on Eastern Europe* No 2/1992 p 38) to press for a comprehensive plan for economic reconstruction.

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Campaign in support of Solidarity leader

by David Holland



Jozef Pinior

Witch-hunts against socialists and communists in the countries of Central and Eastern Europe have unfortunately become a common-place in the last two years. Pensions, jobs and public reputations have fallen victim to smears, bans and proscriptions from holding public employment.

Whatever the abuses of the past, these politically motivated campaigns have done nothing to enhance the democratic credentials of those who have promoted them. Few of these moves, however, have been so bizarre as the one directed against the well-know Polish socialist (and sponsor of this journal), Jozef Pinior.

Jozef Pinior was a hero of the Solidarity movement, serving as treasurer of the Lower Silesian Region and as the representative for this region on the underground national executive of the union, after the proclamation of martial law. He served three years in prison 1983-86 for his union activities. He broke from the Walesa leadership as a result of its sharp move rightwards, but was nevertheless an organiser of the strikes of 1988 which forced the government to the negotiating table and produced

the Round Table Agreement. A further one year suspended prison sentence was imposed upon him for an incident arising from this activity (he and a colleague were set upon by a group of factory security guards and beaten).

Because of these convictions, Jozef had difficulty obtaining a passport to travel abroad from the communist authorities and only an international campaign - supported by the Campaign Group of Labour MPs - succeeded in obtaining one. The present post-Solidarity government of Hanna Suchocka recently refused to cancel these convictions and thereby prevented Jozef from working as a lawyer or a teacher. Zbigniew Dyka, the Polish Minister of Justice, has said that he sees no reason to "question the position of the Court regarding the facts or the guilt of the accused."

The campaign in defence of Jozef Pinior was opened by an article by Stanislaw Pelczar in *Nie*. This newspaper is owned by the controversial ex-martial law regime press spokesman, Jerzy Urban.

A formal "interpellation" has been lodged in the Polish parliament by Left Alliance (ex-communist) Wroclaw deputy, Marek Mazurkiewicz. This was supported by deputies from the liberal Democratic Union, the National Executive of the conservative Centre Agreement, the NEC of the Peasant Party, by Fighting Solidarity, Solidarity of Labour, the Lower Silesian Region of Solidarity and by the Left Alliance as a whole.

From Britain, Euro MPs Stan Newens, Alf Lomas, Peter Crompton, Ken Coates, Michael Hindley and Carole Tongue have written in protest to the Polish Prime Minister. Academics from Warwick University have also lent their support. This international pressure already has had some success in reversing the previous refusal of the Minister of Justice to allow appeals against the earlier sentences to be heard in the courts.

Anyone wishing to support this defence campaign should get in touch with its British address, listed below. Funds are also needed to help fight this case in Poland. Those wishing to help in this way should please send a cheque, made payable to:

Polish Socialist Appeal,
Basement, 92 Ladbrooke Grove,
London W11 2HE.

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Jacek Kuron's New Economic Policy

by Milka Tyszkiewicz

In Poland a State Enterprises Pact, which has been attacked from both the left and the right, has been negotiated by the trade unions, the Polish government and the Employers' Confederation. There is no question that the governing philosophy of the draft legislation arising from the Pact is completely different from the monetarist policy adhered to by all previous administrations.

It is however an open question whether Jacek Kuron, the Minister of Labour and Social Policy, was not erring on the side of optimism when he said: "We are trying to take a short cut to the market economy. We mean by this a social market economy, which on the one hand protects the weaker members of society, whilst on the other draws wide social groups of employees and others into responsible activity." Discussions on a new economic policy for Poland began on 5th September 1992, when the Economic Committee of the Council of Ministers agreed the legislation to bring the Pact into being.

The Pact and Privatisation

The bulky, many hundred page volume of legal regulations proposes: "to base relations between employers and employees on a new framework of collective agreements, stretching from social welfare to participation in enterprise privatisation." Following the predominantly unsuccessful three-year effort to privatise Polish industry by means of the "invisible hand", the Pact proposes that this process should be institutionalised and based on the trade unions as representatives of the workers. Whatever the chosen method of privatisation, the work-force is to receive 10% of shares free, rising to 20% in areas of high unemployment.

Elected trade union representatives are to play key roles in the privatisation process. (This raises the question of the criteria for a trade union to fulfil this representative role. Is this to be determined by the number of its members in a particular factory, in a region, or nationally ?) If representative unions are not present in a work-place, the work-force is to choose representatives in a referendum. The Bill does not provide any role for the Workers' Councils, despite the fact that legislation is still in force which stipulates that these should exist in all state enterprises, elected by the whole work-force on a proportional basis and that they are empowered to take strategic decisions regarding the enterprise.

Firms which have maintained financial liquidity will be allowed to choose their method of privatisation, from sale to a large investor, to a workers' buy-out. Those that have not maintained financial liquidity must first secure an agreement with their creditors. Bankrupt firms must conclude an

administrative contract with the management, which would receive for example 3% of the shares and the workers 10%. In subsequent years, in the event of good financial results, the State Treasury would keep a 20% share, the creditors 20%, whilst the management would increase its holding to 20% and the work-force to 40%.

There already exist some examples in Poland of miraculously swift recovery of enterprises to economic health immediately after the transfer of ownership from the State Treasury to private hands. At this point the present author expresses regret, tempered by cynicism, that from all the new dispositions so far made, not one woman director has taken over in any state enterprise in Poland.

The Pact proposes easier conditions than prevail at present for renting and leasing. This is particularly relevant to workers who opt for some form of group economic activity. The valuation of the firm is to be simplified and the firm made cheaper. The initial capital has to be deposited within two years of the conclusion of the leasing agreement; payment of the purchase price is spread out over ten years, with the possibility of partial remission, if a proportion of the profits are reinvested; transfer of ownership can follow payment of the last instalment of the leasing price.

However if an enterprise does not elect to take the road to privatisation, in the case of a large enterprise (more than 1,000 workers), it can be transformed into an individual State Treasury enterprise. Smaller enterprises can be given to individuals, sold off, or put into some kind of holding company. These rules are to be applied not just to so-called strategic sectors, but also in time to the Post Office and the energy and fuel sector.

Enterprise Debt and Taxation

Two years of transition to capitalism have plunged industry into debt. Many enterprises have large debts to the banks. This is a result of the general economic crisis and particularly of the sharp increase in interest rates in 1989 (from as low as 2% to an average of 70%).

The draft legislation obliges the banks to review their debts and opt for one of five courses of action: 1) initiate bankruptcy proceedings; 2) dissolve the enterprise; 3) put the debt up for public sale; 4) exchange the debt for participation in ownership of the firm; 5) if an enterprise has a recovery programme, there is provision for an amicable agreement for gradual repayment and partial remission of debts. Mutual debts held by enterprises will be liquidated by a public trade in debts. The bill brought to parliament by Vice Minister of Finance,

Stefan Kawalec, is described in a somewhat exaggerated manner as a measure for "debt settlement". What it actually does is to intensify pressures for enterprise bankruptcies. Up to now not one mine or a single large state enterprise has been bankrupted.

The government thinks that this programme will not be a heavy charge upon the state budget in 1992 and 1993, because the World Bank will provide credits to cover eventual payments. Government estimates envisage liabilities of around 21 billion zloty (\$1=approx. 14,000 zloty). The programme is still too imprecise to make any exact estimates of profits and losses to the state budget.

The Pact proposes changes in taxation law in order to urge along privatisation. Tax concessions are to be available on investments in the various categories of shares. The government does not want to abandon wages policy, for anti-inflationary reasons. It proposes a partial substitution of the unpopular "popiwek" or pay-roll tax with a system of negotiated wage levels and abandonment of the "dividend" tax on profits.

National bargaining

The government has proposed and the trade unions and the Employers Confederation have agreed to the creation of a National Negotiating Commission, in which all three will be represented. Each quarter this Commission will set a rate of wage increases. Enterprises will also be able to pay out bonuses from profits. If part of their income is designated for development, an equivalent proportion of profits must be paid to the Treasury and any balance of taxation liability can be paid off at a later date.

However - in Poland 4,500 firms have lost credit worthiness. (This was not always their own fault. For example, the costs of government investment programmes imposed on enterprises before 1989 currently represent enterprise liabilities.) About 30% of the debt held by banks is estimated to be uncollectable. It is not clear how wages are to be settled in affected firms. Various other amendments to the law are intended to assist the privatisation process, such as changing the right of perpetual use of the site on which a factory is built into an ownership right, attached to the factory assets.

Changes in Labour Law

The government has declared its intention of maintaining the system of welfare benefits (pensions, sick pay, unemployment pay etc.), but wants to calculate pensions and sick pay from 91% of the average wage, rather than 100%, from December this year. People in areas with high unemployment are to have rights to early retirement. The criteria for allocating invalidity pensions are to be altered and will be more related to loss of ability to work, rather than as now, to the degree of injury to health. The basis of the reform of welfare benefits, which begins next year, is that from 1994 contributions will be paid by employees as well as employers.

The government will stipulate in the near future which medical services will remain free to all and which will have to be partially or entirely paid for. It is also preparing a programme of partial marketisation of housing. An anti-poverty programme promises to provide all of Poland's 200,000 homeless people with a place in a hostel, a daily plate of hot soup and a piece of bread.

Amendment to Section XI of the Labour Code is also proposed. In areas such as social benefits and

health and safety, there is to be an increased role for negotiations between employer and employee. Solidarity has agreed that rises in consumption levels are to be held at half the growth of National Product. The OPZZ has refused to agree to this. It is still unclear what will happen to work-place social funds. The employers want them to become entirely voluntary and the workers want them to remain obligatory. The government is proposing that agreements on such matters should be concluded for three year periods. It is as yet unclear whether this means that the employers will be freed from the obligation to contribute to social funds until 1995.

Attitudes of workers

At the same time: "amongst the workers there is a growing sense of social and political isolation," writes Juliusz Godawski in *Zycie Warszawy*. He was describing the results of a survey funded by the Ebert Foundation and conducted by the Centre for Public Opinion Research amongst several thousand workers in hundreds of work-places. From this research, which is perhaps the most ambitious to be carried out for some time, it appears, according to Godawski, that: "in general the workers do not agree with what is happening. They want other changes than the ones that are taking place, or are against the changes altogether. Many feel frustrated, disenchant-ed and humiliated. Most are inclined to accept capitalism, which they perceive as an ideal system, much as Adam Smith described it. Competition, in their opinion, is to sort out speculators and idlers and reward honest work. Inefficient factories should close, because they are wasteful, but widespread closures would be themselves wasteful and they cannot agree with this. They are inclined to agree with the inflow of foreign capital to the country - but not to their factory. If this capital wants to build new factories, let it, but it should not take over existing ones. Rather they think that they should be sold "to us." The only problem is that no-one wants to work "for us". Scarcely two out of ten workers agree that their factory should be taken over by Polish capital. When it comes down to their own back-yard, they think that a Polish capitalist will exploit them dishonestly, whereas a foreigner will be a better bet, because he will exploit them in a more civilized fashion. Approximately 5% of the workers describe their own views as liberal and know more or less what this means. It is this group which most closely associates the privatisation of their own enterprise with the possibility of improving their lot."

This last group is the one Jacek Kuron, one of the authors of the Pact, can look to for support. One very interesting fact arising from the research is that the supporters of workers' shares (by which in Poland is understood some kind of worker-controlled enterprise) are a significant group. However, they are not interested in workers' self-management within a state enterprise. This is true of the majority of workers.

"The working class is undergoing a crisis of identity," concludes Godawski. "To exchange a hegemonic role for a role as a simple force of wage earners (but free citizens) would be difficult in any conditions and here the situation of many workers is still really catastrophic."

The contradictory character of the consciousness of the working class is a fundamental fact and this is one reason why the behaviour of the trade unions often borders on the schizophrenic. The President of Solidarity, Marian Krzaklewski, in an interview with *Gazeta Wyborcza* began with an attack on the Pact and

finished with the words: "The actual content of the Pact is good. It hits the mark, which is the relationship between our union and the employers and the economic activity of the enterprises... The National Executive Committee resolution says that if we don't agree with the provisions of the Pact, we will organise a national demonstration."

The Network

The National Co-ordinating Committee of Solidarity Factory Commissions took a negative view of the Pact, at its meeting on 16th October in the Wroclaw enterprise, Archimedes. This body, otherwise known as the "Network", has an oppositional stance towards the National Executive and took part in the waves of strikes in the Summer.

The Network thinks that negotiations with the government are possible only on the basis of the fulfilment of certain conditions, such as the abolition of the "popiwiek" (payroll tax) and of the dividend tax; such as guarantees to the workers of real participation in the restructuring and privatisation of their enterprises; such as a real programme to deal with debts.

The Network demanded that the government and Solidarity National Executive should conduct public negotiations on the Pact in the Gdansk Ship Yards, where the agreement with the government was signed in 1980, in the presence of representatives of the Factory Commissions, acting as observers. It also demanded that the negotiations should be broadcast live on television, like parliamentary debates. At the same time, the Wroclaw enterprise, Elwro, one of the biggest in the city, was preparing to sack a group of workers. The factory Solidarity Commission, which is a member of the Network, came to the meeting in Archimedes after giving its consent to the sacking of 500 workers. The President of the Factory Commission explained that the director had threatened to sack 800 workers. Solidarity in Elwro had not even tried to take the legal route of declaring a dispute with the management, which at least would have deferred the sackings.

The Statute of today's Solidarity does not differ significantly from the one in force before martial law. The freedom of grass-roots organisation is so great that, despite the efforts of the regional and national leadership of the union, which is under the influence of extreme pro-Catholic ideology, the Solidarity Womens' Commission not only survived attempts to close it down but is still conducting a vigorous campaign against the prohibition of abortion. Also, the Solidarity Factory Commissions are in a position not only to pursue an independent policy, but also to punish the union leadership by quite simply withholding their dues. It is not difficult to call a strike.

However, in spite of the catastrophic growth of poverty, the high level of unemployment and uncertainty about the future, strikes like those in the last year still have a mainly local character, with little national significance. Why is this? The Ebert Foundation's research

provides some explanation. The level of knowledge about the capitalist world is so minimal that neither rank and file members of the union, nor perhaps their leaders, have much understanding of the situation in which they find themselves.

The National Executive struggled desperately for economic policies which would permit wage increases, social programmes in areas with high unemployment, sick pay, pensions etc. It signed a protocol of disagreement with the government on these matters.

The problem is that things are not likely to improve for workers in Poland in the near future. The level of frustration will certainly deepen, especially amongst those out of work and in the young generation. Indeed, members of a neo-Nazi group are currently on trial, who beat up some German drivers (one of them died in hospital).

In this situation, it is an urgent task for the trade unions to develop a programme of activity for here and now. It is absolutely clear that the Enterprises Pact provides an opportunity for this. The question is only whether the unions will be able to exploit it. The present author very much hopes that they will. After martial law and ten years of strikes and demonstrations, another decade of more of the same would be quite simply tedious. Negotiating with Jacek Kuron, even though it may not be fruitful, will at least, in various senses, be new.

Translated from the Polish by David Holland.

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The Yugoslav Crisis:

Neither forced union nor ethnically pure states

by Catherine Samary

It was not inevitable that the crisis of Tito's Yugoslavia should result in war, any more than that the failure of the first Yugoslavia should spell the end of any Yugoslav project. In other words, there is no unavoidable hatred between the various communities; it is not impossible for them to live together, as the exclusivist nationalist orientations claim and attempt to impose through violence.

This article will refuse to accept a false alternative: either neutral bracketing together of the various nationalisms; or allocation of all responsibility to "one camp". Rather, it will maintain that the explosion has a number of causes, and that the nationalist regimes are jointly responsible for the war but with certain asymmetries.

The Yugoslav Project

Far from having been "artificial", as it is often said today, the Yugoslav project drew its strength and raison d'être from three major factors that have evolved in the course of time:

(a) The struggle against an external oppressor (the great powers before the First World War, the fascist occupation forces in the Second World War, and then the Stalinized Kremlin). But today there is no longer any threat of Soviet intervention, nor is there a common external enemy. Serb nationalists talk of a German plot and the danger of a "fourth Reich". But regardless of any "plot" German power - in the present context of dominant liberal policies - does operate as a disaggregating factor at the level of politics and economics.

(b) The pooling of human and material resources. But within a system that has very large regional (and therefore national) disparities, democracy, transparency and equitable associative relations are essential conditions for success. They have not been assured by any of the Yugoslav systems so far tried out - and market liberalism widens the gaps and breaks down solidarity.

(c) The drawing together of national communities dispersed over a territory with a highly mixed ethnic composition. But the union project involved a number of possible dynamics and conflicting conceptions ("Yugoslav unitarism", federalism, confederalism, moves toward nation-states as the final goal). Nor was the Yugoslav space ideally constructed to handle all the relevant national questions; today more than ever, relations with Albania, Bulgaria and Greece are issues in any lasting political solution to the conflicts.

Three past experiences weigh in the fears and resentments fuelling the present conflicts: the two historical Yugoslavias and, between them, the Second

World War and its bloody confrontations.

The first Yugoslavia

The first Yugoslavia was based upon domination of the Serbian monarchy and a market economy.

The first Yugoslavia lived the "normal life" of countries on the capitalist periphery, where crisis-ridden "market economics" held sway. Dependence on foreign capital went hand in hand with underdevelopment, permanent backwardness for whole regions and a widespread predominance of agriculture. One political crisis followed another. The country itself, born in 1918 as the "State of Serbs, Croats and Slovenes", took the name of Yugoslavia in 1929 when it became a dictatorship of the Serb royalty which imposed a form of "unitarist" centralism.

The Slav communities and various minorities were supposed to fuse into a single Yugoslav nation in which Serbs and Montenegrins readily saw themselves as the liberators or originators. Under the new Constitution, they alone were endowed with a state and an army, recruited en masse from the peasantry who had accomplished national liberation. Today Serb nationalists often claim that they "sacrificed" themselves for the sake of the others by giving up a Serbian state with the potential for expansion. And it is true that the project of a Union of Southern Slavs was carried forward more by Slovenes and Croats, who were not then in a position to construct their own state by themselves. However, all Serbs were not brought together within the Serbian state. And they identified themselves more rapidly and profoundly with the Yugoslav state than did the other communities, precisely because they saw it as "their" state.

The asymmetry of experience and strength affected the dynamic of this first Yugoslavia, ruled as it was by a "unitarism" that evidently gave greater weight to the dominant nation. This "unitarist" approach clashed with the federalist projects which were defended most notably by Croat politicians. But the first Yugoslavia established only administrative divisions rather than separate republics (except in 1939 on the eve of war, when a "Croat Banovina" was set up). For their part, the Macedonians, Montenegrins and Muslims were recognized as distinct Slav peoples only under Tito; and of course, in the first Yugoslavia there were no rights for non-Slav communities.

The Second World War

The inter-ethnic massacres of the Second World War were the result of political orientations, not of some "genetic"

inevitability stemming from age-old hatreds.

In the nineteenth century one current within the Croat community favoured cultural rapprochement and the project of Yugoslavia, while another turned to the nation-state model as the form in which national aspirations were realized par excellence. Since the eighteenth century Serbs had been present in the Borders of the Austro-Hungarian Empire (Krajina) - warrior-peasants enjoying a special status from Austria to form a defence against Turkish pressure. But they were the source of tension with the Croat-Hungarian authorities, and the Croatian Party of Right led by Ante Starcevic developed a racist, Serbophobic posture of "Croatianness" as the "bulwark of the civilized (Catholic) West against the barbarian (Orthodox) Serbian hordes", which was later taken over by Ante Pavelic, leader of the Croatian fascist Ustashe.

Rejecting the experience of the first Yugoslavia in the name of a quest for "ethnic purity" of the nation-state, it also characterized any Yugoslav project as in essence "anti-Croat". The independent Croatian state installed by Ante Pavelic under German tutelage in 1941 included Bosnia-Herzegovina. The Ustashe considered as (ethnically) "Croat" not only Bosnian Catholics but also the Islamicized Slavs. The rest - Jews, Gypsies and Serbs - had to disappear or become assimilated.

The ethnic genocide carried out by the Ustashe was thus in tune with the racist ideology of the Nazis and their actions against Jews and Gypsies. But one "innovation" was an explicit policy that a third of Serbs should disappear, a third should be assimilated (through forced conversion to Catholicism) and another third should be deported. In several regions of the Ustashe's Greater Croatia, Serbs had to wear a label as the Jews did the Star of David.(1)

The Chetniks(2) responded to this genocide with ethnic massacres directed against Croats and Muslims. The national communities as such were branded as enemies and held to be collectively responsible: the Croat people for the fascist policy of Pavelic's state; the Muslims for having "become Turks"; and the Ustashe twice over for having betrayed the "Serbian cause".(3) Similarly, the Albanians as such were considered 'guilty' of having mostly opted for the religion of the Turkish oppressor and, like the Croats, "benefited" from a fascist-dominated independent state during the war - which led to the flight of countless Serbs from Kosovo. This was one of the explosive dossiers that "Titoism" would later have to deal with.

The 1939-1945 war - at once a world war, a civil war with its inter-ethnic massacres, and a war of national and social liberation - caused more than million deaths among the population of Yugoslavia (which numbered 12 million at the time of its creation). The Nazis, the Serb Petain Nedic and the Ustashe regime achieved the near-total extermination of the Jewish and Gypsy peoples.

Some chose to support these policies. Others - Serbs, Croats, Slovenes, Albanians, Muslims, Jews and others - actively organized a joint resistance in the armed partisan struggle led by the Yugoslav Communist Party. This was possible because the struggle was embodied in a Yugoslav federalist project opposed both to "unitarism" and to the fascist aim of ethnically pure nation-states. It could be victorious because it involved both unity and recognition of differences.

The second Yugoslavia

The crisis of the second Yugoslavia was bound up with the limitations of its break with Stalinism.

The second Yugoslavia presents a contrasting balance-sheet, with genuine progress at the level of national rights and the socio-economic system perverted by the lack of real democracy.

One constant of "Titoism" was its combination of repression and concessions. Part of what people had been demanding from below was granted from above after any independent movement, and any possibility of genuine political pluralism, had been suppressed. Thus the regime was neither a democracy nor a "prison of the peoples". Far from being frozen into immobility, the system underwent considerable evolution and responded with reforms to the tensions and imbalances that appeared at each stage.

The federalist organization of the Communist Party and the anti-fascist resistance, together with the formation of an underground federal parliament (the AVNOJ), undeniably created a popular appeal for the Communists among all the nationalities.

But the question of Kosovo took on an explosive dimension after the break with Stalin in 1948 when the abandonment of the plan for a socialist Balkan federation - to include Albania and thus allow the unification of the Albanian people - was followed by fierce repression against the Albanians of Kosovo.(4) They were the only ones to take a stand against the new regime. Kosovo's status as an autonomous province within the Republic of Serbia was a compromise which was supposed, on the one hand, to address the deep psychological attachment of Serbs to this cradle of the first Serbian state, the site of the great defeat in the fourteenth century at the hands of the Turks, and, on the other hand, to recognize the existence of an Albanian majority on the same territory. But the reality of autonomy would depend on the political evolution of the regime in Serbia itself.

National rights

The Communists exercised a pragmatic, multiethnic leadership on national questions, their main interest being to consolidate themselves in power. They knew that a Yugoslav state dominated by one nationality would be doomed to break apart, as would any Yugoslav state that denied national differences. We might say that Titoism meant the bureaucratic stifling of nationalism, and the equally bureaucratic extension of rights.

The present Ustashe leader, Paraga, the extremist Chetnik leader Seselj, the Croat President F. Tudjman and the President of Bosnia-Herzegovina A. Izetbegovic have all served time in prison for nationalist writings. But in jailing them, the regime also stifled unsettled conflicts and resentments linked to the dark periods of the past. Any assertion of national pride, any rejection of black-and-white caricatures of past history, was rapidly branded as "nationalism". Even literary differences between Serbian and Croatian were forbidden expression - which naturally set up frustration on both sides.

Pressure from below

Nevertheless, the second Yugoslavia also changed under the pressure of movements from below. The single Yugoslav citizenship was clearly distinguished from nationality, which gave access to collective

cultural rights (several official languages in schools, publications, universities, etc.) as well as religious and political rights within the federal system. The constituent "peoples" or "nations" (narod in the ethnic sense of the term) were each endowed with a mother-republic whose borders encompassed historic regions.

The frontiers were thus not, as Serb nationalists claim today, "artificial" or arbitrary. But nor did they coincide with the whole of the nation in question - except in the case of Slovenia (5) - or with states that had existed prior to federation. In other words - and here the Serbs have a real argument - acceptance of the internal borders was evidently not unrelated to the overall equilibrium represented by Yugoslavia, nor therefore to the external frontiers and constitutional definition of each of the republics. And the most likely to cause conflict were explicitly defined as multinational in the sense of multiethnic (which was a form of protection against policies of forced assimilation).

Bosnia-Herzegovina was (and still is) defined as a state of three nations or ethnicities: Serbs (35%, Croats (18%) and Muslims (40%) were thus placed on the same footing regardless of their size. Croatia for its part (up to the new Constitution of December 1990) was defined as a state of the Croat "people" (or ethnic nation) and the Serb "people" of Croatia, as well as other communities (national minorities). The right to secession was to be the object of a concerted approach; no change in external or internal frontiers could be imposed by force.

Communities which already had a reference-state elsewhere (with some special cases such as the Gypsies) were considered as "national minorities" (or narodnost as distinct from narod(6)). They were not, in this respect, regarded as "constituents" of Yugoslavia (since they had substantively and freely chosen to form that other state) and were not endowed with the right to separate from it. The reality covered by that word was actually quite heterogeneous, and the national consciousness of those described as a "narodnost" naturally evolved with their rights and their lived experience.

The system acquired some features of a confederation when the 1974 Constitution assured parity of representation (with veto rights) to each republic and province, regardless of size. Such parity, which implied that things would operate on the basis of consensus, was certainly a much more progressive answer to the national questions than majority voting would have been. In Serbia the principal minority languages had official status. The Hungarian minority of Vojvodina enjoyed rights and a standard of living which meant that unification with neighbouring Hungary never posed itself during the Tito period; it only became topical with the present regression.

The question of the Kosovo Albanians was and remains much more explosive, although it too has developed over time. Albanians form 80 per cent of the population of Kosovo.(7) The demand that the province should acquire republican status - that is, the status of a constituent "people" or nation (narod) - was advanced for the first time in 1968. It directly clashed with the assertion of the Serbs' "historic rights" over the territory. The autonomy which Kosovo gained in the seventies, together with the rights recognized under the 1974 Constitution (especially representation at federal level and the right of veto), did in effect give the province the status of a quasi-republic. Cultural links with nearby Albania

were encouraged. But the Albanian-language University of Pristina turned out a large number of future unemployed since there had been no solution of the problems of development, even though Kosovo was the main beneficiary of federal funds.

The province's bureaucracy had made aberrant use of this aid and, in particular, had been incapable of providing work for a rapidly growing population. These problems formed the background to inter-ethnic tensions and the exodus of Serbs from the province - which reinforced the demographic and cultural weight of Albanians. Seen through Serb-nationalist spectacles, these facts were so much "proof" of "anti-Serb genocide" in Kosovo.

Self-determination

The system therefore involved a number of unresolved or potential conflicts which were only postponed by the reforms. Widening economic gaps,(8) and the political crisis of a more repressive system discredited by corruption in the seventies, were laying the ground for open crisis. The constitutional equilibrium was based on the hypothesis of a free - and therefore reversible - union of the (ethnic) "nations".

Self-determination (and therefore the right of secession) posed two questions: who had the status of a "nation"? and what were the criteria of one? But there was also the problem of how that right could be applied by peoples scattered over several republics. On the basis of what territory? By what procedures? By imposing a majority ethnic vote in contradiction with the spirit of the Yugoslav equilibrium?

Yugoslavia is neither a colonial state nor a state which has forcibly annexed pre-existing republics. The right to self-determination does not provide an easily applicable formula nor a global solution. It expresses the right of self-government and the right to build together, or opt out of, a federal or confederal state. To oppose it by force is counter-productive. But it cannot be accepted that one of the parties (the most developed republics, or the most numerous nation) should be able to impose its own choice on the backs of the others - and still less that this should be done by armed forces which brand as a "traitor" to the national cause anyone who does not agree with their concept of self-determination.

With the break-up of Yugoslavia and the constitutional changes in Croatia, Serbs suddenly found themselves a "minority" outside the Serbian reference-state; and if Kosovo was the cradle of the first medieval Serbian state, the region of Knin in Croatia, with its Serb ethnic majority, was also the heart of the first Croatian state. The right to self-determination must be applied with the same criteria in both cases.

Society and economics

The pooling of resources raised questions that were at once national (the role of republics and provinces in decision-making and control), social (status of workers) and political (who decides?). In order to function effectively, the system as a whole had to overcome the legacy of the first Yugoslavia at two levels: the elimination of underdevelopment and the satisfaction of basic needs; and a reduction in regional inequalities. This raised in turn the question of relations with the world market. Until the end of the seventies there were in fact different "modes of regulation":(9) the Party and state system intervened in the framework of variable combinations of market

mechanisms and new forms of planning more or less open to the outside world. It combined centralism in some areas with decentralization in others. The repression of social, political or national movements that were held to be subversive went together with an extension of self-management and national rights in the course of successive reforms.

The second Yugoslavia experienced three decades of rising living standards and growth in all the republics and provinces. But that did not prevent the wealthiest republics from thinking that they could have been still more developed without the "burden" of aiding the others; nor the least developed republics from considering that they were exploited through their provision of raw materials to the others at unfavourable prices. The fact is that forms of transfer took place in both directions. There was a general industrialization which overcame the country's primarily agricultural and dependent structure (although there is now a danger of returning to it in shattered forms). At the same time, per capita gaps grew wider between the rich and the poor republics, so that the former, with their lower population growth, increased their wealth faster than the latter. Finally the mess grew worse as bureaucratization choked the market while parasiting off the plan.

Self-management involved real rights which became larger over time until the end of the seventies. Decentralization even allowed the one-party regime to tolerate strikes and a certain cultural and ideological pluralism - so long as it did not express itself in an organized challenge. But there was not an adequate "system of regulation" which allowed the interested parties to set consistent criteria or to guarantee equilibrium and binding overall objectives. The lack of democracy hindered any genuine, pluralist balance-sheet of the systems introduced at each stage, so that it was difficult to gauge their advantages and negative effects or to draw up global priorities. The major decisions were taken "somewhere else", in a far from transparent manner.

The seventies were the last period of growth. But they also ran up debts which suddenly burst into the light of day at the beginning of the eighties. The debt of some 20 billion dollars was thus the price to be paid for the system's growing inefficiency. But it was also the result of uncontrolled insertion into the world market. External credits had been plentiful during a decade when petrodollars were being recycled towards countries of the "South" and the "East". And now the debt became the instrument for practical material and political interference by the IMF in the country's affairs. It soon found the internal forces to relay that pressure.

For the debt sounded the death knell of the system, in a context where socialist ideas, supposedly practised in Yugoslavia, were entering into crisis. The moral-political crisis of the bureaucratized Communist party, divided as many ways as there were republics and provinces, had grown by leaps and bounds with the repression of the seventies. Austerity policies were designed to be forced through against the resistance not only of self-management bodies - and, more generally, of the workers whose strike actions mushroomed in the course of the eighties - but also against the authorities in various republics.

Economic crisis

The economic crisis, deepened by neo-liberal policies, broke up the system. At the height of the moral and political crisis, the three pillars of the system collapsed: rising living standards, social protection

and the national rights which had increased until the beginning of the eighties. "Yugoslav self-management socialism" could no longer deliver on its promises.

The crisis gave rise to contradictory tendencies towards recentralization and further fragmentation, with the former strengthening the latter instead of containing them. Recentralization took two forms: the first, associated with market liberalism, was pursued by Ante Markovic who took charge of the last Yugoslav government in 1989; the second, "populist" and backward-looking form took shape in the regime of the Serb nationalist leader Slobodan Milosevic.

Liberalism a disaggregating force

The precepts of the IMF ran up against widespread resistance in the eighties. In 1989 Prime Minister Ante Markovic's proposed shock therapy to cure the country's treble-digit inflation - a course supported by the IMF and the European Community - is seen by many currents today as the wasted democratic, anti-nationalist alternative which held out hope of a citizens' Yugoslavia based on the market and privatization.

It is true that this line barely had time to be implemented, and the nationalist disintegration of Yugoslavia has been such a drama that one can understand why it is presented at least as a lesser evil. But such arguments fail to recognize that a neo-liberal orientation would have encountered the same problems as in the rest of Eastern Europe, and that at a social level it seriously threatened to produce the same results as Poland's shock therapy. Moreover, it could not but have widened the economic and therefore socio-political gap between rich and poor regions, as in Czechoslovakia. The location of the Central Bank in Belgrade allowed the Serbian leader to wield the printing press for the benefit of his own policy.

And finally, federal neo-liberalism directly clashed with similar tendencies at the level of the republics, so that issues of power and ownership opposed Markovic to the leaders of the richer republics of Slovenia and Croatia who wanted to boost their own position by joining the fast track to the Europe of winners.

The conflicts worsened with the economic crisis and the mounting reluctance of the most developed republics (Slovenia, Croatia, Serbia) to finance the federal budget.

Pivotal role of the Serbian question

On top of all these issues came the massive rise of Great Serbian nationalism, which proved to be decisive for the Yugoslav project given the dispersal of the Serb people through various republics. It expressed the second centralizing tendency mentioned above, and it evidently strengthened (and justified?) the nationalist withdrawal of the republican regimes along a line of each one for itself. The revolts in Kosovo had broken out in 1981 for primarily social and economic reasons: poverty and mass unemployment (more than 20% against less than 2% in Slovenia at the time) remained the stuff of life in this province where the local bureaucracy had largely squandered federal aid. Tensions with the Slav minority had grown under the pressure of rapid population growth among the Albanians.

But the question of the Kosovo Albanians proved to be the focus for a back-flash of radically anti-Titoist Serbian nationalism. Anti-Albanian racism played the crucial role in stirring up Serb fears and

hatreds, as a substitute for criticism of the real, all-round shortcomings of management in the province. A state of emergency was imposed through the power of tanks, and after clashes which resulted in the deaths of many miners striking for implementation of the 1974 Constitution and the holding of free elections, the autonomy of both Kosovo and Vojvodina was cancelled in 1989. Figures under the thumb of the Serbian regime participated in the collective presidency in the name of these two provinces - which effectively paralysed its functioning.(10)

This was the end of Tito's bequest - a contradictory bequest, as we have seen, but one of whose key factors had been a policy which was not "anti-Serb" (as Serb nationalists claim) but did challenge Serbian domination. The Serbian question could have led in two different directions: either towards an attempt to find in pluralism and democracy the conditions for a Yugoslavia that would allow co-nationals to come together again; or towards a reliance on relations of strength. This second option was the one chosen by Milosevic, as part of an alliance between sections of the Party-state apparatus (especially the army of the crisis-ridden ancien regime) and extreme-right Greater Serbian currents coming out of an anti-communist tradition.

Any interpretation of the war as a conflict between (Serbian) defenders of "socialism" and the nationalist Right of other republics is a form of blindness. In reality, Milosevic is a populist dictator who has buried the cause of socialism and Yugoslavia more than he has defended it.

Causes of the present war

The crisis did not necessarily entail the present war; and the war cannot be reduced to one-sided aggression.

The final collapse of "Titoism" gave new strength to all the ideologies that had been smothered or combated over the previous decades, and thus to all the hatred, fear and resentment exploited by the new regimes with all the force of their media, above all in Serbia. But nothing in the reactionary involution of Serbia justified the renunciation of joint political struggle for a free union of sovereign democratic states.

This was an essential issue at stake in relation to the armed forces, which were initially more attached to the cause of Yugoslavia as they saw it than to the Serbian cause. It was also a crucial battle for Macedonia and Bosnia-Herzegovina, whose very existence was (and is) threatened by the collapse of such a union, and which would have been key allies for Croatia and Slovenia (as well as for the autonomous provinces of Serbia) against the Great Serbian danger. On the other hand, they could not agree to remain alone in a Yugoslavia that Slovenia and Croatia had already quit. Decisions emanating from these latter two republics were therefore of central importance.

After a few protests, however, the regimes in Slovenia and Croatia left Kosovo as "an internal affair of Serbia". One cannot gloss over the reasons for this attitude. First and foremost, a current was rising to the top in the wealthier republics which used nationalism to achieve their separate insertion into the (Catholic) Europe of the rich and to transform the property structure to its own advantage. But more generally, parallel chauvinist nationalisms asserted themselves and contemptuously dismissed other nationalities as unworthy of being "European". Such currents, which came to power after elections, were

also responsible for the crisis in all its intricacy, even if the nodal responsibility lies with Serbian nationalism.

Before the declaration of independence in June 1991, the President of Slovenia jointly signed with Milosevic a pact which legitimized the posture of the Serbian regime in Kosovo; he also defined the right to self-determination as applying only to the (ethnic) "peoples" of Yugoslavia - a formula which, though largely tallying with the relatively homogeneous nature of Slovenia, meant that conflicts were bound to arise everywhere else.

Another controversial question must be discussed at this point. There is one way of reading the war which sees Croat nationalism as the response of a victim to an aggressor. It is true that the policy pursued by Tudjman was strongly assisted by the real danger of a Greater Serbia. But the converse is also true, with due account for the imbalance of weaponry. Tudjman has implemented an extreme right-wing policy which has directly aided the affirmation of Serbian nationalism.

The policy of Serbian aggression in Croatia drew its strength not from opposition to Croat self-determination but from invocation of the real fear of Serbs about being left in that particular Croatian state. Media manipulation of opinion played a crucial role in that hysterical climate in which any independent Croat state was identified with the wartime Ustashe regime. But it must be recognized that there was a real policy symmetry in the Croatian issue. The Serbs of Croatia did not initially vote for Serbian nationalism: it was the victory of Tudjman's party and his first measures after an election campaign powerfully supported by the extreme-right Croat emigration which changed their attitude. For Tudjman's policy, in his own words, was "conditioned and guided solely by the interests of the Croat people"; it "has made a major contribution to the collapse on Croat soil of the unnatural and anti-Croat ideas and realities of socialism and Yugoslavism."(11)

Such talk of Croat identity can only be understood in the ethnic sense, for the new constitution clearly distinguishes between "the Croat people and members of other peoples and nationalities". The reactionary citizenship policy of the Tudjman government points in the same direction, despite the legislation adopted under international pressure to secure the recognition of independence. We are not faced here with "responses" to Milosevic, but with a line that has its own consistency.

The real asymmetry between these two mutually sustaining nationalisms has to do with the alliance between the Serbian regime, the nationalist extreme Right and the Yugoslav army in search of a state. The bombs have fallen on the territory of Croatia and Bosnia-Herzegovina, not on Serbia, and at this level there certainly have been victims and aggressors. Yet the victims have not only been (ethnic) Croats, nor have they been "totally innocent".

The Serbian and Croatian regimes have both modified their Constitution in a parallel way. Serbian sovereignty used to end at the gates of the autonomous provinces, whereas Milosevic has now cancelled their autonomy while defining Serbia as "the state of all its citizens" without reference to the Serbian nation/ethnicity. Sovereignty in Croatia used to be shared by "the Croat people and the Serbian people of Croatia", but Tudjman has replaced the second part with "members of other peoples and nationalities". In the Serbian Constitution as in the Croatian, the rights of minorities are evidently

recognized and citizenship is theoretically broader than the nation/ethnic group.

The regression becomes plainer if we compare them with earlier texts and with the reality on the ground. The consequences are truly terrible in the apartheid imposed on Kosovo against unarmed Albanians; but they are real enough and ever more disturbing and fascistic in Croatia where independence has been followed by conversions to Catholicism, where children no longer dare to call themselves Serb or Yugoslav, violence is exercised against "bad Croats", and anyone who is not given citizenship (unlike the "pure-blooded" emigres who all receive it) is plunged into insecurity. But in terms of "international law", the two republics have come up with fine texts which place them beyond reproach.

The policy of the Croatian regime vis-a-vis Bosnia-Herzegovina has nothing to do with any "response" to Milosevic. On the contrary, it involves an agreement worked out with him behind the scenes. The same is true of the alliances between Serb and Croat nationalists in Bosnia-Herzegovina itself - between Mate Boban, leader of the "autonomous Croat republic of Herceg-Bosna, and Karadjic, leader of the Serbian autonomous republic of Bosnia-Herzegovina whose militias are laying siege to Sarajevo with the passive complicity of the Croat militias. Whatever the formal declarations of agreement between Tudjman and Izetbegovic, the Serb and Croat paramilitary formations have divided up the territory (each taking more or less double their percentage in the population), at the expense of the mixed urban and above all Muslim population.

The latter certainly affirm their identity in the war in Bosnia-Herzegovina through their resistance to the Serbian "main enemy", but in so doing they less and less conceal that they have a Croat "secondary enemy". The growing conflicts with Croat nationalists mean that the Muslims will be more and more frequently characterized by the two aggressor powers as dangerous "Islamicists" who are "unworthy of Europe". At this level too, Serbian and Croatian propaganda join hands to wave through the dismemberment of Bosnia-Herzegovina.

To resist this course means to challenge the "cantonization" of Bosnia-Herzegovina into three ethnically defined territories (which is what Serb and Croat nationalists wish to achieve). But it also requires a critique of projects which counter nationalism only by appealing to an undifferentiated citizenship. The reflex of "ethnic voting", which expresses real popular fears, can be overcome only through a dual institutional response: on the one hand, a political Chamber (Assembly) representing the vote on policies by citizens who all have the same rights irrespective of religion or nationality; on the other hand, a Chamber of Nationalities with parity representation, which has the power to reject any mechanism of majority domination and which thus, as the Civil Resistance Movement demands, guarantees the representation of all "eskimos" who do not recognize themselves in a particular nationality.(12)

International response

The policy of the "international community" has merely fanned the flames that have to be put out.

The "international community", in supporting the "cantonization" project, has merely added one more irresponsible action to its list since the conflict erupted in Yugoslavia. It began by backing the anti-nationalist centralization project of Ante

Markovic, in the hope that he would maintain the status quo and manage the debt repayment. The military intervention in Slovenia (which it would be wrong to attribute to the Serbian regime) still remained within the framework of "inviolable Yugoslav frontiers", defended at the time by Markovic, Milosevic and the Western states. But the intervention inevitably sharpened the separatist dynamic, which now placed the right to self-determination at the centre of the stage.

After supporting a hyper-centralist solution, the European Community fell in behind German policy without even respecting the recommendations of its own legal commissions and without considering the way in which national questions interlocked in the space of Yugoslavia. The state-centred logic of the Community hardly encouraged any real interest in the problems of the peoples in question, so that although the Community recognized the independence of Slovenia, Croatia and Bosnia-Herzegovina, it did not do the same for Macedonia out of state solidarity with Greece.

The example of Bosnia-Herzegovina, and the acute tensions in parts of Croatia under blue-helmet control, unfortunately demonstrate that this approach did not solve any of the real issues at stake. Nor did it prevent the outbreak of war. It certainly sought to legitimize external military intervention for those who desired it. But this will evidently not happen because of the differences between the major powers, and because of well-grounded fears that a long drawn-out conflict would lead to losses among the interventionist forces and that it would anyway be difficult to disarm the uncontrolled para-militaries.

There are no military solutions without political solutions - and these must come from the parties concerned as a rebuff to Great Serbian policies and their Great Croat mirror-image. Only the Serbian and Croatian regimes hold the key to a way out of the conflicts in Bosnia-Herzegovina. It is the peoples themselves who can bring about their downfall.

Political and material support should be given to any social or civil movement which favours joint resistance to the dominant nationalisms and stands out against ethnic cleansing. There is no other solution.

Notes

1. Serb nationalist propaganda currently speaks of more than 700,000 Serb victims in the Ustashe concentration camps. These estimates were made in 1942, principally by Hermann Neubacher, Hitler's personal henchman in the Balkans. But the separate work of two historians - the Serb Dragoljub Kocovic and the Croat Vladimir Zerjavic - suggests that they are exaggerations. However, in common with Paul Garde (*Vie et mort de la Yougoslavie*, Paris, Fayard 1992), they put the figure at about 300,000 in Croatia and Bosnia (the Ustashe "Independent Croat State"), which includes Serbs killed in fighting. Branka Magas, in her Memorandum of July 1981, sets at 123,000 the total number of victims among all nationalities in Ustashe concentration camps in Croatia (of which 85,000 in Bosnia-Herzegovina). Anti-fascist "bad Croats" were also killed by a repression which made of the Ustashe regime the most murderous in fascist Europe after Nazi Germany.
2. The Chetniks were Serb troops commanded by General Draza Mihajlovic, who supported the ancien

regime dominated by the Serbian royalty and were supposed to fight against the German and Italian occupiers. In practice, their anti-communism often got the upper hand over their anti-fascism.

3. Branka Magas, in the previously mentioned Memorandum, indicates that after the Jews and the Gypsies proportionally more Muslims were killed in the war (8.1%) than Serbs (7.3%) and Croats (5%). The islamized Slavs have a distinctive identity which was recognized by Tito in 1961. In his historical writings, Tudjman conflates the Bosnian Muslims with the Croats. The great majority of present-day Bosnian Muslims identify with secular ideas.

4. During the Stalin-Tito conflict, Enver Hoxha's Albania preferred to support the big Soviet brother which was more remote than the Yugoslavs.

5. The overwhelming majority of Slovenes live in their republic and make up 90% of its population. Their ethnic and republican identities are therefore largely superimposed on each other. By contrast, 25% of all Serbs live outside Serbia. They form no more than 60% of that republic, 12% of Croatia and 33% of Bosnia-Herzegovina. Croats compose 80% of the population of Croatia, roughly 18% of Bosnia-Herzegovina and barely 1% of Serbia. Islamized Slavs (the so-called Muslims) account for 40% of the population of Bosnia-Herzegovina and also have a presence in the Sandjak region between Serbia and Montenegro.

6. Narodnost is often translated as "nationality", a word specifically introduced into Yugoslav discourse to replace the term "national minority", which was seen as too derogatory or too evocative of second-class citizens.

7. There is a large Albanian minority in Montenegro, and more than 20% in Macedonia.

8. Slovenia and Croatia are well above the average, Serbia just above, and all the other republics below.

9. Cf. C. Samary, "Le marche contre l'autogestion - l'experience yougoslave", Editions Publisud/La Breche 1988, which covers the whole period from the war to the 1980s.

10. Of the eight votes of the six republics and the two provinces, Milosevic could control those of Serbia, Montenegro and the two provinces.

11. Cf. *Revue de Politique Internationale* No. 989, 20 June 1991; Tudjman's speech of 30 May 1991 to the Croat parliament (the Sabor).

12. Such projects were put forward by the collective presidency of Bosnia-Herzegovina in June 1992.

Reading about the Yugoslav crisis

in English:

Breakdown: War and Reconstruction in Yugoslavia is a publication of Yugofax, a project of War Report and the Helsinki Citizens Assembly. Introduced by Misha Glenny, Sonja Licht and Mary Kaldor, the paperback contains 32 short but informative articles on every aspect of the crisis. Most of the contributors are from the different republics of ex-Yugoslavia. The book, as well as the regular publication, *Balkan War Report*, is available from War Report, 7 Bury Place, London WC1A 2LA. 80 pages.

Yugoslavia War, edited by T. Kuzmanic and A Truger, is a collection published by the Peace Institute in Ljubljana and the Study Centre for Peace in Schlaining, Austria. With over 20 contributions from mainly Yugoslav writers. 184 pages.

in German:

Krieg in Europa, edited by J. Gaisbacher, C. Promitzer and others from *Ost-West Gegeninformationen*, with contributions from Rastko Mocnik, Milorad Pupovac and other ex-Yugoslav authors, the book is an excellent contribution to the debate on the Yugoslav crisis. Published by Sandkorn Verlag, Linz, 200 pages.

Krieg in Jugoslavien, by Catherine Samary, with an interesting contribution by self-management expert, Gabriele Herbert, offers a historical analysis of the present crisis. Published by ISP Verlag in Cologne, 160 pages.

Ost-West Gegeninformationen, two special issues on the Yugoslav crisis. This expertly produced quarterly is available from Prokopigasse 2/1, 8010 Graz, Austria.

in French:

Est-Ouest Diagonales is a new French publication on Eastern Europe dedicated to "the economic transition in the East, the social question, the national question and East-West solidarity". Recent issues have carried quite a bit on the Yugoslav crisis. Write to them at 10 rue Romarin, 69001 Lyon, France.

Contre la guerre en Yougoslavie (1991), by Catherine Samary, is a recent publication by this French expert on Yugoslavia. She has published quite a bit on the Yugoslav self-management system, including *Le marche contre l'autogestion. L'experience yougoslave* (La Breche, 1988).

AGAINST THE CURRENT—a U.S. bimonthly socialist magazine of news, analysis and dialogue. Recent issues include: Anastasia Posadskaya on Russian Women Facing the Market • Manuela Dobos on the Yugoslav Catastrophe • Stephanie Coontz on the "Family Values" debate • Mary McGinn on Organizing at the U.S.-Mexican border • Voices from the Los Angeles Explosion

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Political parties in Croatia

by Christian Promitzer

The Political Situation

In the Croatian weekly *Nedjeljna Dalmacija* there is a culture section featuring mainly non-nationalist intellectuals and journalists and titled "Profile: Magazine for the Pre-Civil Period". The title reflects what a great many in the Croatian left and peace movement see as the major domestic priority, namely the creation of a civil society independent of the state. Social issues and problems of the labour movement have been forced into the background of political discussion because of their "socialist" flavour. For the liberal and left-liberal opposition, the task is the creation of capitalism with a human face. The factors behind this development are clear: the collapse of any socialist perspective and the growth of nationalism.

The stages in the development of this nationalist upsurge are well known: the coming to power of the nationalists around Franjo Tudjman in 1990, the Croatian declaration of independence in June 1991 and the subsequent attack on the new state by Serbia. The war in particular gave a real boost to nationalist sentiment. There were very few areas of Croatia that didn't experience the conflict with the Yugoslav National Army. The air attacks on Zagreb and the bombing of the presidential palace did a lot to silence the critics of Tudjman's policy.

The Tudjman regime was also able to register a number of successes. The war was soon restricted to Serb-populated areas of the republic. Croatia was recognised by the European Community. A shaky peace was established in early 1992 and the stationing of UN troops restricted the fighting to a few regions. The regime was able to blame Serbia for the terrible consequences of the fighting: official figures speak of ten thousand dead and seventy thousand driven from their homes (not including the 350 000 Serbian refugees); the destruction of industries, cultural artefacts and the environment; the loss of one third of republican territory. Up to now the dramatic fall in living standards, the decline in production and hyperinflation have been portrayed as the necessary price for hard-won independence. Lately, however, newspapers have begun to write of the social discontent that is reaching breaking-point.

An essential role in this process of national homogenisation was played by the media. Television and radio, as well as the two main daily papers swung over behind Tudjman shortly after he came to power. Critical journalists were removed and critical publications were put under financial pressure: the weekly *Danas* has now ceased publication. The only critical daily paper, *Slobodna Dalmacija*, was put under new management in October 1992.

Socialist and social democratic ideas were marginalised in Yugoslavia much more quickly than elsewhere in Eastern Europe and not just because of the war. The Titoist self-management system was portrayed for years as superior to the "state socialist" or "etatist" model and, although it did deliver certain freedoms not found elsewhere in the region, the one-party system undermined its potential, restricting

rights to factory or community level, atomising the workers and the general population. Although the ideal of self-management may have a certain attraction for the left in Poland or Czechoslovakia, it is not seen as an alternative for the left in ex-Yugoslavia.

The debate in the already severely weakened left, therefore, revolves around this question of civil society and how "social property" is to be privatised. The enterprises belonged de jure to society and were managed by the workers. The ruling party in Croatia, the Croatian Democratic Union (HDZ) of Tudjman, used the changes in ownership rights to provide its own people with directorial and managerial positions.

The governing party

After Croatia's second democratic election in August 1992, the republic still is effectively a one-party state, with the ruling HDZ controlling key social as well as political positions.

The Croatian Democratic Union was founded in 1989 by Franjo Tudjman, the one-time partisan general who fell into official disfavour in the late 1960s because of nationalist statements. In its early phase this party was supported by right-wing dissidents and the nationalist emigration in the West. The latter provided the financial support for the HDZ in the 1990 election campaign, spending more than the still-ruling ex-communists.

The party contained a number of different currents, from christian democrats to the extreme nationalist and anti-semitic right. The orthodox supporters of the Party of the Right (HSP), who identify with the Ustashi that led the puppet "Independent State of Croatia" (1941-45), soon broke away and formed their own party.

Ex-members of the old League of Communists also joined the HDZ, hoping to salvage their positions. One of their main representatives today is the interior minister, Josip Manolic. There are, in fact, more ex-Communists in the HDZ today than in the Croatian groups seen as "ex-Communist".

There were a number of reasons for the HDZ election victory of 1990. It represented, among other things, a national revenge for the suppression of the "Croatian Spring" of 1971 (see below). While the then ruling ex-Communists made vague promises about more democracy, Tudjman offered the vision of an independent Republic of Croatia. He presented himself as the only effective opponent of the hegemonial policy of the Serbian leader, Slobodan Milosevic.

With more than 60 per cent of seats in the new parliament, the HDZ was able to ignore the new constitution, concentrating legislative, executive and judicial power in its own hands. The old state apparatus was cleansed and opposition parties branded as traitors. In April 1991 Tudjman appointed a Council of State, responsible to him, but without any basis in the constitution.

In other words, the political system created in Croatia differed from that of the communist period only in the fact that opposition parties occupied some seats in the parliament and were able to express their views in press conferences and in occasional press articles. It was only in its policy towards Serbia that the HDZ had the full support of the various opposition parties.

The nationalist policies of the HDZ led to tremendous unrest in the Serbian communities in Croatia. Whereas the Serbs were a constitutive element of the previous Croatian Republic, they were constitutionally excluded from the new republic and denied autonomy. This merely confirmed their fears that once again "the Ustashi were at the helm" in Croatia. The leaders of the Serb communities and their representatives in the Serbian Democratic Party (SDS) began to prepare for armed resistance, encouraged and supported by Milosevic and the JNA. The conflict escalated when the new masters of Croatia sent police units into the Serbian majority area of Krajina to take control. The consequences are well known.

It was also HDZ cadres that made up the backbone of the newly-formed units of Police Specials and National Guard, out of which, during the course of the war, the Croatian Army was created. In July 1991, at a time when the conflict in Croatia was already threatening to escalate into a proper war, the right wing inside the HDZ accused Tudjman of being militarily lax in his policies towards Serbia and the JNA. It became clear that the HDZ was not a monolithic block. HDZ members from Eastern Slavonia, Dalmatia and Banja, areas of conflict between Serbs and Croats, threatened Tudjman with a vote of non-confidence. Cadres from these areas felt themselves disadvantaged in the way the Zagreb leadership was sharing out the positions of power.

It was at this moment that Tudjman carried out a very clever manoeuvre with the opposition parties, inviting them to participate in a coalition government. With the key positions firmly in the hands of the HDZ, Tudjman was insuring himself against the possible negative consequences of his military adventures and, at the same time, making it impossible for the opposition to offer any fundamental criticism of his policies.

This coalition government lasted until the spring of 1992. At this time, revelations about the extent to which Tudjman and other HDZ leaders had personally enriched themselves began to enrage public opinion. Because of a lull in the war, growing unemployment and sinking living standards, the trade unions which, during the fighting had maintained a truce with the government, now began to demand a hearing. The Independent Trade Union Federation of Croatia presented to parliament a petition signed by 17 per cent of the population which demanded, among other things, a minimum wage and rent subsidies.

Confronted with this new situation, Tudjman, with the full support of all HDZ members of parliament, called a new election. To make sure that the HDZ won this election, a new election law was passed according to which around half of parliamentary seats would be elected on the basis of the British "first past the post" system. This was the end of the coalition government. Tudjman's calculations proved correct: in the "first past the post" constituencies, the opposition parties failed to agree on a common candidate. In the election for president, Tudjman himself won 56 per cent of the vote. In those

constituencies where the election was organised according to the proportional system, the HDZ won 43.7 per cent of the vote but, because of HDZ victories in the other constituencies, the party was able to capture two thirds of parliamentary seats, although in many constituencies it got less than 30 per cent of the popular vote.

The election of 2 August 1992 gives Tudjman's HDZ power for another five years. Although the marginalised opposition presents no danger for the time being, inner-party conflicts, apparent last summer, could break out again, the most noticeable being those between the centre and the periphery. While the party in Zagreb, with the support of the German CDU, is attempting to develop the image of a western christian democratic or conservative party, in the provinces it is still the warlords of the right who are in command. The Zagreb leadership does its best to hide this face of the party from Western observers.

The liberal opposition

In the Croatian parliament there are two parties that describe themselves as "liberal". The national-liberal Croat Peoples Party (HNS), led by Savka Dapcevic-Kucar, the eminence grise of the Croatian spring of 1971, was established in 1991. The HNS was meant to be a vehicle to bring Savka, as the popular 69-year-old politician is usually referred to, to power, this being her third such attempt.

Her first attempt ended in failure in 1971. At that time she was leader of the Croatian League of Communists and attempted to use the nationalist upsurge of 1970 and 1971 as a means of strengthening her own position vis à vis Tito. But she was unable to keep control of the movement and in 1971 Tito suppressed the "Croatian spring", after which Savka fell from favour.

In the spring of 1990 she entered the elections with the loosely organised Alliance for National Cooperation. This political coalition of moderate nationalist parties and individuals came third place in the elections after the ex-communists. Once in parliament, the Alliance disintegrated into a number of different groupings. The core of this old alliance was brought together with ex-members of the old Croatian League of Communists to found the Croat Peoples Party in 1991, which now described itself as "liberal". Because of the composition of its leadership, it was difficult for the party to dismiss the accusation that it was a party of "factory directors" and "old communists".

In the autumn of 1991, Savka attracted attention when she criticised Tudjman in parliament for considering making concessions to the conditions laid down by the Hague Conference. (These were the conditions laid down at the time by the European Community for the recognition of Croatia and Slovenia and included, among other things, political autonomy for the Serbs in Croatia.) Her claim to be a "better" Tudjman for Croatia made it difficult for her to boycott the elections of August 1992. The other opposition parties had called for an election boycott because the war was still in progress and the new electoral law was unfair. But when the HNS decided to take part the rest of the opposition had to follow suit. But this third attempt to win power failed miserably. The Croat Peoples Party was marginalised and has since showed signs of disintegration.

The Croat Social Liberal Party (HSLS), led by Drazen Budisa, was able to find significant support among sections of Croatian society. Although its orientation is basically Croatian nationalist, the main

drift of its oppositional critique was directed against the governing party's abuse of power and it continued to call for minimum standards of democracy.

In the elections of August 1992, the HSLs was actively supported by Germany's ex-foreign minister, Hans Dietrich Genscher, and by his party, the FDP. Genscher was the first to recognise independent Croatia. The Croat Social Liberal Party got a creditable 20 per cent in the elections, making it the strongest opposition party. However, the powerlessness of the Croatian opposition has led to divisions and a certain amount of unrest within the HSLs. The party's social base consists mainly of intellectuals, writers, journalists, teachers and students.

If the liberal opposition wants to improve its chances in the forthcoming local elections, both HNS and HSLs will have to consider an electoral alliance. In the longer term both parties will have to compete with the ruling HDZ to build a social base among the emerging Croat bourgeoisie.

The Croat Party of (State) Right

The fascist tendency in Croatia is represented by the Party of (State) Right (HSP), led by Dobroslav Paraga. This party sees itself as the legitimate successor of the party of the same name founded in 1861 and identifies itself with the tradition of the Croatian Ustashi state. It calls for a Croatia from the Drina to the gates of Belgrade, in other words, on the territory of the Ustashi state, including Bosnia-Herzegovina.

When the fighting escalated in Croatia in the autumn of 1991, the HSP formed a party militia (the Croatian Defence Force - HOS) formally subordinate to the Croatian army. The HOS has become notorious for its acts of brutality and its special kind of "heroism". The HOS recruited among the German far right. On a number of occasions the HOS threatened a march on Zagreb, in the style of the Italian Blackshirts. Paraga was arrested but later released for lack of evidence.

The HSP found its strongest support among the population of Eastern Slavonia who felt that they had been deserted by the government in Zagreb during the fighting. Shortly before the elections, opinion polls indicated that the HSP would probably win as much as 10 per cent of the popular vote. In the event it won just under 7 per cent, well below expectations. As nationalist minded Croatians saw it, the HSP had won "great victories" on the battlefield, but it was Tudjman who had won independence for Croatia, by political means.

At the end of September the Director of Public Prosecutions in Croatia made an application to the Constitutional Court to have the HSP banned. The basis of the application: smuggling of weapons (in fact the party headquarters in Zagreb was a massive arsenal) and conspiracy to overthrow the constitutional order of the Republic of Croatia. These were actually well known facts in Croatia for over a year. It seemed that the devil was exorcising Beelzebub. As far as arms smuggling is concerned, the both were guilty of the same crimes. Indeed, on more than one occasion, Tudjman has awarded posthumous medals to HOS fighters for their services to the Republic of Croatia. The point of this whole operation, of course, is to create the right image for the West.

At the time of writing there is a proposal to remove the parliamentary immunity of HDS representatives. In the parliamentary committee that will decide on this, the opposition parties have voted against, not because they support the principles of

the HSP but because they fear that in future similar moves might be directed against them. The HSP leadership has announced that it will go underground if necessary.

The leadership of the HSP has been weakened by internal conflicts since the elections. In Bosnia-Herzegovina many members of the HOS have gone over to the "official" Croatian troops. Tudjman seems to have picked the right moment to strike against the HSP.

There is very little reliable evidence about the social basis of the HSP. Members of the military wing, the HOS, were recruited mainly from among unemployed youth. Siege mentality also plays an important role. In Eastern Slavonia, where the population has suffered perhaps most from the fighting, there is a lot of support for the HSP.

The social democratic opposition.

There are four parties in Croatia that consider themselves social democratic. Of these four it was only the ex-communist Social Democratic Party of Croatia (SDPH) that won a place in parliament. With 5 per cent of the popular vote it is the fifth strongest opposition party. Together, these four parties make up the parliamentary and extra-parliamentary Croatian left. The other three failed to pass the 3 per cent barrier.

Apart from the parliamentary endeavours of the ex-communists in the SDPH, the activities of these parties consist in the development of programmatic ideas, press conferences in response to particular events and numerous attempts to be officially recognised by the Socialist International. All four parties claim to have support in the trade unions but as yet none of these claims has been tested.

The biggest of these parties, the SDPH, is the successor organisation of the Croatian League of Communists. Since the beginning of the democratisation process the party's main activities have been at the parliamentary level, where it has been very critical of the undemocratic methods of the HDZ government. The party didn't stand its own candidate in the presidential elections in August 1992 and gave indirect support to Tudjman. Both before and after the elections of 1990, the right wing of the party had good contacts with Tudjman's HDZ.

Party member Martin Spegelj served for quite some time as defence minister in Tudjman's cabinet, while Zdravko Tomac was vice-president in the coalition government and afterwards spent some months as Croatian ambassador to Slovenia. Party chairman, Ivica Racan, representing the mainstream of party opinion, has expressed himself on a number of occasions in favour of the Swedish social democratic model. Following the 1990 elections the party lost a large proportion of its membership, especially among Serbs. In the elections of August 1992 its share of the popular vote went down from 17 to 5 per cent. The party survives because quite a few ex-members of the old League of Communists have remained faithful to it. Its social base consists mainly of factory directors, pensioners and intellectuals.

A second Social Democratic Party of Croatia, this time with the initials SDH, models itself on the German SPD. (The party uses the more genuinely Croatian term "Stranka" rather than the communist-sounding "Partija".) The chairman of the SDH is Antun Vujic, once a member of the Croatian League of Communists but not active in the party after the Croatian Spring of 1971.

It is the only social democratic party that emphasises its origins in the former dissident movement. Its orientation is more strongly Croatian nationalist and it originated as a party out of the Alliance for National Cooperation of Savka Dapcevic-Kucar. The party had two ministers in the coalition government, one of whom went over to the HDZ in the spring of 1992.

The SDH has had the international backing of the German and Austrian Social Democrats. It got 0.6 per cent of the votes in the 1992 election, with its presidential candidate, Antun Vujic, doing little better with 0.7 per cent. After the election the SDH tried unsuccessfully to form some kind of alliance with two of the other social democratic parties.

The Socialist Party of Croatia (SSH) has its origins in the Socialist Alliance of the Working People, the old popular front organisation in Croatia. Before the elections, the party's presidential candidate, Silvije Degen, argued that the SSH should form an electoral alliance with another of the left parties, the Social Democratic Union of Branko Horvat. However, party chairman Zeljko Mazar opposed this and the party campaigned alone, winning just 1.2 per cent of the vote. Silvije Degen got a more respectable 4 per cent in the presidential election, where he picked up votes among supporters of the ex-communist SDPH as well as among the Serbs.

Finally, there is the Social Democratic Union, formed in 1992. Its founding meeting, set for 9 May 1992 and planned in a big way, with 300 delegated and guests expected from all parts of Croatia, was stopped by the Croatian police. The draft programme of the SDU called for a market economy and workers' participation and developed proposals for a peaceful cooperation of both Croats and Serbs in the independent republic.

The party's anti-nationalist orientation and its links with the last president of Yugoslavia, Ante Markovic, led to accusations in the Croatian press that the SDU was a party of "pro-Yugoslav agents", that it was a third column for Milosevic in the Croatian Republic. The planned founding congress had to be postponed to the end of May. The large-scale intimidation ensured that many of the delegates stayed away.

The Social Democratic Union grew out of a fusion of the Social Democratic League of Croatia and the Union of Reformists of Croatia. The League included the cream of the left intelligentsia in Croatia, among them supporters of the Croatian peace movement, while the Union of Reformists was a "reform communist" grouping from the old League of Communists that had supported the political line of the Ante Markovic. The party elected as its leader the internationally known economist, Branko Horvat.

The SDU was the only party in the Croatian election that didn't support a nationalist line. It was therefore able to win some support in the Serbian community. Alongside worker participation, minimum wage, protection of the environment and creation of the necessary structures and institutions of civil society, the SDU called for a non-military solution to the problem of Serbian-occupied territories and for a demilitarisation of the whole Balkan area. The party won 1.2 per cent of the popular vote.

The SDU maintains contact a sister party of the same name in Slovenia and with the Social Democratic League of Vojvodina. It is the only party in Croatia that maintains such links with other groupings on the territory of ex-Yugoslavia. At the beginning of October 1992, the SDU, with the support of the Socialist International, made a formal offer of

discussions with the other social democratic parties on concrete issues (human rights, media, economic policy, joint candidates in local elections). The SDU also has plans, approved by the UN forces, to travel in the Serbian occupied areas to initiate confidence-building discussions with the Serb population in those areas.

There isn't space in the present article to deal in detail with the three regional parties, the Democratic Assembly of Istria, the Democratic Union of Rijeka and the Dalmatian Action. These regional groupings are politically part of the liberal centre, they favour an administrative regionalisation of Croatia and, to that extent, act as a counterweight to the centralist nationalism in Zagreb. These regional groups have six seats in parliament, which makes them the third largest grouping after the ruling HDZ and the liberal HSLS.

The remaining oppositional parties are in the nationalist right-wing or christian-socialist tradition. With the exception of the Croatian Peasant Party (HSS) they failed to pass the 3 per cent barrier in the election. The HSS sees itself as the successor to the party of the same name which was the strongest party in Croatia in the period 1918-1941. Its name reflects this tradition rather than any social base in the Croatian rural community. The Greens don't have a republic-wide organisation and did not stand candidates in the 1992 elections.

Organisations of Serbs in Croatia

The principal party of the Serbs in Krajina and in the other Serbian-occupied territories (a large part of Banja and parts of Slavonia) is the Serbian Democratic Party (SDS). At the end of September 1992 the Director of Public Prosecutions in Croatia made application to the Constitutional Court to have the SDS banned.

Outside the Serb-majority areas there are many other Serbs who continue to live in Croatia although a number have been driven out or have joined the Serbian fighters. Apart from the mountainous region of Gorski Kotar in western Croatia, where there are a number of predominantly Serbian villages, most of the Serb minority live in the Croatian cities. At the present moment there are three organisations that represent the interests of the Serbs still living in Croatia: the Serbian National Party (SNS), the Serbian Democratic Forum (SDF) and the recently formed Serbian Community in Croatia. This latter grouping, formed in September 1992, sees itself as a non-party organisation. There is little information on its activities.

The Serbian National Party (SNS) was founded in the spring of 1991. It describes itself as the party of loyal Serbs. This party was formed with the approval of the ruling HDZ. Opponents of the Tudjman regime tend to criticise the SNS as an alibi for the HDZ. Leading members of the party were one-time members of the secret police. The party leader, Milan Djukic, was himself part of the police. With very little support in the Serbian community, the SNS had difficulty in getting the required number of signatures to enable it to stand candidates in the election. The party won only 1 per cent of the vote in the election.

The law provides for 13 Serbian seats in parliament. The Constitutional Court allowed these seats to be filled with Serbian candidates from the lists of parties that succeeded in winning seats. The court also exempted the SNS from the 3-per-cent rule and gave the party three seats in parliament. The

remaining 10 "Serbian" seats were "offered" to the ex-communist SDPH (8 seats) and to the national-liberal Croat Peoples Party (HNS) of Savka Dapcevic-Kucar (2 seats). These were the only two parties elected to parliament that had Serbs on their party lists.

The Serbian Democratic Forum (SDF) has consistently refused any *tete-à-tete* with the HDZ regime and has consequently been pushed to the margin by the power-holders in Zagreb. The SDF was founded in the summer of 1991 and its leader is the 37-year-old linguistics professor, Milorad Pupovac, one-time leader of the Social Democratic League of Croatia. Pupovac and the SDF stand unequivocally for the independence of the Croatian Republic in its existing borders. The party has established contact with the opposition in Serbia.

The SDF doesn't see itself as a political party and its main effort is directed towards confidence-building measures. For instance, the SDF succeeded in persuading the inhabitants of four Serbian villages in Gorski Kotar to hand over their hidden caches of weapons to the UN troops and participate in the elections. They had been given the weapons the previous autumn by the Yugoslav Army (JNA).

Otherwise the SDF sees its main task as the defence of the interests of the Serbs living in Croatia. Those Serbs living in the towns and cities of Croatia suffer discrimination on many fronts. They fear for their jobs and housing rights. There is also the fear that they could lose their Croatian citizenship. It is very difficult to find information about the actual extent of this discrimination. "We find ourselves between the hammer and the anvil" is a frequent expression of Pupovac. Many Croats regard the Serbs in Croatia as fifth columnists for Milosevic, while the Serbs in the breakaway territory of Krajina describe them as "Ustashi Serbs" who have made common cause with the Croatian state.

Although the Serbs in the cities and towns still hope for integration in the Croatian state, the Serbs in the Serbian-occupied Krajina are in a much more difficult situation. Living in a virtual police state, they lack food, electricity, petrol and medicines. News from this area is very scarce. If Krajina is to become part of Croatia again, the dialogue with the people there will be a very long and difficult one. A rural traditional community, the cultural differences between them and the Zagreb Serbs are enormous.

Parliamentary-nationalist Bonapartism

Those analysts who describe the Tudjman regime in Croatia as fascist are incorrect. A more adequate sociological concept would be "parliamentary-nationalist Bonapartism". A precondition for such a regime is a society already homogenised by the communist one-party system. This society was splintered into numerous small units by the Yugoslav system of self-management. It was only at local level that people were able to defend their interests. At republican level, nationalism, in the context of a *de facto* one-party state, has replaced the Titoist phraseology or filled the ideological vacuum that has slowly established itself since Tito's death in 1980. It is only very slowly, for instance in the coastal areas and in the Istria peninsula, that a regional awareness is being created and which expresses itself in the formation of regional parties.

The articulation of class interest is happening much more slowly. This is most advanced, perhaps,

in the embryonic bourgeois class that is emerging under the protection of the state: small entrepreneurs from the "communist era"; returning emigrants and Gastarbeiter from Germany who buy into existing firms or set up new ones; black marketeers and mafia who deal in drugs and supply arms to the Croatian army cut off from regular supplies by the arms embargo. The working class is, at the moment, what Marxists would describe as an empirical-sociological "class in itself". The most advanced expressions of class consciousness are limited to economic demands articulated by the slowly emerging trade unions. Because of their experience with the state party in the ancien regime, the trade unions are very reluctant to have anything to do with political parties of any kind.

Under such conditions it is the state apparatus itself, in other words, the HDZ regime led by Tudjman, which is the motor of capitalist transformation. In the words of Rastko Mocnik: "Before the 'spontaneous' and 'non-ideological' working of the exploitative machinery of a liberal economy can get under way, it is necessary to secure, by repressive and ideological means, the conditions in which a liberal economy can operate."

Table 1
The elections of 2 August 1992

appr. 3.5 million voters, of whom appr. 75% cast a vote (85% in 1990)

Party list results (only those represented in the new parliament)	
HDZ	43.72%
HSL	17.33%
HSP	6.91%
HNS	6.55%
SDP	5.40%
HSS	4.16%
Alliance of Regional Parties	3.11%

other social-democratic parties (not represented in parliament)	
SDU	1.21%
SSH	1.17%
SDH	0.59%

Distribution of seats in Croat parliament

HDZ	85 seats
HSL	14 seats
Regional parties	6 seats
HSP	5 seats
Independents	5 seats
HNS	4 seats
SDP	3 seats
HSS	3 seats

nominated for the Serb minority:

SNS	3 seats
SDP	3 seats
HNS	2 seats
vacant (not taken by SDP)	5 seats

Total 138 seats

Elections of Republican President

Franjo Tudjman (HDZ)	57%
Drazen Budisa (HSL)	22%
Savka Dapcevic-Kucar (HNS)	6%
Dobroslav Paraga (HSP)	5%
Silvije Degen (SSH)	4%
Antun Vujic (SDH)	0.7%



Milorad Pupovac was previously leader of the Social Democratic League of Croatia and was the founder in 1991 of the Serbian Democratic Forum in Croatia.

A settlement for the Serbs in Croatia

by Milorad Pupovac

nationalists to come forward as leaders. More than 400 people have been killed, either as individuals or in groups, by Croatian soldiers and police in towns like Zagreb, Sisak, Osijek, Split, Zadar and Gospić. Almost 200 000 have fled through fear of violent reprisals. Between 2 000 and 3 000 Serb-owned homes have been destroyed. Regulations have also been imposed which make the return of Serb refugees impossible.

Any solution has to take a number of factors into account. First, Croatia cannot solve its Serbian question unilaterally without incurring terrible losses. For their part, the Serbs are simply not powerful enough to secede completely. Because of that, the project to divide the Croat and Serb areas along nationally pure lines is not feasible, especially when the geographically wide dispersion of the nationalities is taken into account. Therefore, if they want to live, they will have to live together.

For this to be possible, a third party has to be introduced. In the past, such a structure was provided by the empires to which both nations were subordinated, or by the Yugoslav state, which was subordinate to them. Both these options are now the property of history and the task falls, instead, to the European and international communities.

The task itself contains two components. One is to ensure that Croatia preserves its borders as a sovereign, independent state. The Serb minority must be allowed to develop its own territorial, political and cultural autonomy. The UN forces now being deployed can calm the conflict and create security for both peoples. Once this is done, an agreement on Serb autonomy can be introduced.

Serb autonomy in Croatia is related to both the Croatian state and to Serbs in the rest of Yugoslavia. Croatia could be organised as a union of nationalities in which the national interests of the Serbs are decided by common consent. It could also be organised on a regional basis, giving areas with Serb majorities a special status. Its political system should also enable Serbs to be proportionally represented in all branches of government, as well as permitting them to nurture their cultural identity.

In turn, the Serbs in the rest of Yugoslavia will have to develop a politics outside of the Greater Serbia framework. For the Serbs in Croatia, this means consolidating their civil rights within a sovereign republic. In this way, they could cooperate with the Serbs outside Croatia in matters of education and culture without provoking fears of separatism.

There is also an important psychological dimension to the current conflict. Serbs are fearful of the Croatian state, and Croats doubt the loyalty of Serb citizens. This could be solved if the president of

The Serbs in Croatia have been presented as both the justification and the culprits for the war which has ripped Yugoslavia apart. In Belgrade, the view is that the policies of Franjo Tudjman's government posed a direct threat to the well-being of Serbs in Croatia, and that a war in their defence was necessary. In Zagreb, the Serbs in Croatia have been perceived as a fifth column, because of their resistance to Tudjman and because some of them have participated in the fighting.

One thing is certain. The games that have been played out in the Yugoslav area have turned the Serbs in Croatia into victims. For Croatia, the goal was international recognition. For Serbia the grand plan was an enlarged, regionally dominant republic. The federal army, meanwhile, was concerned with maintaining its state function. In such a process, the Serbs living in the Croatian enclaves simply didn't matter.

Over the last two years, Croatia's Serbs have been wedged between the anti-Serb policies of Zagreb and the anti-Croat policies of Belgrade. Among the tragic results of this has been the division of the Serbs into two parts. One third are now in a cohesive area which makes up approximately 30 per cent of Croatia's territory. In the war between the federal army and the Croatian National Guard, hundreds have been killed and numerous towns - like Vukovar, Kostajnica, Petrinja and Pakrac - have been destroyed. Militarisation is the order of the day, and those who wish to separate from Croatia are motivated by hatred and fear.

The other two thirds, who constitute a significant minority in many parts of Croatia, are facing a very serious situation. Serb identity is being constantly undermined. In the press, Serbs are seen as collectively guilty for the war. In schools, religious instruction emphasises Catholicism, and at the same time parents are told that the safety of their children cannot be guaranteed. Serbs are drafted, despite their ethnic origin. The formation of autonomous organisations has been prevented, allowing militant

Croatia and the top Catholic officials were to show appropriate remembrance for the Serbs annihilated by the Nazi-sponsored Ustashi regime. The Serbian Orthodox Church should do the same in respect of the Croatian victims. Additionally, Serbs could prove their loyalty by participating in the Croatian parliament. Unfortunately, no leader has emerged on either side capable of making these gestures.

It is necessary that the Serb areas of Croatia be demilitarised. One way of doing this is by introducing a rich civilian life. The Serbs need to have their national identity returned to them, in the form of language, education, religion and customs. They need to develop a democratic political culture and programmes for economic development. At the moment they have none of this.

By recognising the Republic of Croatia, the international community has become committed to helping Croatia reach sovereignty. Recognition also brings a responsibility to help Croatia's Serb citizens reach autonomy. This commitment includes three points. First, Croatia must be reminded that it is responsible for the safety of its Serb citizens under the rule of law. Second, a representative council of the Serbs should be set up which carried legitimacy in Croatia and outside. Finally, representatives of the national parliament in the Serb enclaves of Croatia should be brought to the EC's peace conference to discuss the special status issue. This is the basic outline for a programme to bring security to all Croatia's citizens.

This article first appeared in *Breakdown: War and Reconstruction in Yugoslavia*, a special dossier produced by Yugofax. Details on page 40.

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Appeal to Democratic Left Forces

The following Appeal, signed by representatives of left-wing parties and currents as well as individuals, was published in Issue No. 2, 1992, of Left in the Workers Movements in the ex-USSR, a bulletin of the Information Agency "Economy and Democracy".

Comrades! We appeal to you in what is a difficult hour, for you and for this country. Living standards are falling catastrophically; the democratic gains of recent years are under threat; increasingly there is talk about a future liquidation of representative organs of power; a primitive propaganda for capitalist market "values" has triumphed in the media over the promised pluralism.

The country can be saved from catastrophe only by the people themselves, united in mass democratic movements, trade unions and left-wing political organisations. Today these movements are weak and disunited and hence are unable to change the course of events. Hence also the outcome of the Sixth Congress of Russian People's Deputies, which actually approved the anti-popular course of the government. This means that working people will now have to face new sacrifices and new drops in living standards.

The continuation of the present policy of Russia's ruling circles is leading to the rapid and irreversible destruction of the country's industrial, scientific and cultural potential, undermining the foundations of democratic reform so badly needed by the majority of citizens.

To stop the slide towards catastrophe, a unity of democratic left forces is essential. It is necessary, in deeds and not just in words, to pool the efforts of those defending the interests of working people and the ideals of freedom. A first step in this direction would be a Congress of Democratic Left Forces.

We must unite:

- * against the policy of the government which is defending the interests of international finance capital to the detriment of the people and the economy of the country;
- * against the attempts to revive a bureaucratic centralised state, against great-power chauvinism and nationalism, against the stirring up of ethnic discord;
- * against the attempt to establish an authoritarian regime that suppresses the rights of individuals, social organisations, representative bodies and the press;
- * for equality of all forms of property, including municipal and collective forms, for a de-bureaucrat-ised state sector and productive private enterprise; for the priority of public (non-exploitative) forms of property and for the right of working collectives to choose the methods of de-statisation;

* for democratic regulation of the market and an economic programme in the interests of working people; for an effective democratic system of social guarantees, the right to work and housing, to a health and education system which is of high quality, free and accessible to all; for proper working conditions.

* for real people's power and a rigorous observance of civil rights and freedoms as the basis for a new voluntary union of peoples.

We believe that democratic left forces, expressing the interest of the overwhelming majority of the people, will be able to unite by creating an alternative to the old and new authoritarianism and totalitarianism, to the reactionary policies and irresponsibility of the present ruling circles and to the attempts to restore Stalinism.

We would expect the Congress of Democratic Left Forces to adopt a programme of coordinated action in the soviets, in the mass media, in working collectives and other civil associations; we also would expect conditions to be created for the formation of a broad coalition of democratic left-wing forces.

Signed by:

- P M Abovin-Egides, member of Russian Organisational Committee (ROC) of Workers Party;
- A V Buzgalin, member of ROC of Workers Party, professor of economics;
- V V Burtnik, chairperson of Rabochy (Worker) Social Political Organisation;
- L S Vartazarova, co-chairperson of Social Party of Working People, doctor of economics;
- M N Gretskey, professor, doctor of philosophy;
- A K Isayev, editor of *Solidarnost*, Moscow trade union paper;
- B Y Kagarlitsky, member of ROC of Workers Party, deputy on Moscow City Council;
- N T Loginov, professor, doctor of history;
- Y V Nazarov, Honoured Artist of RSFSR;
- G I Skylar, co-chairperson of Socialist Party of Working People;
- B F Slavin, member of Political Council of Russian Party of Communists;
- O N Smolin, Peoples Deputy of RSFSR;
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