



The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

Papers downloaded from AgEcon Search may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.



The United Nations
University

WIDER

World Institute for Development
Economics Research

**Diverse Property Forms within
Planned or Partly Planned
Economies: NEP, NEM and TVE**

Robert J. McIntyre

Working Papers No. 213

December 2000

UNU World Institute for
Development Economics Research
(UNU/WIDER)

Working Papers No. 213

Diverse Property Forms within Planned or Partly Planned Economies: NEP, NEM and TVE

Robert J. McIntyre

December 2000

This study has been prepared within the UNU/WIDER project on Small and Medium Enterprises in Transition: How Does Entrepreneurship Develop in Post-Socialist States (Transition from Below: The Role of the New Private Sector), which is directed by Professor Robert J. McIntyre.

The author is affiliated with the Institute for International Economic and Political Studies, Moscow.

UNU World Institute for Development Economics Research (UNU/WIDER)
A research and training centre of the United Nations University

The Board of UNU/WIDER

Nora Lustig

Harris Mutio Mule

Jukka Pekkarinen, Vice Chairperson

Ruben Yevstigneyev

Masaru Yoshitomi

Ex Officio

Hans J. A. van Ginkel, Rector of UNU

Matti Pohjola, Officer-in-Charge, a.i., UNU/WIDER

UNU World Institute for Development Economics Research (UNU/WIDER) was established by the United Nations University as its first research and training centre and started work in Helsinki, Finland in 1985. The purpose of the Institute is to undertake applied research and policy analysis on structural changes affecting the developing and transitional economies, to provide a forum for the advocacy of policies leading to robust, equitable and environmentally sustainable growth, and to promote capacity strengthening and training in the field of economic and social policy making. Its work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating scholars and institutions around the world.

UNU World Institute for Development Economics Research (UNU/WIDER)

Katajanokanlaituri 6 B

00160 Helsinki, Finland

Copyright © UNU/WIDER 2000

Camera-ready typescript prepared by Janis Vehmaan-Kreula at UNU/WIDER

Printed at Pikapaino Paatelainen Oy, Helsinki

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute or the United Nations University, nor by the programme/project sponsors, of any of the views expressed.

ISSN 0782-8233

ISBN 952-455-116-0 (printed publication)

ISBN 952-455-117-9 (internet publication)

CONTENTS

ABSTRACT	iv
1. INTRODUCTION	1
2. THE NEW ECONOMIC POLICY IN THE SOVIET UNION	2
3. THE NEW ECONOMIC MECHANISM IN HUNGARY	4
4. SMALL-SCALE PRIVATE ENTERPRISE IN THE GDR	5
5. THE PHYSICAL FORM OF NATIONALIZATION AS A KEY TO TRANSITION PERIOD REVIVAL	7
6. CHINA: NEW TYPE SMEs RESULT FROM AN EVOLUTIONARY TRANSITION PATH	8
7. 'ANTI-REFORM REFORMS' IN THE RUSSIAN PROVINCES	14
8. WHOLESALE TRADE AND MARKET-ACCESS	18
9. CONCLUSION: POLICY IMPLICATIONS OF SME RESEARCH	21
REFERENCES	25

ABSTRACT

This Working Paper discusses *mixed systems* in which SMEs functioned successfully in the presence of extensive state ownership of large enterprises and even classical central planning. Past and present examples are considered in which a *small enterprise system* worked around, with, and in the interstices of, a large enterprise system made up of state-owned enterprises (SOEs). If SMEs could survive and even in some cases thrive, under such fundamentally 'hostile' old system conditions, it is at least superficially puzzling that their experience in transition has been so difficult or at best mixed.

This paper considers some of the pieces of this puzzle, using unconventional systems as examples. First, they suggest the importance of studying the specific character of the specific links and working relationships between large and small enterprises. Second, these examples suggest that there are opportunities for SME growth even in transition environments that provide far from free-market conditions. Ideological assumptions about what would happen automatically in transition led to neglect the policy and institutional framework necessary for real SME success.

It is clear that SME 'success' does not come automatically and that an active SME policy is vital. It is also clear that when such measures are not built-in at the beginning, the path becomes much harder and must overcome new obstacles. The surrounding macro environment, the role of reform sequencing in avoiding pervasive criminalization and a broader concept of institutional development are discussed. Reference to comparable Western experience shows that there has been wide use of localized 'industrial policy' in those cases where SMEs have moved beyond services and small-scale retailing to become SME-based productive systems.

1. INTRODUCTION

The dominant ideology of transformation presumed, and its executors often acted in policy directions that actually required society to make a blind jump toward a complete new set of basically *homogeneous institutions*. This 'market Bolshevik' approach ignored both elementary institution building requirements and the long history of the successful SME functioning in the presence of extensive state ownership of large enterprises, and even in systems controlled by classic Soviet-type central planning. There have been and are a number of other economic systems in which ownership and management types are mixed together in unconventional ways but that were or are none-the-less successful.

It is important to take account of this past experience with *unconventional mixed systems* in order to appreciate the opportunities for SME growth in the actual conditions of contemporary transitional economies, many of which diverge dramatically from free-market conditions (Pickel 1992, Grabher 1992 and 1995, Chang and Nolan 1995). It also underlines the importance of healthy large enterprises, both state-owned (SOE) and previously state-owned (PSOE), in creating an environment in which productive (beyond the sector of subsistence, small-scale trading and service activity) SMEs can thrive.

Four examples are discussed here: the New Economic Policy (NEP) in the Soviet Union, the Hungarian New Economic Mechanism (NEM), the GDR small enterprise programme and the Chinese Township and Village Enterprise (TVE) development. These examples make up a promising alphabet soup, but they are not well known despite having a special contemporary importance in much of the CIS and some parts of Central and Eastern Europe. In these transitional economies, institutional mixtures and coordination mechanisms similar to these past and present mixed systems are likely to be features of the coming decades.

The key point is that each of these *small enterprise systems* worked around, with, and in the interstices of, a successful large enterprise system. In each case all of the large entities were entirely state-owned, but they operated under very different conditions: no central planning at all in the NEP; shrinking central planning with much enterprise or regional autonomy in Hungary during the 1968-1989 NEM period and in China from 1978 to 1990; and strict, highly centralized Soviet-type planning in the GDR from 1947-1989. This paper also considers some institution-building policies adopted in various Russian regions which have encouraged healthy SME

growth and briefly discusses the vital but often ignored issue of market access as a barrier to the development of productive SMEs.

Among advanced capitalist countries there is a similar and highly relevant experience with diverse institutional mixtures. This is most obvious in countries such as Italy, France and Taiwan that carried high SOE levels into the 1980s (and even 1990s), the latter two countries often in leading, high technology sectors. Norway, Sweden and Finland provide a related Nordic variant. The point that can be drawn from these two very different sets of experiences that is directly relevant to transitional economies is that *working arrangements* were developed which allowed the *successful coexistence within the same economic space of forms of organization and ownership generally used to define Weberian 'ideal-typical' opposites* (Parsons 1937). It is a commonplace of comparative economic systems analysis (Gregory and Stuart, various years, Pryor 1985, Wiles 1977) to note that all economies consisted of a greatly varying mixture of command, market and conventional-traditional allocation mechanisms, but this point has been largely forgotten in the mainline transition discussions.

2. THE NEW ECONOMIC POLICY IN THE SOVIET UNION

The Soviet New Economic Policy (NEP) was announced by Vladimir Lenin on 18 March 1921, with motives that remain unclear and hotly disputed to this day. It marked the successful end of the extraordinarily bitter and destructive Civil War during which a comprehensive mobilization system called War Communism was developed. As the Civil War proceeded this eventually resulted in almost complete nationalization, demonetarization and centralized bureaucratic control of the economy. Much of War Communism was directly copied from German mobilization practices during World War I, but was carried much further in Russia. This resulted from the combination of the extreme desperation of the Civil War situation and of the views of many Communist Party members that these same dire conditions allowed the Soviet Union to 'jump over stages' to a superior post-capitalist form of organization.

The NEP was in force from 1921-1928 and produced what was at the time an unprecedented type of *mixed market socialism*. It was a mixed economy with exclusively market exchange in the presence of state ownership of all large-scale industry, transportation and banking. The NEP preceded the

development and implementation of Soviet-type physical planning. The first national economic development programme (the GOELRO programme for electrification) also began in 1921, but it was not until 1924 that the Government Planning Office (GOSPLAN) was founded as an academic 'prognosis' entity, followed by several years reflection on how a hypothetical planned system might be organized and administered. The state retained ownership of the *commanding heights* (heavy and medium industry, mining, transportation and banking), but left management of these state enterprises in the hands of experts who were told to follow business logic in a decentralized fashion. State firms dealt with each other, with small private and cooperative manufacturing and retailing firms, and with the private agricultural sector on the basis of money-mediated market transactions, rather than any form of administrative planning. Exchange occurred through markets with prices set largely by supply and demand forces (Ball 1984, 1987).

The NEP was widely judged to be a period of great success in economic recovery and rebuilding. During the NEP, educational (mass literacy and all other levels) and public health programmes were initiated and rapid technological progress resulted from selective import of capital and technicians from advanced capitalist countries. The overall pace of economic expansion was substantial, yet opinion on the viability of the NEP remains distorted to this day by the successful propaganda Josef Stalin used to justify his decision to abandon the NEP in 1928. This decision to create from nothing (although obviously with reference to the lessons of War Communism and GOELRO) a system of centralized bureaucratic planning based on the material balances method is an unprecedented moment in modern history. Whatever the ultimate wisdom of this choice it is important to understand that this was a purely political decision. Thus, while the NEP was 'successful' on its own terms and was in many ways a *promising alternative system*, it was unsatisfactory as a mechanism for the rapid industrialization that became a political-military priority. There were dual roots to this judgement: externally the looming military danger from the West; internally the effects of the NEP in building up a significant business-based middle class. There is nevertheless little reason to doubt the viability of the NEP as a long-term economic model (Bandera 1963, 1970).

In late 1928, with the beginning of the Five Year Plan era, the Soviet Union created a second unique economic system, this time based on physical (the so-called method of material balances) central planning, comprehensive price controls, collectivized agriculture, very limited use of markets (for labour, the distribution of consumer goods and retail sales in the collective farm market)

and tight Communist Party control of the details of plan formulation and implementation. These institutions remained remarkably stable until the 1985-1991 period. Reform and rectification efforts sometimes had significant effects, but the essential features of the system and the incentive and related questions they posed continued fundamentally unchanged.

3. THE NEW ECONOMIC MECHANISM IN HUNGARY

The Hungarian New Economic Mechanism (NEM) was formally adopted in 1968, but was preceded by a number of earlier small steps after 1956. The NEM aimed to create a mixed predominantly socialist economic system in which a variety of ownership forms coexisted. Hungary had a large degree of decentralization and used market mechanisms extensively, even though operating within the framework of a central plan until 1989. All large and medium enterprises were run by state-appointed managers, with most profit going to the state. The large industrial and agricultural producers retained respectively the SOE and collective/cooperative farm structure but moved to more and more market oriented forms of behaviour. While enterprise managers continued to be appointed by industrial ministries in Budapest, they were more and more put in the position of maximizing profits. It was an environment with little or no directive central planning (except for decisions involving significant capital expenditures) where intermediate material flows and product marketing arrangements were made on a contractual basis between enterprises with little central involvement. Since central influence was ideally to be exercised only by the use of 'economic levers', not command, the system came to resemble the French-type of indicative planning more than just superficially.

This type of fundamental modification of classical Soviet-type central planning was not unusual, but was both carried further in Hungary and Yugoslavia and openly presented as being a desirable systems reform. In reality, all socialist economies used a mixture of plan and market, with the USSR, China, East Germany, Czechoslovakia, Bulgaria, and Cuba leaning more toward planning, while Hungary and Yugoslavia over time leaned toward greater use of the market. In Yugoslavia: each enterprise of any significant size was run by an elected workers council which had at least formal authority to hire and fire top managers; all profits after taxes were used as the council decided (within certain constraints); and enterprises competed in a modified market, setting their outputs and sometimes their

prices. All of the other pre-1989 Soviet-type economies of eastern and central Europe were predominantly government-directed, but in each of these the mixture of property types (state, cooperative and purely private) and organizational forms was different.

Mixed systems with different proportions between large state and small cooperative or private enterprises developed, and in some cases prospered, in various parts of eastern Europe. In both urban and rural contexts, societies operating with Soviet-type large institutions and central planning found diverse ways of integrating smaller-scale and more market-oriented components (McIntyre 1989). Agriculture in Hungary, Czechoslovakia and Bulgaria, entrepreneurial small enterprise development in Bulgaria, and purely private small-scale industry in the GDR provide relevant examples (McIntyre 1988, 1989). In each case some kind of non-adversarial relationship emerged between the large state institutions and these other 'peripheral' bodies, and a business culture arose with its own conventions and traditions. When these systems failed, they did not fail because of their mixed characteristics.

4. SMALL-SCALE PRIVATE ENTERPRISE IN THE GDR

Despite easy access to information about the GDR, the structural-institutional realities of its economic system and its distance from the simple Soviet-type-economy model were not clearly understood. Western analysis concentrated on the well known fact that the GDR made large Soviet-type SOEs (*VEB*, later *Kombinate*) work relatively well, but this directed attention away from the overall mixture of institutions in the economic system that developed around them. From 1947 to 1989 the GDR was a mixed socialist economy that was in some ways like the economic system of the NEP. It first tolerated and then nurtured a small, legal, private enterprise sector of surprising sophistication and complexity that amounted to about 2 per cent of the work force in the 1980s.

There was never a comprehensive nationalization and collectivization of private productive property, but capital owned by persons convicted of war crimes or who had fled the country was seized at the beginning of the post-war reconstruction drive. For many years a large variety of small- and medium-size enterprises continued to operate in all sectors of the economy as private or as shared private-state units. In 1972 there was a last

nationalization round of medium-sized private enterprises (some of the most famous mixed enterprises were fashion houses, pipe organ builders, etc.). Small-scale firms were never nationalized – the bulk of these older enterprises consisted of bakeries, butcher shops, small speciality retail outlets and restaurants. A significant proportion of small production facilities were half state and half privately owned (*halbstaatliche*) and were sufficiently free of state direction to be considered behaviourally private (Aslund 1985).

In the mid-1980s the GDR expanded the number of small privately managed restaurants and retail stores, on a lease basis much like what was used in Hungary. The expansion of small restaurants and speciality stores in urban areas was the most visible sign of the change in policy direction, but there was also a proliferation of small-scale garment production and the regularization of private market sales of agricultural products (and various handicraft products, pottery, etc.). This occurred in an atmosphere of institutional stability where the state was able to take advantage of the dynamism of this small private sector in areas where it suited its interests. Consumers benefited from the enriched and extended range of consumer goods and services available. There was tight control over the scope and profitability of these various small private enterprises. The combination of administratively set prices, strong enforcement of income tax laws and a cultural milieu that did not favour off-the-books transactions meant that the profitability of private ownership was relatively narrowly constrained.

Some of these private units operated beyond the boundaries of the service sector, even including some cases in classical 'heavy' industries such as chemicals. In the Leipzig area there were more than 30 private chemical firms coexisting with a major national concentration of large state firms. The private firms varied from very small to as large as 50 employees. They were legal, had been stable over multiple decades and could grow (within limits) and be resold to other private owners. The relationships between these firms and the local SOEs were complex and included the private firms producing speciality products on subcontract from the SOEs that were then marketed under the name of the state organization. The other output of the small private firms was generally sold through state retail outlets.

Both wholesale and retail prices were determined by the Price Administration Office, which applied the same price-formation accounting conventions to private firms and SOEs, although with a different allowed profit rate. Inputs were obtained from SOE producers at official prices. The

small chemical firms in Leipzig formed a buying cooperative to enable them to secure inputs that were sold in relatively large units by state firms. Loans for expansion or for individuals wishing to purchase existing firms from their owners were available from a branch of the State bank, making the legality of this activity obvious. Formation of new firms in such an industrial branch was probably impossible (McIntyre 1989).

Some of the aspects of this local area relationship, both in the link between large SOEs and small private firms, and in the simultaneously competitive and collaborative links among the small firms, are at least suggestive of Italian industrial districts. These were not economic reforms in the conventional sense of redesigning the organizational structure or incentive arrangements within the large enterprises of the entire SOE sector, but they nonetheless produced a significant difference in the performance and character of the economic system. A distinctive form of mixed economic organization did emerge in the GDR, made up of a large state enterprise sector (operating under classic Soviet-type coordination, information flow and incentive conditions) and a very complex private and semi-private service and small industry periphery which dealt with the state sector in a well established pattern of non-adversarial interactions. The multi-decade organizational and legal stability of the GDR private and semi-private sector suggests that this set of 'socialist-mixed' economic institutions need not be viewed as a purely 'transitional' phenomenon, regardless of the historical fate of the GDR as a political entity.

5. THE PHYSICAL FORM OF NATIONALIZATION AS A KEY TO TRANSITION PERIOD REVIVAL

In the case of Czechoslovakia a highly developed small enterprise sector was 100 per cent nationalized in 1948/1949. Nationalization was however done in a way that created favourable conditions for re-emergence of a small premises business culture at a later time. Either small shops were operated as branches of larger state enterprises or cooperatives (in some cases retaining their previous owners as managers), or they were closed completely but with the premises left intact (many remained unused for 40 years). Since the state retail distribution system was largely based on small premises dating from before 1948, these dispersed outlets were easily revived as freestanding entities. An auction approach was used to privatize these small retail, service and productive enterprises, combined with

restitution of some premises and going concerns. The auctions were explicitly structured to produce what was understood to be an 'American-type' of individual ownership (explicitly forbidding a single bid by the workers of an existing enterprise). Thus the infrastructure for a new private retail sector was easily created.

In the large enterprise sector a voucher approach was used which ended up placing SOEs under the effective control of newly created investment funds, most controlled by state-owned banks. This was a form of false privatization, with few real changes in management of large enterprise in the first five years of the transition period and emergence of serious problems in the last half of the decade.

After the split of Czechoslovakia in 1992, Slovakia often was used as an example of resistance to reform and marketization. Slovakia lacked the enormous stimulus of mass tourism, but produced as good or better overall growth than the Czech Republic, and conducted a generally successful and honest medium enterprise privatization. Successful small enterprise re-privatization carried out before the break was an important contributory factor to the relatively good economic/social conditions and adequate transition period performance of both parts of the former Czechoslovakia.

6. CHINA: NEW TYPE SMEs RESULT FROM AN EVOLUTIONARY TRANSITION PATH

The emergence of mixed, 'unorthodox' ownership and governance forms in China is one of the most interesting aspects of its dynamic development since 1978. China now exhibits a distinctive type of 'mixed property' system, in some ways like the 1921-1928 NEP in the Soviet Union. It is important to understand the role of SMEs within this complex environment, specifically considering the ownership forms, relationships with large SOE and government authorities at both national and local levels. This system is still in active, rapid evolution toward unclear future forms (Granick 1990, Sun 1997, Sun *et al.* 1999). Some consideration of the institutional developments over the last several decades is required to make sense of contemporary patterns.

The historical process of China's socialist revolution was entirely different from that of the Soviet Union. The Communist party built its base among the peasantry before the party took state power, and since rural workers

comprised well over 80 per cent of the labour force, the Chinese Revolution was a real mass phenomenon from the beginning. It produced: highly mobilized popular support among the peasants; a close identification of the peasant base with the party which claimed to represent it; and an ideology which made the peasant majority a real and natural part of the party constituency. Equally important, the last phases of the Chinese Civil War were mostly easy victories and so did not (as had the 1918-1921 Russian Civil War) decimate the ranks of lower-level supporters and party activists. The winners in the Chinese case were already successfully governing a large part of the country, and took total control with their popular base intact.

After an initial period of attempting to copy in great detail the institutional arrangements of the Soviet Union, China abandoned the classical Stalinist model. It turned away from centralized decision-making carried out through a national administrative hierarchy and experimented with construction of a new model of socialist development. Political mobilization campaigns and attacks on the privileges of the 'new elite' created economic chaos, but also avoided early institutional stagnation within a tightly organized Soviet-type party-state. After the death of Mao Tse-tung, China then moved toward market reforms beginning in 1978. This was quite late, compared to the diverse reform developments that had been carried out in Eastern Europe and the Soviet Union over the prior 25 years, but China has now persevered with these reforms in a careful, pragmatic way over two decades. A common theme to each reform period is the tendency to build in greater decentralization in economic management, either through changes in the administrative structure of planning or through use of the market to take over some but not all of the functions of planning.

The Great Leap Sets the Stage for SME Growth: A major decentralization of industry was undertaken in 1957 and 1958 at the same time similar reorganization was occurring in the Soviet Union. Control of individual enterprise was transferred from ministries to provincial and local governments. In 1958 decentralization was extended by a wide-scale attempt to develop very small-scale rural industries (most famous of which were the so-called backyard steel furnaces). This programme was not intended to divert resources from the operation or construction of large-scale plants, but was part of the 'walking on two legs' industrialization strategy. This meant simultaneously using technologically advanced and capital-intensive methods in the modern sector while intensifying the

development of traditional, technically simple, labour-intensive methods in the other sector.

This massive nation-wide movement to increase agricultural and industrial output by mobilizing the population in a semi-military way coincided with the abrupt and shocking break-up of the close alliance with the USSR. The GLF itself constituted a break from the Soviet model of centralized planning and one-man management, but it preserved the concentration of investment resources on industrial development. The great bulk of resources used to underwrite the creation of small local industry came from the rural areas themselves (extensive labour mobilization and use of local raw materials). The further economic and social disruption of the 1966-69/76 Great Proletarian Cultural Revolution left China with a legacy of problems.

During the reform period the emphasis on ideology of the Cultural Revolution was replaced by a more balanced appeal to both community/group interests and individual self-interest. The general trend of the reforms since then has combined an expanded scope for market forces with reduction of the extent of planning to focus increasingly on strategic rather than detailed microeconomic decisions. The central features of the Chinese reform model over the entire 1978-2000 period are:

- (1) gradual substitution of 'guidance' for direct 'administrative' planning with the State relying more on indirect financial levers, rather than orders or directives, to influence changes at the local level;
- (2) creation of increasing room for market forces to operate both in product and factor markets, including a substantial freeing up of the price system. Despite this tendency toward price 'liberalization' different types of administratively set and controlled prices continued in force;
- (3) as party control over enterprises declined, managers have been granted increasing control over daily enterprise activities and required to take greater responsibility for their decisions;
- (4) wages and bonuses have become much more closely tied to individual performance in order to stimulate greater productivity and efficiency;

- (5) experimentation with *purely private, small group and collective but non-national ownership* has led to a great diversity of ownership forms; and
- (6) foreign technology has been actively welcomed, but a strong bargaining position has allowed little 100 per cent foreign ownership while extracting maximum local effect from foreign involvement.

As part of the agricultural reforms the household-responsibility system was instituted and the higher level, larger collectives (communes) were abolished. The production brigades (still a 'collective' entity) assumed ownership and control of agricultural land, but there is private use of land in the form of the personal garden plots and use of brigade land by one or more household groupings under the responsibility-contract system.

With the abolition of the communes, government entities and collective enterprises typically took control of agricultural services and local industry. Village governments had to be newly created to take over administrative functions such as public health and education. They also took over many *purely local* directly productive enterprises surviving from the Great Leap period. These enterprises (along with newly created ones) make up the Township and Village Enterprises (TVE) sector, which soon became one of the most dynamic elements of the reform period Chinese economy.

The basic direction of China's industrial reform so far has been to maintain the overall planning system while increasing the role of the market within it, leaving the market subordinate although of steadily increasing significance (Naughton 1995). Behaviour in some parts of the Chinese economy has come to resemble the state-enterprise negotiation process in Hungary before 1989. Factory managers and government officials negotiate what proportion of profits a factory can retain; and they discuss which raw materials can be bought cheaply from the central government, which bought expensively on free markets and which bought at prices somewhere between. Companies with bureaucrats who have done favours for the manager of a local bank are usually first in the queue for cheap loans.

The rising power of local authorities over basic economic decisions is probably connected to the TVE phenomenon discussed below. The resort to bargaining outside the plan reflects the growing prominence of local government in the Chinese economy – this means that local bureaucrats are increasingly usurping the independence and power of the managers. In theory managers of both large and small SOEs are independent. In fact, they still send regular reports about their factory's output, wages and bonus

payments and cash-flow reports to (respectively) the industrial bureau, the labour bureau and the financial bureau of the province or county that controls them. The result is that the main economic unit is not the factory, but the local-level bureaucracy. Local officials have been able to manipulate the reforms to transfer even more resources to their own control, moving beyond the TVE to directly influence and in many cases control local branches of SOE enterprises (*local SOEs*).

Township and Village Enterprises The Township and Village Enterprises (TVE) are a key feature of the reform period, with peculiar and intriguing aspects. Rather than being new creations of the reform period, the TVEs are a relic of the 1958-1960 rural small-scale industrialization efforts of the Great Leap Forward period. While the Great Leap is generally seen as a comprehensive disaster which (in combination with the 1966-1969/1976 Cultural Revolution) cost China decades of lost development, aspects of the rural industrialization strategy survived and through time developed effective economic characteristics (Perotti *et al.* 1998).

The TVE have proven to be unusually successful and dynamic economic entities, despite structural and behavioural features that would appear disadvantageous (if not profoundly disabling) when viewed from a standard perspective that emphasizes the need for clearly established property rights and individual incentives to secure effective performance (McIntyre 1998: 870).

Weitzman and Xu (1994) have provided a subtle, multi-level explanation of how TVEs work, illuminating their working arrangements in terms of an analysis of 'loosely defined' collectives, combined with 'informal, trust-based relationships'. They explain this behaviour in terms recognizable to the categories of individual motivation and choice of neo-classical analysis.

The economic success and dynamism of the TVEs in the post-1978 reform period is remarkable. Already in 1978, 19 million workers were employed in TVEs, producing simple implements and relatively crude products. By the mid-1990s employment had grown to more than 60 million and the array of products widely proliferated and moved to export-level quality. By 1997 the TVE sector accounted for more than 30 per cent of GDP and the astonishing total of 46.3 per cent of export earnings (Nolan 1995: 221-222 and *People's Daily* 5 February 1998 and 22 March 1998).

The period since Mao's death in 1976 has been characterized by a two decade-long policy shift back toward *use of the market* and *differential individual material incentives*. The reform project has encountered many

difficulties and has not moved in a straight line. The Chinese have, perhaps inadvertently, established a novel model of a *socialist mixed-property market economy* in which small-scale collectively owned entities are a pervasive and dynamic part. Whether this is 'market socialism' or 'capitalism' is a complex fruitless debate, but what is emerging is quite different from ideal-typical versions of either.

After the death of Deng Xiaoping in 1997, his successors asserted a renewed commitment to market reform, promising to use market incentives to prune and reorganize the SOE sector. Foreign reactions were quite extreme and revealing – most treating it as an epochal announcement by which even official 'socialism' was abandoned. This interpretation reflects both lingering Cold War impulses and discomfort with 'mixed' institutions. The nearly simultaneous South Asian financial crisis offered a powerful counter argument against pursuit of a liberalization strategy that creates more internal unpredictability as a result of openness to the world financial system. Chinese economists and political leaders are horrified by the socio-economic collapse that incoherent 'free-market' policy produced in Russia and will likely go to great lengths to forestall any such developments in China. As Nolan (1995) has pointed out, Chinese economists and political leaders have made a careful and critical evaluation of relevant world experience, in which the experience of the former Soviet Union stands out as a case of everything to be avoided.

It is a question of great world significance whether China can combine planning with an increasing role for market forces and still maintain a system of property rights that is predominantly socialist rather than capitalist. Assumptions that the 1999 World Trade Organization accession agreement will lead to a rapid opening contradict the essence of the Chinese reform experience thus far. The enormous regional differences in incomes and living standards and the sharply increased inequality within regions pose the greatest threat to the continued success of this mixed model. For more than two decades growth has been so rapid that despite this great regional inequality only relative not absolute poverty has increased. What will happen when overall growth slows down and absolute poverty rises remains to be seen.

The prevalent Western interpretation of China as now 'really ready to make the jump' to 'openness' and 'liberalism' ignores the pragmatic nature of Chinese reform, and the concentration of many of the most modern production technologies in those SOE not much affected by these latest reforms, while failing to take account of the extent of the *non-state, non-*

private sector. This last development is in fact a uniquely Chinese type of *municipal socialism*. The success and dynamism of this sector is important in understanding likely future developments. It points to the viability of a form of property ownership – '*socialist*' but *non-nationalized* – that is the likely fate of many of the small- and medium-sized SOEs slated for comprehensive reform and the loss of national government subsidies.

Many of the existing TVEs themselves changed legal form during the 1990s, becoming *joint-stock cooperatives* (Sun *et al.* 1999). For most this is only a change of name, although large TVEs are thereby structurally prepared for the possibility of becoming autonomous publicly traded entities in the future. It is interesting to note a sharp movement by previously purely private entities to take on this same joint-stock cooperative form. If the local SOEs are fundamentally reorganized it appears likely that most will end up under the direct control of township and local governments, with some degree of employee ownership. This bears some considerable resemblance to what Stiglitz has advocated as '*privatization to stakeholders*' (1999). Stiglitz suggests that this approach has wide potential application in all of the transition countries. Some attempts to suggest that CEE and CIS countries consider the organizational and behavioural lessons of the Chinese TVE model (McIntyre 1996, 1998) make similar arguments from that direction. Those TVEs that have moved from full local government ownership to joint-stock cooperative form with a mixture of local government and employee share ownership are indeed '*privatization to stakeholders*'.

7. 'ANTI-REFORM REFORMS' IN THE RUSSIAN PROVINCES

Russian provincial experience provides another, quite different challenge to orthodox views of how the transition should proceed. The conventional explanation of the centre-regional dynamic has been that the greater the ability of the Moscow centre to push the pace of reform, the better the outcome. Such reform rhetoric does not fit the actual conduct, motives and wherewithal of the centre during the 1991-1999 period. The progressive weakening of the centre meant that regional and local governments were forced to deal with the fiscal-financial, economic-production and social consequences of policies announced but not financed from Moscow. It is important to note the different ways in which regions managed the specific 'local' features of the national economic crisis.

A number of regions developed policies designed to slow, buffer or even prevent the intended effects of national level liberalization, marketization and privatization policies. The upper Volga region of Ulyanovsk is the arch-typical example of this 'Red Belt' tendency (McIntyre 1996, 1998). These initiatives had complex effects in the rapidly changing and unpredictable environment created by poorly prepared policy actions taken at the national level. These policies came to be seen to contradict the neo-liberal transition orthodoxy, so the central authorities themselves sometimes took active measures to reduce their inconvenient effectiveness.

This approach was not without difficulties, but produced desirable direct (favourable supply and lower inflation conditions, better health and mortality results) and indirect (a low degree of monopolization and criminalization of the supply system) effects on economic performance. These tactics left the regions in question economically and socially distinctive over a long period of time. It is surprising to economists (and other analysts strongly affected by the neo-classical tradition) that the effects of such measures could continue over a more than five year period in which the surrounding all-Russian economic space is believed to have become largely 'marketized'. The natural dynamics of simple markets work to reduce differences between parts of a larger system. In resisting central government pressure to unconditionally accept these all-Russian conditions the local authorities were aided by the relatively weak lateral connections between Russian regions and the limited development of wholesale and other economic infrastructure, but nevertheless had to use the police powers of government to maintain sufficient economic autonomy to allow their semi-autarchic approach to function.

Study of the specific operational details of this 'Ulyanovsk model' shows the self-reinforcing economic logic of the local supply- and demand-management measures adopted. A high degree of local autonomy was widespread in Russia at the time, but both the consistent logic of the measures undertaken in Ulyanovsk and their persistence through time are unique. The economic reasons for success are reasonably clear and centre on: the control and stabilization of local production for local consumption; use of a mixture of price-controlled and price-uncontrolled (but subsidized) markets for consumer goods; and prevention of the simultaneous disruption/corruption of the wholesale and retail distribution channels. Private enterprise was not forbidden in the food and daily supplies sector, but operated within strictly circumscribed conditions and was taxed in a way that generated funds sufficient to allow continued local funding of important aspects of the old system 'safety net'.

The array of policies adopted generally either worked directly on the supply side, involving manipulation or prices, or worked indirectly on the demand side. These other measures were conducted (until July 1996) in an environment where direct rationing of a set of core products took some of the edge off subsistence fears. This reduced demand side volatility – retarding hoarding, reducing waste and making for somewhat more patient, less panic-prone consumers. The number of products covered by formal rationing fell steadily, and the eventual end of the programme was well advertised in advance.

Strict, physically enforced, prohibition was established against the shipment of local output of various 'essential' products outside the Ulyanovsk oblast until local consumption demand had been satisfied. This was enforced by airport, train station and road inspections. As a long-time food exporting region, this meant that even with some decline in oblast output, supplies to the local population could be assured simply by reducing exports to other regions.

Over time this limitation on the access of local producers to 'export' markets became an advantage, since it kept alive their linkage to local retail outlets by way of a local wholesale network. Maintaining a locally grounded distribution system and preventing an atmosphere of lawlessness were both aided by the fact that rationing and price controls were in force through the chaotic first few years of the Russian transition. Because this prevented rapid enrichment by the slowly emerging small business sector it avoided attracting irresistible criminal attention.

When wholesale distribution networks elsewhere in Russia were often refusing to carry local produce to market (due to: the higher profitability *to the wholesaler* of sales of doubly-subsidized EU surplus commodities; the ability of the *wholesalers as monopsonists* to simply *exclude lower margin products or small volume producers*; and interacting criminalization), Ulyanovsk producers faced no such problems. Loss of wholesale distribution has been a major cause of the decline of both agricultural output and small-scale agricultural processing elsewhere in Russia. Along with the effects of generally depressed aggregate demand, this is a major reason why productive SMEs have had trouble taking hold in Russia.

The effects of the continued health of local producers were reflected on the supply side of all three types of markets: rationed; non-rationed but price controlled; and free market. These different markets coexisted, but because of the adequate physical supply of key commodities in the two controlled

channels and the inability to export food products beyond the region until local sufficiency was assured, a dysfunctional dynamic did not develop between controlled and free markets. The regularity of supply further calmed conditions on the demand side, making it easier for the authorities to accumulate supplies for rationed distribution and lowering the local free market prices of those same goods.

This explicitly anti-free-market approach in the short-run allowed the persistence of price and consumption patterns far different from surrounding areas. This would not be true in an integrated market economy. Private firms were not allowed to achieve the position of sole supplier of basic subsistence commodities at 'free' but monopolistically set prices. In this sense SME growth in retail trade was inhibited at the beginning of the transition. Private stores were required to carry both rationed and price-controlled goods, along side more expensive, often imported, alternatives. Private retailers were thus forced to sell some goods at loss- or no-profit-making prices in order to be allowed to sell their profit generating products.

Either because of effective policing or due to the absence of the high profits generated by monopoly leverage on subsistence products, the criminalization of the distribution process characteristic of most of urban Russia did not occur in Ulyanovsk in the early 1990s. A key to this outcome may be the fact that the old retail distribution system was largely retained in non-private hands (in the main city Ulyanovsk, ownership was retained by the city government) for several years and then slowly privatized, leaving the resulting SME retail sector relatively free of the costs and dangers of mafia control.

Transition strategies of this kind are often presented as being dated opposition to the market per se. It is ironic that this approach was not in fact anti-market, but was a good preparation for healthy market functioning, once more normal conditions emerged. A more nuanced consideration of how markets really work in periods of disequilibrium systems transformation suggests that these measures are better understood as a form of *market-wise pragmatism*. This approach has proved to be well designed to allow the eventual emergence of market forces, but only after sufficient time has past to allow adequate infrastructural development to permit their successful functioning.

The combined effect of the variety of price- and supply-control measures adopted in Ulyanovsk was crucial in preventing pervasive criminalization of economic life during the early stages of the transition process. Because

criminalization did not develop and entrench itself earlier in the process, markets are better able to function now. Both supply restriction and (private) monopoly price setting have been largely avoided. This relationship is found in other places, not only in Ulyanovsk (*Kommersant* 1996). Small and medium size enterprises are especially vulnerable to these problems and so disproportionately benefit from a more civilized, law-governed environment where the policing functions are not 'privatized'.

There appears to be a direct relationship between the speed of 'liberalization' and the extent of criminalization of economic life. This experience suggests ways in which market-oriented reforms can be reconciled with Russian conditions (undeveloped market infrastructure and anti-competitive tendencies within the 'market'), while reducing the disruptive effects of liberalization measures adopted at the national level.

8. WHOLESALE TRADE AND MARKET-ACCESS

Productive SMEs cannot succeed without access to potential customers. This is obvious, but unfortunately the role of wholesale trade and other obscure but absolutely vital aspects of market access are seldom directly considered. This is an area where neoclassical economic theory is generally silent, constituting a hole at the centre of our understanding of how the markets within which SMEs live actually function. In the name of symmetry this should be called the 'neo-classical black hole'. Neoclassical market analysis assumes the existence of producers and consumers, and their equilibrium transaction in the market, but treats the distribution link that actually connect them as nothing requiring specific explanation.

Neither the implicit assumption of direct producer-consumer contact nor the milder assumption that producer-wholesaler and wholesaler-buyer markets work as simply as the ideal-typical perfectly competitive model is true. Wholesale distribution is not just another layer of perfectly competitive market interaction in established (institutionally developed) market economies and is further disconnected from reality in transition economies. In the transition process SMEs are struggling to establish themselves in the absence of an adequate institutional framework, one key aspect of which is access to distribution channels.

Six illustrative cases are cited below, the first three from developed capitalist countries and three from transitional countries. We begin by

considering the market-access aspects of two seemingly very different concepts of firm-to-firm relationship: the *Italian-style industrial district*; and the big firm-supplier linkage of the classical post-World War II *Japanese keiretsu*. What the large firm-small firm relationship provides in both cases is an organized and reliable path of market access for small entities. In the Italian case, the small firms of an industrial district may explicitly combine resources to carry out marketing, design or export promotion projects that none could afford alone. In Northern Italy (and Southern Germany) the pattern of small enterprise development, often described by the term '*industrial district*', provides a number of examples of the development of synergistic relationships both within the SME sector and between the SMEs and the local-area large enterprises.

External economies of agglomeration and scope played a large role in the success of small-scale industrial development in other places, including 18th Century England and 19th Century New England. When Alfred Marshall first used the term industrial district, it was presented as common sense, literal description of *regions where a particular industry was prevalent and where a structure of small supplier, service and user firms had arisen as a result*. Once established this environment conferred certain advantages on each participant, even if they thought of themselves as market alternatives and rivals rather than colleagues in a cooperative enterprise (Lazonick 1991).

It is nonetheless often surprising to find such small firms successfully surviving in a world economy dominated by large firms. Northern Italy provides many successful examples of this alternative path. Within the Italian industrial districts *purpose-built alliances* and *sub-contracting* relationships often developed, which include both horizontal and vertical linkages. Cooperation has been especially important in achieving export success for products such as speciality fabrics and other luxury goods and in niche markets for manufactured products such as packaging, processing and sealing machinery. It is important to look at the microeconomic features of such relationships and analyse the extent of their promise under transition conditions. The role of trust and long-term personal relationships in permitting or facilitating these Italian developments should be evaluated to determine its relevance to transition conditions. Informal networks and personal relationships from the planned system could perhaps be revived and reshaped to provide the basis for '*industrial district*'-type cooperation.

Relationships like this can be found all over the world, often lacking only the formal name. Both Italian-type industrial districts and Japanese *keiretsu*

provide market access for small firms. The latter goes further and creates an organizational core for associated small firms, including direct provision of technical and design assistance, quality control advice, credit and other financial services. The Italian industrial district have unique features which are path dependent and have been built up slowly over time as successful working relationships developed, but they are nonetheless functionally like some aspect of the production associations of 1970s-1980s within partly reformed centrally planned economies (the classic example being the GDR *kombinate*). The relationship between the *keiretsu* and their supplier networks is also similar, especially after the Ministry of Foreign Trade and Industry (MITI) in the 1950s, forced large firms to abandon an American-style large firm-small firm relationship. The *government-mandated supply chain relationships* soon came to be seen as a crucial competitive advantage for Japanese firms and were actively copied all over the world.

A very different illustration of the importance of access to distribution is provided by the consumer product 'UN-GLUE-IT' in the United States market. UN-GLUE-IT is a universal, temporary solvent for removal of stick-on price and other labels. It works, is patented and is simple to produce, but proved to be impossible to successfully market in the US over a period of years. Large chain store distributors work with a rule of thumb (no contracts with any supplier that does not provide them with at least 3 different products) that makes it hard for a small firm to successfully market to a very thin market. This is a vivid, odd example of economies of scope in consumer goods 'production', defined to include marketing.

Central and Eastern European countries in the 1990s provide a number of good examples of the institutionally specific features of the distribution system and of the importance of market access in transition. In a number of cases there was movement from *price controlled duopoly to unregulated private duopoly with foreign owners and foreign supply support networks*. In a series of countries, including the Czech Republic, Hungary and the former GDR, the old system distribution systems for food and household products were price-controlled duopolies. Two complete national networks of retail stores existed, one standard state property and the other like a Western consumer cooperative. There were thousands of local retail sites, but each belonged to one or the other system. In the transition process each of these direct distribution and wholesale systems were often taken over by a single Western food company, resulting in a new duopoly arrangement with two crucial structural differences: (1) price controls were no longer in place; and (2) the western buyers made the new acquisitions part of existing

wholesale distribution networks based on large automated warehouses in western Europe.

It was in some sense easier (the word efficiency must be used cautiously here) for the new owners to simply expand the volume acquired of existing Western products. Also the EU double-subsidy on many SME products created a strong additional reason to retain 'western' suppliers. The result was that local producers lost access to retail shelf space and exposure to the process of consumer choice in their own countries. Consumers in Budapest, for example, were at one point offered only French milk and pork – products in which Hungary was an established world-quality level producer. The implications for the local producers of all manner of food, processed food and consumer products (cleaning aids, cutting boards, brooms, etc.) were strongly unfavourable. It was ironic that by the time consumer taste began to clearly express a preference for pre-transition formulations and brands, the resulting revival of 'East' brands often occurred when they were no longer locally owned or necessarily even locally produced. These 'retro' products were sometimes even presented to consumers in a physically segregated setting.

9. CONCLUSION: POLICY IMPLICATIONS OF SME RESEARCH

This Working Paper has discussed *mixed systems* in which SMEs functioned successfully in the presence of extensive state ownership of large enterprises and even classic Soviet-type central planning. A series of past and present examples are considered in which a *small enterprise system* worked around, with, and in the interstices of, large enterprise systems made up of state-owned enterprises (SOEs). If SMEs could survive, and even in some cases thrive, under such fundamentally 'hostile' old system conditions, it is at least superficially puzzling that their experience in transition has been so difficult and at best mixed.

It is useful to consider these examples from two opposite perspectives. First, they suggest that it is important to study the character of the actual links and working relationships between large and small enterprises. Second, these examples suggest that there are opportunities for SME growth in even those transition environments that diverge far from free-market conditions. One explanation of the extent of difficulties encountered

thus far (McIntyre 2000) is that ideological predispositions and assumptions, about what would happen automatically in transition, led to failure to build up the policy and institutional framework necessary for real SME success. It is clear that 'success' does not come automatically and that an active SME policy is vital. It is also clear that when such measures are not built-in at the beginning, the road becomes much harder and must overcome new problems. Several of these other large issues and problems are discussed below.

The macro environment of SMEs -- Poland vs Russia: The very different macro policies followed in Poland and Russia had direct and sharply different implications for the SME. In addition to a long and unbroken tradition of fully private urban and rural SMEs, combined with transition period policies favourable to SME growth, Poland had the overwhelming important policy trio of generally expanding aggregate demand, relatively healthy large enterprises and continued normal use of money as a medium of exchange and store of value. In Russia, to the extreme contrary, and in especially unfavourable ways to the SME, all of these conditions were reversed. The reasons why this is especially unfavourable to SME in Russia are obvious, once the structural features are made clear. No barter is possible for most SME firms, so for this reason alone they are at a very serious competitive disadvantage.

Poland applied serious 'shock therapy' and deflationary macro-policy in the first two years, but abandoned this course (in fact if not in rhetoric) before irreversible developmental damage occurred (Kolodko 1999, Kolodko and Nuti 1997). After the resulting political debacle of the first Solidarity government, Poland quickly adopted and maintains a modulated and socially sensitive strategy which concentrated on commercialization rather than privatization of SOEs, and helped by massive debt forgiveness and relatively generous access to Western markets, moved to a gradual and politically stable transformational path.

In Russia careless and poorly prepared 'shock' measures under acting Prime Minister Gaidar, were followed by a large enterprise privatization process that had almost entirely destructive economic effects, encouraging asset stripping and private appropriation (and flight abroad to personal accounts) of company revenues, while denying to the state the tax receipts necessary to continue to function in a normal civilized manner. Macroeconomic policy was equally disastrous, following an obsessional monetarist path to a point where (in addition to a catastrophic and unprecedented collapse in

production, living standards and health) normal money-mediated exchange ceased to exist in many parts of the country.

Criminalization as a by-product of anti-institutional 'reforms': The phenomenon of *embedded criminalization caused by transition* is among the most vivid examples of the misguided character of policy driven by unprepared liberalization and 'faster-is-better' ideology. Only when the institutional basis for protection of the physical premises and contractual rights of small business owners is already in place or is very quickly developed and assertively applied, does this criminalization dynamic not emerge.

The immediate short-run microeconomic effects of criminalization are raised costs and a foreshortened time horizon among SME decision-makers, not to mention the pernicious cultural effect of establishing the common belief that business success is evidence of criminal conduct directly or through the use of hired services. Once pervasive criminality becomes embedded in the informal working arrangements of society it negatively affects the future viability of small-scale activity. Large organizations can afford to include security services among their administrative overhead.

The transition process has been sharply different from place to place. In each it demonstrates strong *path-dependent* features -- actions taken at one time have effects and implications that cumulate through time, enabling and foreclosing options in ways that are not always easy to understand (Stark 1992, 1997).

Institutions are more than policies: Clearly institutions matter, but not in any simple sense of the words. At the micro- and mezo-levels, it is not the existence of a legal code and court system, but the broad acceptance of this system as the actual forum in which disputes are to be settled. It is not the existence of a wholesale distribution network, but the terms of access to this system by small-scale producers. At the mezo- and macro-levels, the foundation of small productive enterprises produces little or no ultimate effect if their putative customers are in a fiscal crisis that inhibits or prevents expenditures. This is true regardless of whether the demand reduction is for inputs by SOEs (fragmented and damaged in a process of hasty privatization) or for consumer goods by the general public (whose current and expected incomes have been repressed by contractionary monetary and fiscal policy).

Policies which target the SME without attention to these surrounding conditions are unlikely to have substantial and long-lasting positive effects. Programmes designed to provide direct assistance to SME often end up mired in corruption, high overhead costs and efforts that ultimately serve other than announced programme interests (Wedel 1998).

In some transitional economies there has been a lack of market-facilitative actions by the state, despite active use of the rhetoric of the 'market'. Some market-friendly reputations come from manners western education or simple skill in telling Western advisors what they want to hear. Other countries that have anti-free-market reputations may have nonetheless made some orderly step toward the market. Simple resistance to Western penetration or control of local resources on concessionary terms is sometimes sufficient to create such an anti-market reputation.

It is important to look beyond these stereotypical images and try to see the actual connections between policies and outcomes. Certain main themes that have appeared in SME development during the transition process can be presented by means of the dichotomy between: *Liberalization without Adequate Institutional Development* vs. *Development of Markets without Full Liberalization*.

REFERENCES

Aslund, Anders (1985), *Private Enterprise in Eastern Europe: The Non-Agricultural Private Sector in Poland and GDR, 1945-83*, New York, St. Martin's Press.

Ball, Alan (1984), 'Lenin and the Question of Private Trade in Soviet Russia', *Slavic Review*, 43, 3: 399-412.

Ball, Alan (1987), *Russia's Last Capitalists: The NEPMEN, 1921-1929*, Berkeley, University of California Press.

Bandera, V. N. (1963), 'The New Economic Policy (NEP) As An Economic System', *Journal of Political Economy* 71, 3: 265-79.

Bandera, V. N. (1970), 'Market Orientation of State Enterprises during NEP', *Soviet Studies* 22, 1: 108-22.

Chang, Ha-Joon and Peter Nolan (eds) (1995), *The Transformation of the Communist Economies: Against the Mainstream*, New York, St. Martin's Press.

Grabher, Gernot (1992), 'Eastern 'Conquista': The 'Truncated Industrialization' of East European Regions by Large West-European Corporations', in Ernste, Huib and Verena Meier (eds), *Regional Development and Contemporary Industrial Response*, London, Belhaven/Pinter, pp. 219-232.

Grabher, Gernot (1995), 'The Disembedded Regional Economy: The Transformation of East German Industrial Complexes into Western Enclosures', in Amin, Ash and Nigel Thrift (eds), *Globalization, Institutions, and Regional Development in Europe*, Oxford, Oxford University Press.

Granick, David (1990), *Chinese State Enterprises: A Regional Property Rights Analysis*, Chicago, The University of Chicago Press.

Gregory, Paul R. and Robert C. Stuart (various years), *Comparative Economic Systems*.

Kolodko, Grzegorz W. (1999), *The Political Economy of Post-Socialist Transformations: From Output Collapse to Sustained Growth*, New York, Oxford University Press.

Kolodko, Grzegorz W. and D. Mario Nuti (1997), 'The Polish Alternative: Old Myths and New Strategies in the Successful Transformation of the Polish Economy', Research for Action, 33, Helsinki, UNU/WIDER.

Lazonick, William (1991), *Business Organization and the Myth of the Market Economy*, Cambridge, Cambridge University Press.

McIntyre, Robert (1988), 'The Small Enterprise and Agriculture Initiatives in Bulgaria: Institutional Invention Without Reform', *Soviet Studies* 40, 4: 602-615.

McIntyre, Robert (1989), 'Economic Changes Without Conventional Reform: Small-scale Industrial and Service Development in Bulgaria and the GDR', in Weichhardt, Reiner (ed.), *The Economics of Eastern Europe Under Gorbachev's Influence*, Brussels, NATO Economics Directorate, pp. 80-104.

McIntyre, Robert (1996), 'Regional Variations on Russian Chaos: Price Controls, Regional Trade Barriers and other Neo-Classical Abominations', *Communist and Post-Communist Studies* 29, 1: 1-7.

McIntyre, Robert (1998), 'Regional Stabilisation Policy under Transitional Period Conditions in Russia: Price Controls, Regional Trade Barriers and Other Local-level Measures', *Europe-Asia Studies* 50, 5: 959-871.

McIntyre, Robert (2000), 'Russian Economic Reform and Decentralization: Local Development Lessons from the Failure of Neo-Liberal Reform in Russia', in *Beyond Transition: Ten Years After the Fall of the Berlin Wall*, Bratislava, UNDP/RBEC/CESTRAD, pp. 36-45.

Naughton, Barry (1995), *Growing Out of the Plan: Chinese Economic Reforms 1978-1993*, Cambridge, Cambridge University Press.

Nolan, Peter (1995), *China's Rise, Russia's Fall: Politics, Economics and Planning in the Transition from Stalinism*, New York, St. Martin's Press.

Parsons, Talcott (1937), *The Structure of Social Action*, New York, McGraw-Hill.

Perotti, Enrico C., Laixiang Sun and Liang Zou (1998), 'State-Owned versus Township and Village Enterprises in China', WIDER Working Papers No. 150, Helsinki, UNU/WIDER.

Pickel, Andreas (1992), 'Jump-starting a Market Economy: A Critique of the Radical Strategy for Economic Reform in Light of the East German Experience', *Studies in Comparative Communism* 25, 2: 177-191.

Pryor, Frederic L. (1985), *A Guidebook to the Comparative Study of Economic Systems*, Englewood Cliffs, NJ, Prentice-Hall.

Stark, David (1992), ' "Path Dependence" and Privatization Strategies in East Central Europe', *East European Politics and Societies* 6, 1: 17-51.

Stark, David (1997), 'Recombinant Property in Eastern Europe', in Grabher, Gernot and David Stark (eds), *Restructuring Networks in Post-Socialism: Legacies, Linkages, and Localities*, Oxford, Oxford University Press, pp. 35-69.

Stiglitz, Joseph (1999), "Whither Reform? Ten Years of Transition", Annual Bank Conference on Development Economics, Washington DC, The World Bank. <http://www.worldbank.org/knowledge/chiefeccon>

Sun, Laixiang (1997), 'Emergence of Unorthodox Ownership and Governance Structures in East Asia: An Alternative Transition Path', *Research for Action* 38, Helsinki, UNU/WIDER.

Sun, Laixiang *et al.* (1999), 'The Evolutionary Dynamics of China's Small- and Medium-sized Enterprises in the 1990s', World Development Studies Series 14, Helsinki, UNU/WIDER.

Wedel, Janine (1998), *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe 1989-1998*, New York, St Martin's Press.

Weitzman, Martin and Chenggang Xu (1994), 'Chinese Township-Village Enterprises as vaguely Defined Collectives', *Journal of Comparative Economics* 18, 2: 121-145.

Wiles, Peter (1977), *Comparing Economic Systems*, Oxford, Basil Blackwell.

last page without page numbering