

**AN INQUIRY INTO THE NATURE AND PROCESS  
OF  
THE RECENT  
PRIVATIZATION AND ECONOMIC REFORMS**

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## ABSTRACT

It is the dialectical nature of our economic thought and observation of a *Real Functioning Economy* by the *Psychological Method* that created the impression of a Socialist Economy and a Capitalist Economy as opposing forces in moving society into a new synthesis.

There is another way of calling *Dialectics*. We can call it *Trialetics* or *The Law Of Three* which is an esoteric law of the forces of change in Man who in turn acts on society. It is the push of economic thought and economic materialization. However, this law coats itself with economic " concentrations " at every unity of Three and forms the more or less stable economic or business units which are active everywhere on earth in accordance with another law, The Law Of Octaves. This law and the Law of Three are responsible for the creation and materialization of the Tree Of Economic Possibilities. It is because of this second law of octaves that the clear-cut division of Capitalism and Socialism in the Real World becomes very difficult.

It seems that the consequences of all the economic octaves and inner octaves have created such a wonder in the Real World Economy with all its business organs that the dialectics behind them is not clearly noticeable. And it should be because one is inner and the other is outer, one is essence the other is the external forms due to human realization.

Behind the static and formal logical economic headings of this work, one will soon notice a deep philosophical musing.

April 24, 1992

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## I INTRODUCTION

THE MOST REMARKABLE SINGLE EVENT in the economic and political history of mankind during the end of the twentieth century is the recent Privatization and Economic Reforms. It is happening on a global scale before our very eyes.

Initially, when the changes came into our consciousness, everyone thought that economic and political reforms must go hand in hand; the two variables (economic and politic) are inseparable. However, recent trends reveal that the two variables can be quite independent. This is self - evidence from the changes that is going on between China, North Korea, Vietnam and Cuba on the one hand, and that of Commonwealth of Independent States (CIS; previously, known as USSR) and the East European Countries on the other hand.

What we are seeing is one of, if not the most, remarkable event of the twentieth century (U.S. President, Bush, October 1991). Nay more, one can also witness many mini-economic reforms, known as "Privatizations", taking place silently in many capitalist countries in the world whose public sectors have over grown in size.

Why is it important to investigate this issue of Privatization and Economic Reforms?

Firstly, it is the biggest single recent event reported and followed up on by event newspaper and most magazines in the world.

Secondly, a chance for ending the cold wars and also the catastrophic nuclear war.

Thirdly, a chance for economic and political cooperation between the so-called Capitalist and the Socialist blocks.

Fourthly, a chance for peace and well - being.

Fifthly, a chance for the survival and the propagation of the human species.

My aim of writing this research paper is three - fold:

Firstly, to satisfy my inquisitive mind of longing to understand the essence of this phenomenon of privatization and economic reforms which the world is now living through.

Secondly, to attract other curious minds into thinking about this remarkable event.

Thirdly, for the well-being of all earthly beings in their quest for privatization and economic reforms.

The procedure used in researching this topic include:-

1. Daily collection of information and data related to the issue of privatization and economic reforms from as many sources as possible and within my reach.
2. Examining theories in books concerning economy, politics, management, finance, marketing, business strategy and policy, organization behavior, business statistics, books relating to socialist economy and philosophy.
3. Analyzing, classifying and synthesizing the information and data into meaningful pattern, showing connectedness and presenting it in a comprehensible manner.
4. And to deal with the essences of the phenomenon, drawing general conclusions and perhaps recommendations for the readers.

Generally much reflection is important to reveal interconnectedness. Very few people would have suspected that there is also a parallel process of privatization and minor economic reforms occurring naturally (of course Z) in many other countries which are essentially not socialist.

This research paper should never be treated as something flawless. The risk of taking only a small amount of information and speedily seeking a "gestalt closure" is always there. The whole system of concept, viewpoints, principles, opinions and thought angles might prove to be immature and defective as truth gradually and historically unfolds itself in those nations which are currently experiencing, independent of their wills, the reverse of nationalization, i. e. privatization and economic reforms in that direction.

The future is for us and our future generations to see. The past was, the present is and the future is unknown. Whatever changes in this great trend, the truth of which must appear. Essence must appear. (G.W.F. Hegel, Wissenschaft der Logik)

## **II. DEFINING THE ISSUE AND HISTORICAL BACKGROUND CONSIDERATION**

An inquiry into the nature and process of privatization and economic reforms would indispensably commence with the very basic definitions of the issue. Privatization and economic reforms would be defined and the relations between the two would be considered.

Understanding the historical background in terms of economic systems and the relations thereof is vital to know the present. This requires scanning the essence of the capitalist world economic system, the socialist world economic system, the convergence theory and the process of world economic integration.

### **1.0 Definitions**

Privatization and economic reforms are improvements and changes for the better to the defects and shortcomings of the current economic realities facing the world. It is independent of the types of economic system a nation might claim itself to be. Privatization involves an extension of the flow of economic activities and state businesses towards the masses, but it is unlikely to fulfill the principle and ideals of the democratization of economy because the truth is that only a handful of favored people or the lucky ones would ultimately get the ownership benefits.

When the growth of giant size organizations such as state organizations have reached their maximum size, further growth becomes impossible except by employing different methods and strategies. Privatization and economic reforms are just these methods and strategies. They prove to be able to fill in certain empty economic spaces within the national boundary and later in other nations too.

### **1.1 Privatization**

Privatization is an economic process proceeding from the state down to the levels of the individual. It involves incorporation of the state economy, the issue of the incorporated state enterprises shares, joint ventures (private, government levels, local and international), authorization, contracting, leasing, licensing, transfer of factors of production into the hands of the people and a general liberalization of economic activities.

Privatization and nationalization are two economic moments moving in opposite directions. When nationalization matures, privatization begins. The elliptical process goes on and on. Monopolization is a similar process analogous to nationalization; de-monopolization is parallel to privatization.

## **1.2 Economic Reforms**

Economic reform is a broad-based (nationwide) process to economic reconstruction initiated by the state down to the individuals. It involves restructuring ownership of factors of production, decentralization, restructuring markets, changes in international economy, changes in strategic management, income distribution and changes in super-structural variables such as social responsibility, political structure, laws and government and cultural changes in a minor way.

Two distinct patterns of reforms have been witnessed in the recent events of global economic reforms. They are:

1. Economic reconstruction without significant changes in the political structure as in China, North Korea, Vietnam and Cuba.
2. Economic reconstruction with significant political/legal reconstruction as in the Soviet Union and the East European Countries.

There is also a group of mini-economic reforms, often called "privatizations", that have been going on in many capitalist countries which follow a pattern similar the above, i.e. without any significant changes in the political structures. They are pure economic reforms.

## **1.3 The relationship between Privatization and Economic Reforms**

Economic reform is a very comprehensive process that involves every aspects of a social economic system of which privatization is only a small but significant part of it.

Economic reform is a movement into the future, the unknown which is unfolding. There is a reconstruction of the known economic factors including privatization and an ideal goal of perfection. It needs not be advancing towards capitalism as capitalism is advancing towards some perfection ideals. Modern capitalism itself is loaded with the problem, of oligopoly and monopoly (of huge gigantic corporation whose assets can be greater than a nation) and has become too "public". Developed capitalism is also facing privatization. Both are active process of improvements on the defects which have gradually unfold themselves in the course of the development of the socialist and the capitalist systems of economy. Managing privatization and economic reforms, irrespective of the kinds of economic system a country happens to be, is a noble activity at improving the economic wellbeing of a nation and its citizens.

Economic reform is a term we generally used to refer to the economic reconstruction in the socialist countries, and privatization to the capitalist countries. Privatization is one of the inner octaves of Economic Reforms, therefore, the term would also be used in the socialist countries.

In the course of privatization, normally assisted by anti-trust laws, the existing alienation of forms of property is gradually removed. There is a process of distribution or redistribution of ownership to as many private individuals as possible through economic exchanges in the market and other ethical as well as unethical means. Privatization is essentially due to scarce resources shared by many and the existing conditions of uneven allocation of resources and ownership. This might lead to adverse effects in the future because of the operation of the law of factor ownership cycle.

## **2.0 Historical Background**

The essence of economy is the economy of scarcity. And every economy, regardless of whatever political philosophy, ideology or superstructures, must answer the three basic questions of allocation:

1. What goods or services should be produced?
2. How should the goods and services be produced and distributed?
3. Who receives the goods and services that are produced?

An economic system is an organized method of producing and distributing goods, services and resources in a society that answers these three basic questions. Investigation indicates that there are two main characteristics of economic systems:

### **1. Ownership of Resources:**

- i) Private and controlled by firms or individuals
- ii) Government owned and controlled
- iii) Socialist ownership in government trusteeship
- iv) Collective ownership in which a group of individuals jointly own a resource

### **2. Decision-making:**

Made by management of the firms through the markets or by the collective decisions of the participating individuals

Based on these two criteria, three alternative economic systems can be developed and we called them Capitalism, Socialism and Communism. However, observation shows that only two such systems exist in the Real World, and they are Capitalism and Socialism. An important point to note is that there are no purely capitalist economies or socialist economies, although natural movement shows the transition of capitalism to socialism, conscious engineering shows that man can build some capitalism into socialism and some socialism into capitalism.

## **2.1 The Capitalist World Economic System**

The capitalist economic system is an economic system that is primarily based on private ownership of resources and allocative decisions made through markets.

According to Orley M. Amos, JR., a capitalist economic system does not mean the government owns no resources, nor does it mean that the government makes no allocative decisions.

Historically, the capitalist economic system has replaced the feudal economic system more than 200 years ago because of its supremacy as a more viable economic system. Less than 100 years ago, saw the emergence of the socialist economic system taking the place of many failing capitalist systems. The recent privatization and economic reforms witnessed the re-emergence of some degree of capitalism.

## **2.2 The Socialist World Economic System**

The Socialist Economic System is an economic system that is primarily based on the government ownership of resources and allocative decisions made by the government.

Socialism, like capitalism is a matter of degree. It is either more of government ownership less of private ownership, or more of private ownership less of government ownership. Socialism itself can exist in a capitalist oriented economy and capitalism too can exist in a socialist oriented economy.

Even the Soviet Union, China and all East European Countries which are functioning socialist economies allow some private ownership of resources and individual decision making for the enterprises.

## **2.3 The Convergence Theory**

The Convergence Theory was initially thought of as a hypothesis in the 1960's when researchers investigated socialism and capitalism.

The Convergence hypothesis states that common economic forces will eventually make capitalism and socialism indistinguishable from each other and a new type of economic system would take place. (Orley M. Amos, JR.) This new integral type of economic system combines the centralized government controls and decision makings in socialism with the freedom of choice and extensive use of markets in capitalism.

The current economic reforms in CIS, China and all the East European countries and the current privatization in countries like Malaysia, Singapore,

Philippines, Indonesia, Pakistan and others indicate that the convergence hypothesis is more of a fact than just a hypothesis.

The proponents of the convergence theory hold that economic systems can achieve rapprochement through

1. Gradually overcoming their own shortcomings and
2. Adopting the positive features of the other system

The result is that each system learns from each other and overcome their weaknesses, influencing and integrating with each other more and more. The idea of borrowing from each other is the essence of the convergence theory in action. In fact, the convergence process has been going on for a couple of decades, the current outcry of privatization and reform is merely a fleeting historical moment of a real global process of world economic integration. The truth is the whole. (G.W.F. Hegel)

A prominent American sociologist, Pitirim A. Sorokin, has developed the convergence theory in the broadest manner in his "Basic Trends of Our Times", published in 1964. He examines convergence in its following aspects:

1. Natural sciences and technology
2. Social sciences and humanities
3. Philosophy
4. Ethics and Criminal law
5. Education
6. Sports and recreation
7. Fine arts
8. Religion
9. Marriage and family
10. Economic system
11. Social relationships
12. Political system

His purpose is to discover a rapprochement between the two systems. Sorokin's conclusion is that, "if mankind avoids new world war and can overcome today's grave emergencies, the dominant type of the emerging society and culture is neither capitalist nor communist but a type sui generis which can be designated as the INTEGRAL TYPE".

The convergence conception is a vital category for linking the changes in the two basic economic systems in the world today.

## **2.4 World Economic Integration**

Although there are fundamental differences between the two systems, the convergence theory suggests that there are many similarities as well. World economic is inevitable when economic interactions are prolonged. The desire

for international trade, for fresh markets, for investments, economic aids, for technologies, for management know-hows and many other benefits is truly tempting.

The assimilations of the positive characteristics of each systems and the removal of barriers characterize the movement towards world economic integration. The positive characteristics of capitalism such as free and healthy competition in the markets and the positive characteristics of socialism such as free and healthy competition in the markets and the positive characteristics of socialism such as "*From each according to his ability to each according to his WORK*" may well be assimilated. The greater obstacle is the barriers which could originate from economy, politics, legal, socio-cultural, ideological and emotional factors.

### **III THE IMPACT ON OWNERSHIP AND FORMS OF ECONOMIC ORGANIZATIONS**

In order to discuss the impact of privatization and economic reforms on ownership and forms of economic organization, the range of the well-established classical forms of business organizations which have been formed and consolidated under capitalism such as Sole Proprietorship, Partnership, Corporation and Cooperative has to be extended to include State Enterprise, Collectivite, State Farm and Commune.

Privatization and reforms cause these economic units to become more and more like business units. According to the previously discussed rule of ownership allocation and methods of decision making, these business units would assume two characteristics – capitalistic if the ownership is in the hands of a few individuals in the business unit, and socialistic, if the ownership is more equal or common. It does not matter if the ownership is done through the tool of shares. The essence is the way the shares are accumulated in the corporation.

A corporation is a unique business enterprise, a hybridization of the capitalist-socialist economic forms, and an intermediate being. The rule for ownership consists in the generations of millions upon millions of shares appearing on the surface that every citizen on earth could at least get one share. If the ideal of every citizens of the world having equal number of shares of equal value from all the corporations in the world could be realized, then we would have a truly perfect society in the ownership sense. However, the law of accumulation would render this ideal utopic.

The reformers' aim is to return the state-dominated economy to the private sector, removing the state from active business, creating a new middle class of entrepreneurs and shareholders and to raise revenue in cash forms through business transactions and creation of a balance of various forms of business units (capitalistic vs socialistic) in the mixed economy.

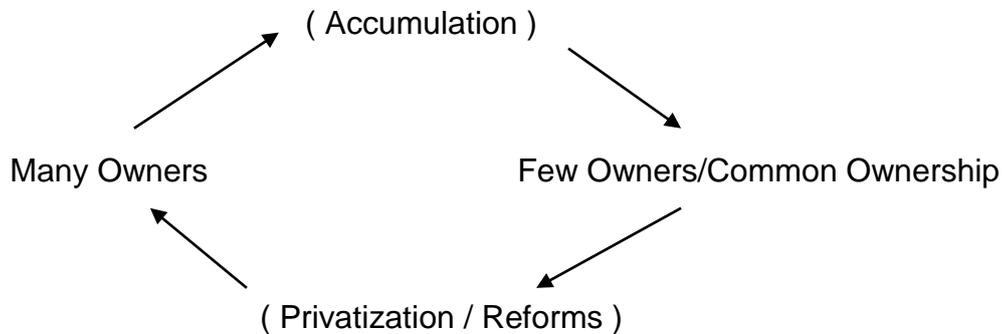
#### **1.0 The Factor Ownership Cycle**

The ownership of tangible "things" of value is an indication of one's material wealth and riches. The more you own, the wealthier you are. True wealth comes with the true ownership of a substantial amount of both the material and spiritual wealth. However, in economics we have to deal with material wealth both tangible and intangible. The unlimited desire for greater possession is one of man's strong impulses. It is also a major cause of countless troubles in the history of mankind. The problem of economic scarcity has added more fuel to this fundamental trouble.

#### **The Factor Ownership Cycle:**

This cycle is a simple concept, easily comprehensible but requires a lot of statistical data to verify its existence. However, intuitions or perhaps

"macro-seeing" and sensing are vital to become aware of its presence because the cycle is slow and uneven, happens everywhere and even moves back and forth.



### **THE FACTOR OWNERSHIP CYCLE**

**First Stage:** Few Owners / Common Ownership / No owners.

No ownership rulings for man yet. Legal ownership as accounted and recorded in documents is only beginning. This is probably the beginning of society where man's sense of property and ownership is truly primitive and very simple. It was many thousand years ago. This is type I.

Few owners; advanced stage of monopoly. Factors of Production and Distribution are owned by a few billionaires, or a few giant corporations of the most advanced specimens. The number of employees in the world is very very big. This is type II.

Common ownership; socialist ownership; state ownership; looks like but can be said as a monopoly and at the same time not a monopoly; everyone seems to own it; strong tendency to grab it. This is type III. Second Stage: Many Owners.

Many people own factors, i.e. and, labor, capital, entrepreneurship, and other forms of property for business; good and healthy competition is the basic rule (capitalistic competition); economic friction period.

**The Two Processes:** Accumulations and Privatizations (economic reforms)

The process of accumulation of scarce resources leads gradually to the elimination of many competitive owners of factors. It is a long process towards monopoly, state ownership or common property. Accumulation leads to fewer

owners in the long run because more and more people are transformed into employees or propertyless class.

The process of privatization gradually brings back more owners although not everyone would have the chance. However, there is a rapid movement towards ownership by many people. *Privatization In-a-Hurry* is the objective of CIS and many East European Countries. Privatization at a rate of Margaret Thatcher (Ex-Prime Minister of U.K.), according to East European Finance Ministers, would take 400 years to create a Western-styled private sector. And there is no guarantee that the Western style private sector, under the law of Factor Ownership Cycle, would be the last economic form for mankind. The anti-monopoly and the anti-oligopoly movements are forces of the privatization of huge corporations and private companies. The process of Few Owners to Many Owners needs not necessarily pass through a period of state ownership.

## **2.0 The Impact On Factor Property Ownership**

Factor property ownership is ownership of factors of production (land, labor, capital and entrepreneurship) and ownership of goods and services in the *factor and consumer markets*.

Privatization and economic reforms will increase the number of private ownership of factor property and the goods and services in the factor and consumer markets. Besides owning personal property, an individual can also develop and own factors or to provide goods and services for the consumer markets.

The directions of privatization can occur in 3 ways:

1. Privatization whereby forms of the state property are transferred gradually to forms of private property. In this case, the enterprise is owned by one person or partners and in it there will be employees who are not owners but mere wage earners. Decision making will not be based on democratic principles, but rather on the absolute rights of the owners.
2. Privatization whereby forms of state property are transferred gradually into enterprise property registered as business enterprises. In this case, the enterprise is a corporation, a cooperative or common ownership enterprise with profit motives. Decision making would have to be based on democratic principles.
3. Joint-ventures between the state, and local private sectors, between the state and state and foreign private sectors, and between states. Decision making would depend on a variety of factors.

The ripeness for privatization and economic reforms, the point whereby the potential for transformation in the Ownership Cycle in the Soviet Union and the

East European Countries, its urgency is best described by Mikhail Gorbachev in his " Perestroika ":

"Public property was gradually fenced off from its true owner - the working man. This property frequently suffered from departmentalism and localism, becoming a no man's land and free, alienation from the property of the whole people, of lack of coordination between public interest and personal interest of the working person. This was the major cause of what happened."

### 3.0 The Impact on Personal Property Ownership

Personal property ownership includes ownership of all personal properties from consumption (not for business or production purposes) which are purchased from the consumer markets.

Both privatization and economic reforms in the long run will add greater varieties and qualities of goods and services in the consumer markets in a more efficient manner. There is a chance for all to enjoy the consumption of these better quality goods and services. The only significant impact on personal property in terms of owning and consumption is quality products and services, varieties and state regulations as to amounts to be owned by the individuals.

#### FORMS OF ORGANIZATION

Below is a table showing the various forms of organization and the direction of privatization.

	<b>Organization Type</b>	<b>Ownership</b>	<b>Decision Management</b>	<b>Nature of Labor</b>
1	Sole Proprietorship	Single Owner	Decided by Owner	Hired Labor (autocratic)
2	Partnership	Partners	Decided by partners	Hired Labor (autocratic/consultative)
3	Corporation	Shareholders	Shareholders' vote for Management; bureaucratic	Hired/appointed/ elected depends on the levels
4	Cooperative	Member Shareholders	Member Shareholders vote, bureaucratic	Hired/appointed/elected depends on the levels
5	State Enterprise I	Government	Bureaucratic; Centralized	elected party/ appointed/hired.
6	State Enterprise II	Socialist Owner	Centralized (Bureaucratic) revolution/ Factory democracy	placed party/ factory election/"illegal" to called labor as hired

One of the greatest impacts of economic reforms and privatization on the composition of the forms of business organization of a nation is the dramatic shift towards the creation of more business organizations which have a private

character. In other words, the proportion of such classical business units like sole proprietorship, partnership, corporation and cooperative would increase speedily. The state enterprises would assume more and more profit-oriented, although the ownership rulings remain practically the same. They become business oriented socialistic business organizations.

The essence of the economic octave of privatization is not a transfer of forms of property into the hands of many people as intended at first but rather, accompanied by instant accumulation and insufficiency of the resources of allocation, it is a transfer of property into the hands of fewer people. This is an enigma but it is a fact. If a theory which is clear is sowed in practice, so is the result that is reaped. The shape of the mid-point of repeated privatization is the emergence of a class of people with a lot of property on the one hand and another class of people with very little property on the other hand and the conflicts between them.

Therefore concerning this peculiar economic octave called " privatization" which is one of the many branches of the major octaves of economic reforms, and which deserves special attention for this same octave has led to many revolutions in the history of mankind, it must be pointed out further that it is also an octave of needs of the psyche called "getting-as-much-as-you-can and-don't-bother-about-other-people" and this strange psyche is coated further by another strategic psyche substance called "pay-lip-service-to-everyone."

This same octave may be compared to another *Monkey God* going for a second pilgrimage to the west with all his adventures and treasures and hypnotic economic theories.

The incorporation of the state is the first vital economic note of the reform octave in preparation for economic renewal. This state Inc., is not anymore a Welfare State. It is a business state. Other notes down this octave can be traced. They consist of state enterprises, departments, and all kinds of established social organs. All of which would soon become business-oriented. As to ownership, they are either capitalistic-like or socialistic-like.

#### IV THE PROBLEMS OF PRODUCTION AND TECHNOLOGY

After 1924, under Stalin, the modern Soviet Central Planning System was installed, first in the Soviet Union and then in most East European Countries. The primary objectives were to increase industrial development, agro-industrial productivity and military strength through the development of the fearful military-industrial complex. (Currently, the CIS has in stock about 30,000 nuclear warheads sufficient to destroy a few Americas) Vast amounts of resources were devoted to the production of Capital Goods. Allocation of resources for consumer products was minimized in favor of this capital goods production. This was the urgent philosophy decades ago. It was believed to be relevant for that period when industrialization was the key word. However, it had created a lot of problems later on.

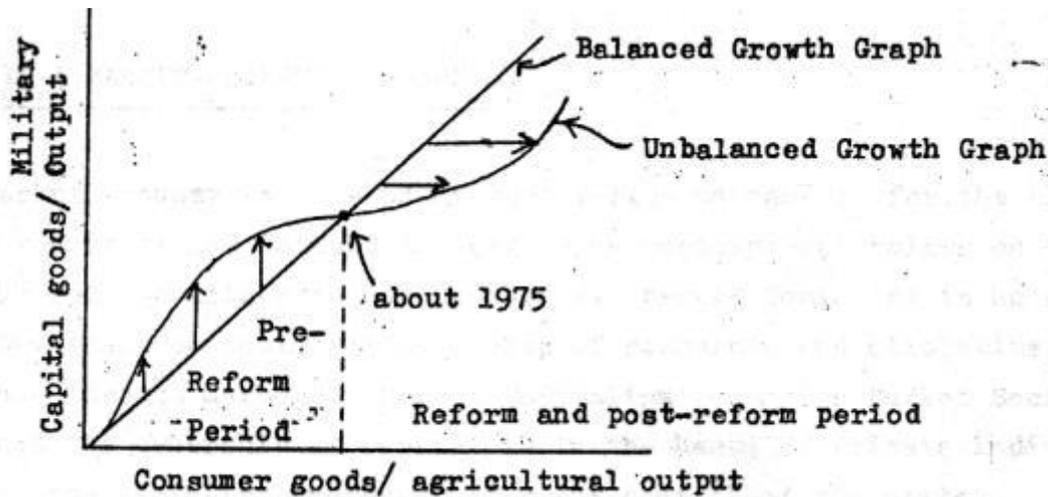
The agricultural sector was still neglected, quality consumer goods and variety was still neglected. Historically, the economic growth rates of most socialist countries have been comparatively high but recently they have fallen. When industrial growth reaches its zenith, the growth rate soon declines. Many weaknesses such as falling productivity, clumsy centralized planning, incorrect input information for planning, overemphasis of quantity instead of quality, lack of motivation amongst the workers, production which does not meet the personal desires of the consumers, corner-ups and red-tapes, problems of power distribution and others began to emerge revealing the fact of the ageing mechanism within the industrial complex.

A summary Table of the various aspects of the economy is given below: -

1. Economic Growth	- <i>Increases at first, decreases later</i>
2. Efficiency	- <i>Increases at first, decreases later</i>
3. Economic Stability	- <i>Stable except during the reform period</i>
4. Equity	- <i>Very good but will be poor during and after privatization and reforms</i>
5. Consumers Choice of Products	- <i>Average and on the lower side</i>
6. Consumer Product Quality	- <i>Average comparatively</i>

## Balanced versus Unbalanced Growth In The Socialist Countries

( Modified from Hirschman's *Strategy of Economic Development*, 1958 )



According to Hirschman's Unbalanced Growth Strategy, favoring an optimal unbalanced growth means to strike out first in one direction (See vertical arrows) and then, impelled by resulting shortages or weaknesses, balance-of-payment pressures, low quality consumer products and many other assorted troubles, to strike hard in the other direction (See horizontal arrows) the outcome is faster and beneficial. Hirschman argues that by traveling along this circuitous route, which is likely to be more costly because of the accompanying shortages and excess capacities, the economy may get faster to the goal.

In the case of the Socialist Countries, the Pre-Reform Era consists of the great vertical thrusts directed towards industrialization and the Economic reform and Post-Reform Era are the horizontal thrusts along consumer objectives.

When the horizontal thrust was about to begin, the Soviet economy had been in a state of imbalance for quite a long time. This can be seen from the fact that 60% of all industrial fixed assets are concentrated in those economic sectors dealing with raw materials and intermediate products. Sectors engaged in meeting people's everyday needs receive virtually nothing - light industry gets approximately 4%, the food industry, 6%. The fact is that too much emphasis is placed on heavy industry and capital goods, and too little is allocated for consumer needs of the people. For this reason, the Soviet Union requested so much foreign aids in the consumer products for the coming Winter.

Analysis also showed that out of the 1.9 trillion roubles' worth of industrial fixed assets, 40% are worn out (Nikolai Ryzhkov's Report to the USSR Supreme Soviet, 1989).

## V. TOWARDS A MARKET - ORIENTED ECONOMY

Market Economy is an economy that relies on markets for the allocation of resources and Command Economy is an economy that relies on the government for the allocation of resources. Market Socialism is an economic system based on socialist ownership of resources and allocative decisions made through markets. Market Capitalism resembles Market Socialism except that the ownership of capital is in the hands of private individuals instead of the socialist property under the control of the state.

The recent privatization and economic reforms transform the existing economy into a market-oriented type of economy which seeks to maximize consumer satisfaction. The market philosophy is essentially consumer centered. Countries like China, Yugoslavia, Romania and others move towards Market Socialism. Practically, all the East European countries, the CIS, China, Vietnam, practice a substantial degree of market capitalism. In future, it will be very difficult to draw a distinct line between the two economic systems from a market approach.

To move towards a market-oriented economy, a socialist economy would require economic restructuring and the use of market principles to run the economy of the country. What does this mean?

It means enterprises that have been formed through privatization and economic reforms would need:

1. To analyze market opportunities which include analyzing strategies, the environment, market targets, market segments, consumer buying behavior, organizational market buying behavior, etc.
2. To make product decisions based on markets: What products? What type of marketing mix and product line? What stage of Product Life Cycle? What brand? What type of packaging and labeling to attract consumers? How to develop and manage products?
3. To make distribution decisions: How to develop marketing channel? How to set up wholesales and retail centers? How to distribute, transport and warehoused products? All these have to be considered in the light of the privatization of the distribution network side by side with the socialist-owned distribution network which has rooted much earlier.
4. To make promotion decisions: How to promote, advertise and gain publicity for these newly established socialist and private marketing enterprises.
5. To make price decisions: How to set prices based on marketing objectives, pricing objectives, costs, marketing mix variables, channel member expectations, buyer's perceptions, competition, legal and regulatory issues.

6. To conduct market research and develop marketing information system and marketing management based on socialist and capitalist marketing.
7. To enter the international markets.

A market-oriented economy has five basic goals. They are:

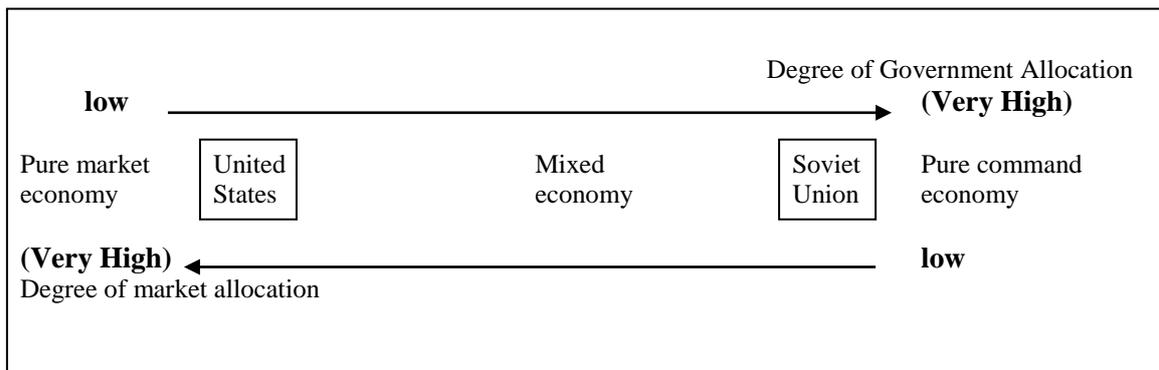
At macroeconomic level:

- i ) full employment
- ii) price stability and
- iii ) economic growth.

At microeconomic level:

- iv ) efficiency and
- v) equity

**Range Of Government - Market Orientation**  
( Modified from Source : Orley M. Amos, JR. )



The diagram above shows the relationship between the two ideal extremes of pure market economy and pure command economy with all the resources allocated by markets and by the government respectively. Real world economies fall between these two extremes. The United States of America and the Soviet Union are the two countries taken to represent approximately the two kinds of economies. The important difference is the degree of market or government allocation. The United States is primarily market-oriented, whereas the Soviet Union is primarily command-oriented.

**1. The Reliance On Markets For The Allocation of Resources And Decision-Making**

Resources are the materials available to the economy for the production of goods and services. They can be limited (available in finite quantities, scarce (available quantity less than its desired use) or free (available quantity greater than its desired use)

Labor (physical and mental abilities) is the human resource used to produce goods and services. Land which includes water, minerals and any resource that occurs naturally is a natural resource for the same purpose. Capital is the synthetic resources used to produce goods and services. It does not occur naturally. Finally entrepreneurship is the specialized type of human resource that assumes the risks of combining factors in the production of goods and services.

Most of the important resources and decision-making in the pre-reform period have been centralized and planned by the state. This was because resources have become socialist property. Naturally, decision-making and allocation would have to be from the CENTER, just like in a gigantic corporation the HEADQUARTER still maintains the central control.

To rely on markets for the allocation of resources and decision-making, decentralization and the creation of many socialistic and capitalistic business units owned individually, privately, collectively or as corporation would have to be carried out. This can be done through re-cost accounting, pricing and SELLING in the local and international market. Instead of allocation alone, selling is also introduced.

The social character of Labor, Capital and Entrepreneurship has to be split into private forms owned by individuals, private firms, corporations, state enterprises and other conceivable types of business organization. To split this requires removal of many controls and restrictions imposed by the state. The management for the transformation into market economy is complicated and can be dangerous too. The principle of satisfying human needs ( even the most greedy type ) through the process of BUYING AND SELLING IN THE MARKETS would have to be implemented in stages and also gradually. More and more goods, services and resources would have to be listed by the state for selling. The cash so obtained would then be used for purchase in the local and international markets. The state has to minimize its controls and let the markets work through the whole mechanism. However, the state would still control the military, the police force, the health care, the natural monopolies (if it wishes), the welfare, etc.

## **1.1 The Freeing Of Price Controls**

Every nation imposes a certain degree of control over prices of commodities. It is a matter of degree when we talk of the freeing of price controls by a state. Most countries like The Soviet Union, the East European Countries, China, Cuba and others impose a high degree of control over prices of goods, services, resources and other commodities. Price has been fairly stable in these countries before reform.

During the reform period, when price is gradually freed for many items, one can only witness a subtle rise in the price of every product. Prices begin to fluctuate rather unpredictably in accordance to the law of supply and demand in the market. It is natural that consumers would become very aggressive during this period because of the aggressive nature of business exploitation through prices.

It is hope that this subjection of prices to the market forces of supply and demand would come into a market equilibrium for most of the products. Shortages and surpluses that disrupt market equilibrium would be corrected through the assistance of U.S.A. and many Western European Countries. Shortages in consumer products and foods are the major problems in the Commonwealth of Independent States. Surpluses in military hard wares and capital goods (as has been pointed out earlier) has been a source of worry for the U.S. because the greed for destructive weapons by hostile nations coupled with the mass psychosis of free selling in the CIS has created an atmosphere of global tension.

According to Gemini News, a report by Charles Quist Adade on January 24, 1992, the price liberalization embarked on by the Yeltsin administration, during an opinion poll in Russia, has only 32 percent of the Russian supports. Other opinion polls showed that 78 percent blamed worsening living conditions on price rises and 50 percent now said they supported the botched August coup. The putschists promised to freeze prices and stabilized supply situation. (From the publisher of 'Nevskoe Vermya')

## **1.2 A Greater Role For The Law of Supply and Demand**

A planned economy or a regulated market economy is not something which does not use the Law of Supply and Demand. Because of its planned nature for prices of products, the law of Supply and Demand ceases to be useful except for those zones gazetted for market economy such as the economic zones. Certain amount of Black Markets occurs in every mixed economy or regulated market economy.

When economic reform and privatization have become the primary objective of an economy then a greater role for the law of supply and demand to determine and influence prices is indispensable.

This does not mean that the government would no longer regulate the market. The government would still set price floor, price ceiling and subject markets to taxes and using taxes to influence supply and demand or to utilize tax incidence to divide the portion of taxes between the buyer and the seller. All these will come along with economic reforms as part of the marketing management techniques.

### **1.3 Marketing Management Techniques**

Once the market - oriented economy sets in, new market management techniques would be discovered, put in action and consolidated. These techniques can be learned from the marketing information markets both domestically and internationally. They can also be learnt through attending training in the capitalist countries as well as in the socialist countries. The market-oriented reform in the socialist economy uses techniques similar to the management techniques used in a society with is based on private ownership, however with one clear difference: socialist ownership of the enterprises.

### **2.0 Domestic and International Competition**

Encouragement of producer competition, as part of the effort to improve overall economic performance, is not an easy management task, as the "producer-is-king" principle underlying socialist economy has to be shifted to the "consumer-is-king" principle of a market-oriented economy. Once this has been overcome the race for capturing markets in the society by the business organizations would gain momentum. You would then expect competition. As a matter of fact, this transformation of principle and increased competition would take some time.

The world would experience a period of vigorous economic competitions at the domestic and international level. This is also a period of a new kind of war, an economic war. Every enterprise and every nation would stubbornly stick to the basic rule of market competition - First, select a market; Second enter the market; Third build market share; Fourth, protect market share. One can expect a breakdown of social responsibility in many areas and levels of competition. One can also expect cooperation and teaming in many other areas. While the non-socialist countries are anxiously looking for markets in the socialist block, the socialist countries are planning to enter the capitalist block too.

Barriers to entry would be tough to break through even though the open door policy has been declared. Some of these barriers are those associated with economies of scale, capital requirements, access to distribution channels, customer loyalty to brands, cost advantages, experience, government policies retaliation and high switching costs.

The essence of competition is the competition for accumulation, of moving towards global monopoly (and oligopoly). A regulated market competition does not allow the possibility of great destructive competition. Free competition can produce severe negative results when oligopoly and monopoly take over. Monopolies, in whatever forms, have all proved to be more harmful than beneficial.

### **3.0 Distribution System Reforms (in the CIS)**

The process of chaotic transition towards a market-oriented economy has created problems in the distribution system. Distribution is the process whereby goods and services are delivered from producers to consumers and to organization buyers where and when the products are needed.

The flow within the distribution channels is going through some forms of reforms. There are 4 kinds of flow in any channels of distribution. They are:

1. Physical flow
2. Ownership flow
3. Money flow
4. Communication flow

Seven years of reform has not produced a reliable distribution system. According to a senior diplomat with a G-7 country, the Soviet distribution is getting worse. The state-run distribution system is unreliable with many intermediaries waiting to hoard. The current Soviet Food Crisis cannot be resolved with an unreliable distribution system. Even if food aid has been supplied, the problem of putting food on the table would remain. The CIS has requested for more than US\$6 billion in emergency supplies for the coming 1992 Winter. The U.S. has offered US\$4 billion in credit to purchase grains and other foods by November 1991. On January 23, 1992, President George Bush offered US\$645 million aid mostly in the technical assistance area.

In such a chaotic distribution system, the physical flow for any foreign aid would have to be provided by the foreigners in collaboration with the Independent States. Unless the distribution system is centralized under a single control in each of the states, no smooth flow can be expected if the previous distribution system is used.

Uncontrolled privatization has disrupted the ownership and the physical flows of the distribution system. Regular strikes and demonstration have severely decreased the quantity of products in circulation because of the disruption of production and supply. Privatization leads to ownership problem, hoarding and empty stores because the products go where the prices are highest. All these lead to a disharmonious and dangerous situation in the distribution system.

## **VI. THE IMPACT ON INTERNATIONAL ECONOMY**

When modern socialism began to emerge out of the chaotic development of capitalism in the beginning of the 20th century, the antagonism between these two systems was so intense that the international economic situation was divided into two hostile economic camps. Economic communication was objectively impossible, as if a mystical barrier has shrouded the two camps. Trade was limited, foreign exchange was not communicable, international investment was not possible and all trade policies seem to flow within the iron curtain. Initially, international trade for comparative advantages was limited to modern "barter".

### **1.0 Foreign Exchange**

The language of currencies between the two social economic systems did not communicate fully. This absence of communication has been going on for decades. When the open door policy was announced and the capitalist countries has acquired greater confidence in doing businesses with the socialist countries, the ground for developing a common Foreign Exchange Market between the two economics blocks soon budded. This FOREX market is vital for international trade. The decision on currency conversion has always been problematic because the meeting of a 'cunning' market-oriented currency with the hard, stable non-market-oriented type of currency of the socialist block is not that pleasant. Modern barter is often preferable for fair play to figure manipulation on a suspicious exchange rate.

#### **1.1 The Convertibility Of Hard Currency**

Before the reform period, most socialist countries have hard currency which means the currency is stable and normally not subject to dramatic variations in the exchange rate. It is also controlled and cannot be taken out of the country. The price of the currency has not been freed and not market-oriented in the FOREX market, and there are good points for not doing so. The currency is not meant to function as an object (product) for speculation, for currency investment and other forms of profit seeking objectives in the FOREX market.

The recent reconstruction and transformation into a market economy has resulted in a temporary instability of the currency. Currency reform is vital at this moment in order to gradually subject it to the laws of supply and demand of currencies in the FOREX market. The initial unpleasant fluctuations in the free market must be stabilized. Inflation must be brought under control, the currency must be made stable again and has a stable value and the currency must be made convertible to other currencies in the capitalist countries in a changed situation. This economic integration of currencies is the coming-together of currencies in the hope of establishing long term "exchanges" in the new currency market scene.

However, for effective currency reforms, there must be a centralization of power and control as to who is in charge of the issue of currency, taxation, freeing of prices, cuts in government subsidies and other currency matter.

Quantitatively speaking, convertibility is the degree to which a currency is exchangeable for other currencies or for gold. For smooth exchanges a high degree of currency convertibility is vital. One barrier to high convertibility is vital. One barrier to high convertibility and good foreign investment is the ability to be able to get money out of the country once invested without having to barter.

Most convertibility problems arise from protectionism, a natural social instinct. Devices are often developed to keep money at home and to bring in as much foreign money as possible. China devises a "*Waihui Zhonghuanjian*" or Foreign Exchange Certificate, a kind of "money" for foreign travelers to use for this protectionism. This certificate could not be converted back to foreign currencies except for Hong Kong currency when these travelers returned home. The certificate has an exchange rate equivalent to *Renminbi yuan*, but somewhat higher in the market. This "currency" buffers the *Renminbi yuan* and keeps it from flowing out of the country. It is uncertain whether the Chinese government would abolish the *Waihui Zhonghuanjian* in future.

## **1.2 The Rate Of Exchange**

Exchange rate between currencies is a quantitative relationship between the currencies. So long as the currency is stable and has a steady value (fluctuating or "fixed") the calculation of the exchange rates would be easy. Sudden economic reforms create a chaotic state of the currency, making it unstable, unreliable and the public loses confidence in the actual worth of the currency.

## **2.0 International Investment, Finance and Debts**

Privatization and economic reforms in socialist countries move in favor of international investment. However, there are a number of obstacles to investment. The Ex-Prime Minister of Singapore, Mr. Lee Kuan Yew, once pointed out this: "To attract foreign investments, currencies have to be convertible. As long as the currencies are not convertible, foreigners will be reluctant to invest because they will not be able to get their money out unless they do it by way of barter." Other trouble spots include instability of currencies, lack of legal protection of foreign investments, fear of proletarian revolutions, risk of nationalization, military and political instability, potential ideological and ethnic conflicts.

Foreign investments allow foreign ownership of factors within the political boundaries of a nation. This in turn changes the shapes of the economic boundaries. The interference of the political and the economic boundaries can produce frictions between nations.

Once opportunity for foreign investments has been opened, multinational companies will gradually invest in the socialist countries and you can expect investments by socialist countries in the capitalist countries too.

The history of the International Monetary Fund (IMF) and the World Bank would see an addition of new member countries. This is unavoidable as the force of global economics integration is very strong. There is a chance for opportunity and world peace which would be very expensive to ignore. The policies of IMF would have to be modified correspondingly to the incoming member states and they would have to be modified correspondingly to the incoming member states and there would also be strong competition for the Special Drawing Rights (SDRs).

It is reported that in Eastern Europe the number of joint-ventures with multinational corporations increased from 165 in 1988 to 3,090 in October 1989. The number of new investment projects in Eastern Europe and the Soviet Union as on December 1989 is 3,345. It is estimated if all the projects are implemented, it would entail an estimated total capital inflow of US \$20 billion.

The Union Treaty of CIS would turn over ownership of much of the country's natural resources to the republics (now independent states), that in turn would make it clear to investing countries with whom they should negotiate to develop projects in the country.

In the Far East nations, China has for the first time lifted a 42 years' old ban on selling shares to foreigners who wish to invest in China shares on December 1991. According to Xinhua news, one million yuan-denominated shares of the Shanghai Electric Vacuum Co. would be put up for sales to foreigners.

Also, Malaysia's real GDP for 1991 is 9.4%, the highest. This is due to encouragement of foreign investments and privatization. A breakdown reveals that Thailand, the Philippines, Malaysia and Indonesia attracted in 1990 a total of US\$3.6 billion of private sectors investments from Japan, US\$1.8 billion from South Korea and US\$412 million from Singapore.

The CIS's debts to the group of Seven richest countries (G-7) has reached US\$68 billion in December 1991. The payment of this debt becomes a problem after decentralization and economic independence of the independent states have occurred. Some states like Azerbaijan and Turkmenia are reluctant to pay debts. The G-7 ministers wanted the fractious states to present a united front on the debt issue. This has also been agreed upon by the 12 states. Sooner or later this problem would be resolved because of the fear of the possibility that the G-7 might declare a moratorium on all forms of credit for the independent states in the future.

### **3.0 International Trade**

As a rule international trade activities will increase with economic reforms and privatization. One can expect that increased international trade will benefit all nations as the elements of comparative advantage and gains from trade are at work.

However, the economic reforms in the CIS pressured by political reforms is disastrous to production and the health of the national economy itself. Production and productivity decrease at an alarming rate, a situation which is worst than the pre-reform period.

According to a 1991 Report in USSR by Vladimir Tikhonov, there were serious problems in the 1. Central Planning System 2. Military Industrial Complex 3. Oil Revenues 4. Soviet Technology and 5. Technical Help. In the field of agriculture, grain harvest is 170 million tons and 30 million tons in store, 5 million fewer cattle, 10 million fewer pigs and 30 million fewer poultry. The disorder during the transition period forces the CIS to rely on importing many products and become economically dependent on the West. In 1986 - 1988, the Soviet Union imported 31,000 million roubles. In 1991 consumer durables and food imports will constitute about 22,000 million roubles, including 5,000 million roubles in hard currency that will go on grain and food.

The unpleasant philosophy of the CIS's international trade practice has become "importing to save the nation". This high import requirement is responsible for severe currency debt. To quote Nikolai Ryzhkov, Ex-Prime Minister of USSR:

"The persisting high import requirement and our limited currency reserves have resulted in the Soviet hard currency debt now being more than twice as large as our yearly export receipts. This compels us to resort, increasingly of late to short-term borrowing. The oil receipts do not suffice for debt-servicing any longer.

The government considered that an outsized foreign debt may have dramatic economic and political consequences. We are already beyond the internationally safe maximum of 25% in the correlation between loan repayments and currency receipts."

#### **4.0 Trade Policy**

International trade policy of the defunct USSR goes hand in hand with the Soviet foreign policy of improving Soviet-American relations, the construction of the Common European Home, the continuation of the Vladivostok line in the Asia-Pacific region, and trade with India, Latin America and Africa. It is believed that the new CIS would continue this line of action.

The most important thing to look into in this matter of trade policy is the open trade policy. To get as much involved as possible in the global economic contacts during the reform period is indicative of a serious attitude towards an

open trade policy, some sort of a U-turn from the old economic policy of autarchy and self-sufficiency. The idea of open trade policy, an outcome of glasnost philosophy, has now taken deep roots in the notional foreign economic policy. The objectives include benefits through comparative advantages and gains from trade, the idealism of world economic integration, the desire to end the Cold Wars and co-exist harmoniously for the sake of the survival of mankind and to promote international cooperation.

Openness does not mean that there would be no tariffs, and other forms of restrictions in trade. Openness here means favorable conditions and positive encouragement for trade.

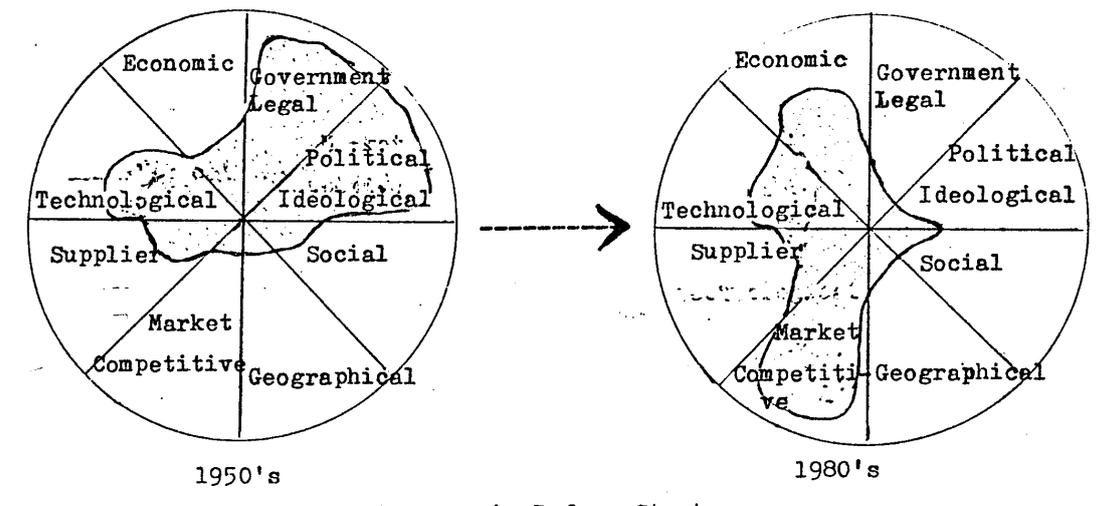
In China a relaxation of political and ideological control has helped to expand trade. Before this, foreign trade is a state monopoly conducted principally through 10 foreign trade organizations. Recent changes in line with "open Policy" include greater flexibility in trading practices, ideological opposition to borrowing on international money dropped, foreign trade regarded as very important and changes in shipping insurance policy.

Before reform international trade transportation (shipping) insurance is the responsibility of The People's Insurance Company of China. In the domain of insurance, the comparison of a "communist state" such as China, the national exchequer becomes the insurance fund and as a result. China does not feel it necessary to insure any domestic assets, no matter how valuable they may be. However, some reforms have taken place in this area of insurance too. Certain buildings, embassies, monuments and construction projects are insured western styled.

## VII. MANAGEMENT REFORMS AND ADMINISTRATIVE STRATEGIES

Analysis and diagnosis of the recent economic reforms shows that the center of gravity of strategic management and business policy making has shifted from a base which centers on government, legal, political and ideology to a new base which centers on free enterprise (non-governmental), market strategy, competitiveness, economic and technological variables.

This shift can be represented by means of a Focal Zone Analysis diagram as shown below: -



### Current Economic Reform Strategy (Focal Zone Analysis)

Countries undergoing privatization and major economic reforms do not have many choices when come to the selection of strategic alternatives. Many of the state enterprises choose retrenchment or turnaround strategies. These include:

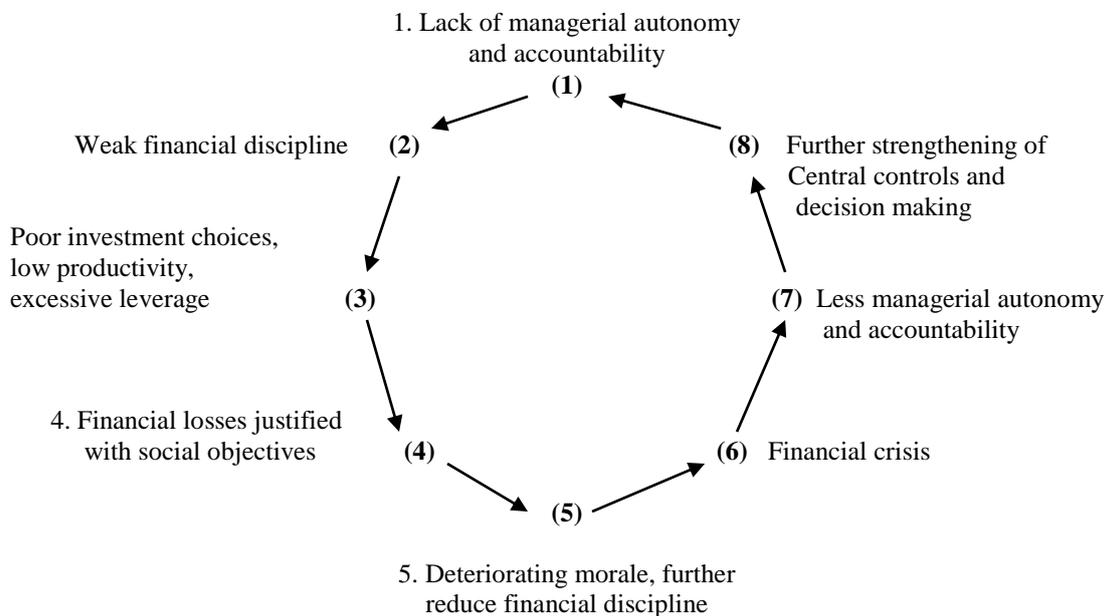
1. Turnaround strategies which focus on improving the enterprise's efficiency
2. Divestment which involves the selling or liquidation of a major subpart of a department or the whole of the department
3. Liquidation which involves the selling off or shutting down of the enterprise
4. Some might resort to the use of captive company strategy by reducing major functional activities and sale of 75 percent or more of its products and services to a single customer.

This transitional strategy is inevitable because the weak enterprises which fail the test of market competitiveness would have to go to the nether world in the course of the Darwinian natural selection of the enterprises. Ultimately the effectiveness of the reform strategy would be decided in the domestic and international market place.

Management reforms become inevitable when the management operations in a public enterprise pass through a certain point in the Vicious Circle characteristic of public enterprise management.

This Vicious Circle for public enterprise is shown in the diagram below:-

### THE VICIOUS CIRCLE IN PUBLIC ENTERPRISES



The confusion of operational and political responsibilities is often the starting point of a vicious circle for public enterprises. [during the FA-SO-LA-TI historical Periods of Capitalism and Socialism]

Milton Friedman and the Chicago school of monetarists view private sector as the fount of all efficiency and thus can turn ailing public enterprises into efficient ones through privatization. Privatization seems to do the trick\* where trimming government spending is concerned. *[The trick\* is to impose capitalistic exploitation on the proletariat by restoring the bourgeoisie with his whip of capitalism and doses of ideological sedatives.]*

Government and public enterprises are prone to the vicious circle "disease"\* such as low work morale, heavy subsidies, distorted prices, constant rationing, wastages, excessive political interference, red-tape and weak accountability. *[The disease\* is capitalistic greed is lurking in ambush full of*

*ideological sedatives to sabotage the system for property gains for themselves with no intention of sharing and at the expense of others.]*

Private enterprises on the other hand create anti-thesis between the boss and his hired workers, a peculiar wedlock of the opposites within the enterprises. Corporation isolates the owners from management and the working mechanism. Collective enterprises or common ownership enterprises attempt to eliminate these conflicting factors.

## **1.0 Revolution From Above**

"Revolution From Above" (Mikhail Gorbachev) is a public management conception tool which requires a major qualitative change proceeding from above, from top - level management through the middle management levels and down to the individuals. It resembles a descending musical octave.

Economic reform management is a mammoth task of planning, organizing, staffing, leading and controlling at all levels - from the party, to the state, through the provinces, the districts, down to the business units and finally to the individuals.

Radical economic reform involves the transfer of all economic units to complete cost - accounting and self - financing, and extensive development of lease-holding and co-operative production arrangements. Switching the economy from one mode of operation to another is a complex matter. Updating planning methods, financial levers, prices, taxation, the pay system and many other economics mechanisms have to come from above or a central body.

## **2.0 Decentralization vs Centralization**

Practically every state exercises a certain degree of central planning, the socialist countries being more. The defunct GOSPLAN is the Soviet agency in charge of central planning. In China it is the State Planning Commission. GOSPLAN has 3 functions a) Preparing long-range projections b) Preparing five-year plans and c) Preparing one-year plans. In Malaysia too there is the well-known five-year plans. Up to the 1970's there has been a movement towards centralization throughout the whole world. However, the recent reforms show a reverse movement towards decentralization.

The idea of centralization and decentralization is a natural idea. Neither can exist without the other. A completely decentralized USSR is again re-centralized on the CIS. It is the habit of man to recreate his own image in society. Man is a microcosmos of the macrocosmos. He creates his own image on the social plane which is higher than him. Just as his brain is the center of his own body, so is the State, the center of the nation.

Why is the current decentralization so important for economic reforms? Let us explore the essence through an analogy to our own body. Man's body is

not just made up of one center. There are 5 natural centers. They are the thinking center, the Feeling center, the Moving center, the instinctive center and the sex center. Each of these centers are natural and free in its own way although they maintain continuous "communication" with one another. The thinking center appears to be the most domination center (the Central planners). But this center cannot plan every movement in the human body and plans the movements of all the other centers. If every feeling, muscular movement, instinctive reflex and sexual impulse are under the central planning and command of the thinking center, we cannot function normally at all. Excessive central planning for society would be unhealthy and the cure would be decentralization but not absolute decentralization.

This is a process of "letting go" of centralized planning, letting it fall to the respective provinces, republic or independent states, to the various districts, business units and up to the grass root individuals. The result is the emergence of many small units of "central planning", many enterprises of various species (known as the private sector). The original Central Planning Body changes its old role to become the coordinator, the regulator and the harmonizer of all these independent economic units. This body ceases to interfere but rather lubricates all the independent parts. Thus the USSR and its President cease to be but the CIS reappears.

In fact all the current economic reforms involve an immediate decentralization and almost at the same time a re-centralization in this manner. If a man decentralizes absolutely, he is absolutely dead.

Decentralization creates the smaller, self-contained organizational units that increase motivation and performance of the members of those units and help them to focus their attention on the highest priority activities. It also permits each unit to adapt its own structure and technology to the tasks it performs and to its external environment.

### **3.0 Motivation and Style of Leadership**

The modern scientific theories of motivation are neutral to the type of economic systems in practice and to the transitional situation of economic systems. It is the skilful application to the actual situation that counts.

The major change in the field of motivation and style of leadership during the reform period is the abandonment of the command and pressure style of administration and management. It is hoped that this will help save tens of billions of roubles previously wasted on the upkeep of the bureaucratic apparatus. By having a more people-oriented type of motivation and a more democratic style of leadership, it is expected that this mechanistic structure would become more organic and simpler.

Another very important issue in the realm of motivation lies in the formulation below by Prof. Svyatoslav Fyodorov of CIS:

"Collective work with collectively-owned implements and fair collective distribution can be more productive than the work of hired hands with skilful management."

This formulation gives rise to some challenging questions:

1. Is hired labor a chronic source of latent demotivator for motivation hired workers who have been used to socialist labor?
2. Is skilful motivation management effective for motivating hired workers who have been used to socialist labor?
3. Does collective work with collectively-owned implements and fair collective distribution motivates the laborer?
4. Between being a hired labor under the pressure of being fired and a collective owner worker, which is more productive?
5. What is the long-term implication of introducing private business units wherein the antithesis between the boss and his workers reemerges in the course of privatization?
6. There is a point of view that government employees are prone to a mentality problem a typical go-slow and no responsibility attitude towards work. Will motivation rekindle these same employees who now work for a private boss, if the reward system is better?
7. What about the motivation situation of an employee who now earns a private business unit?

I leave the reader to reflect upon the questions for a solution. When the private sector becomes a substantial sector in a socialist economy, the evolution of skilful motivation management becomes all the more vital because the seed of the haves and the have-nots within a business unit has germinated and has probably grown pretty well. There would be a sudden hunger for the bulk of motivation and management knowledge and skills to handle personnel who would mutate into complicated psychological creatures. (more pretenders, liars, conmen and tripod-ters, etc ).

The kinds of management reform would be characterized by:

1. Broad application of management skills and knowledge. If it so works for hired labor, so must it also work for collective ownership enterprises.
2. Broad application of modern motivation and management theories and techniques - Maslow's hierarchy of needs, Hertzberg's two-factor theory, the expectancy theory of motivation, Equity theory, Reinforcement theory, McClelland's needs theory of motivation, also uses Marxism, Leninism, Machiavellianism and whatever desperate discoveries in motivation.

3. A possible emphasis on democratic style of leadership, based on Likert's Four Systems of Management (especially system 4), Management Grid or on Contingency theories.

#### 4.0 Management Reforms: China

Economic reform in China is an example of a case where the political and ideological variables remain stable and unchanging whilst the economics variable changes. In fact China's economic reform began earlier than that of the CIS during the time of Deng Xiao Ping. This reform is distinct from that of the CIS and the East European Countries in that the latter have both the economic and the political-ideological variables changed abruptly. The result is often disastrous because of lack of cushioning of the Shock Therapy. It was believed that this shock might speed up the participants in the World Economic Race. However, the chaos would in fact slow down the economic reform.

China is now concentrating all her efforts on economic development and modernization of her industry, agriculture, science and technology, and the defense industry. However, China is actively without the *modernization of Management*. Recently, China is actively searching for the Chinese Style of Management, some kind of a corporate culture resting on its population of 1.2 billion and her civilizational experience - that is, Socialism with Chinese Characteristics.

In the past, China's education system, like that of the defunct USSR, has trained the necessary engineers and scientists but not the business managers. Very little attention was paid to the training of managers in the Chinese universities and also the on-the-job training of the company managers. However, the current management reform saw Chinese enterprises using modern management methods such as the application of value analysis, total quality control, MBO, PERT, electronic data processing, etc.

In the field of motivation too, modern western concepts have been used. However, in the Chinese enterprise the premise of motivation relies upon full understanding of the people (Holistic people-oriented concept).

"To unlock each specific soul by a specific key" has been a rule of motivation since the 50's and until today. We think only the individual specific key will give the right solution to each specific soul," wrote Prof. Pan Chenlieh.

China is faced with the problem of developing her own style of management. Since the style of management differs by the difference in economic, socialism political, cultural and psychological backgrounds, China could not possibly import a completely new style of management from other countries for her own use. China has to do what the Japanese has done in developing the Special Japanese Style of Management. Judging from the thousands of years of civilization that causes China to be today, even Marxism, Leninism or Communism which have their origin in the West are modified in the

process of assimilation, China's assimilation of democratic values from the West would again be modified.

Professor Pan Chenlieh's statement is interesting:

"Concerning the learning from other's management experiences, we have developed a philosophy, which reads: - Based on our own experience and practice, we have to learn, absorb, and extract the strong points of all experiences from others in the world, and merge them and transform them into specific style of management with Chinese Characteristics."

China is applying dialectics to the development of her own style of management through the integration of her own existing history of management experiences developed in the course of a few thousand years.

One can refer to these books for an understanding of China's past experiences:

The Book of Songs, The Book of Rites, The Book of Music, The Spring and The Autumn Annals, The Great Learning, The Doctrine of The Mean, The Analects of Confucius and Mencius, The Teaching of Buddha, Mohism, Taoism, etc. People who are connected to management thought include: Liu Bang (256 - 195), Lao Tzi, Sun Tzi (The Art of War), Wang Anshim Sima Guang, Shang Yang, Lu Buwei (? - 255 BC), Shen Buhai, Han Fei, and others.

Those management experiences that come from the West includes Socialist managements and the modern management sciences: Robert Owen, Charles Babbage, Frederick W. Taylor, Henry L. Gantt, the Gilbreths, Henri Fayol, Mary Parker Follett, Oliver Sheldonm Chester I. Bernard, Hugo Munsterberg, Elton Mayo and many modern management writers.

"To take a metaphor, it is somewhat like a bird, assembled from four main parts, no matter what the bird is like, a small sparrow or a giant roc. The head of the bird is the guidelines, which navigate the flight of our development in a right direction. And the body will be the rich experience of our businesses, based on their various actions and experiments at the present and in the past. The two wings of the bird, one will be the foreign management "know-how", transformed to meet the needs of China; and another wing, the ancient Chinese philosophical thoughts, inspired to the present application in management. When these four parts are being assembled together to shape such a bird, I suppose, it will very likely promote our economy to "take off". (Prof. Pan Chenlieh, Professor of Management, Tsing Hua University of China, Deputy Secretary General, China Enterprise Management Association, China.)

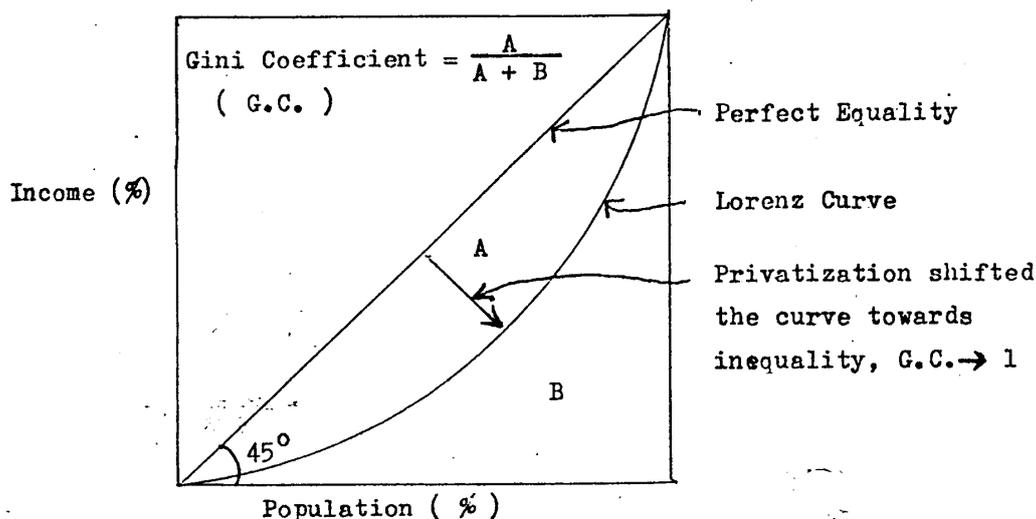
Administrative strategy in reforming labor management to keep pace with competition, higher productivity and better market demand in China and all countries carrying out privatization and reforms, cannot avoid the issue of the three "irons" - the iron rice bowl (guaranteed jobs with welfare benefits), the iron chair (guaranteed position for officials) and the iron salary (pay not link to skill). This sensitive area requires reform to make it responsive to the market. The

way of the solid may have to give way to the way of the liquid, the way of sleep to the way of awake.

## VIII. THE IMPACT ON INCOME DISTRIBUTION, INFLATION AND UNEMPLOYMENT

The impact on income distribution is obvious. Privatization will ultimately breed a generation of wealthy individuals whose income would be good. On the other hand, those who fail to accumulate wealth will fall into the lower class. It is impossible to give enough wealth to every individual in a nation because of the scarcity of resources. Economy has always been the science and arts of scarce resources. The first phase of privatization creates the impression that more and more people are getting forms of property, however, the second phase of accumulation in the course of competition will lead to emergence of a class of wealthy individuals who would be a minority in comparison with the population.

Quantitatively speaking you can expect the gradual change of the Gini coefficient in the Lorenz curve in the direction of unity. The Lorenz curve shown below gives a picture of the results of privatization.



The Gini Coefficient is a single number used to measure the distribution of income. Its value ranges from 0 (perfect equality) to 1 (perfect inequality). From the picture above, it is simply the ratio of the area A to that of the area (A + B). As the area A become bigger, inequality of income distribution become greater. Privatization causes the Lorenz Curve to shift downwards and to the right side, increasing the area A denoting income inequality.

Market reforms lead to inflation. Prices of goods and services naturally rise. The freeing of price controls further worsens the inflation. By 1992, Poland's inflation went beyond 70%. Practically, every country in West Europe and the CIS experiences at least double and even triple digit inflation. By scrapping the 70 years of state price control, Russia experiences the price of basic goods to inflate from 3 to 30 times their original price. Inflation is defined

as an increase in the average price level. The price level is simply the average of all prices for goods and services in the economy. Generally, inflation is measured using 3 methods. They included the Consumer Price Index (CPI), the Producer Price Index (PPI) and the GNP Price Deflator (GNP-PD). Whatever methods we used, we will only record the fact of serious inflation in these countries.

Once labor is market-oriented, that is, become a commodity subjected to the law of supply and demand in the market. Once many inefficient and unproductive enterprises are closed down, the number of unemployed would increase at an alarming rate. Labor supply is relatively increased to meet the sagging demand. Labor would be cheap and life would miserable when compared to the iron-rice-bowl of the pre-reform period.

In august 1991, the rate of unemployment has gone up to 12.1 percent in East Germany. Poland experiences more than 11 percent unemployment rate in the beginning of 1992. It is predicted that East Germany's unemployment rate will go up to 19 percent in 1992 because more than half her companies have closed down.

## **IX. THE ISSUE OF OTHER VARIABLES**

The most troublesome area of economic reforms and privatization does not lie primarily in the economic or privatization area itself, but rather in the super-structural variables of social responsibility, political instability, legal enforcements, government instability, industrial unrests, cultural and ethnic conflicts, and finally, the civil war.

### **1.0 Social Responsibility**

"The life of an individual engaged in any field of activity, the life of society and humanity are connected with questions of conscience and moral values. No economic laws will work if there are no elementary ethics," wrote academician, Dmitry Likhachev.

Privatization itself opens the mystical shell of greed inherent in man. For the sake of getting more factor and personal properties, for the sake of profit maximization, for a must-win economic battle, and for the sake of the survival of the the company and the members, the Beelzebub's temptation to do unethical things is very very strong.

The task of balancing these fundamentally antagonistic desires of the economic forces on the one hand and the moral values on the other is very difficult during this descending transition period.

However, the aggressively competing enterprises cannot escape from the captivity of the total social responsibility continuum of economic responsibility, legal responsibility, ethical responsibility and discretionary responsibility. Business pressing social issues such as consumerism, environment, discrimination, product safety, occupational safety and retaliations will force the enterprise to modify its own philosophy of social responsiveness by being moral and responsible.

### **2.0 Political, Ideological, Legal and governmental variables**

Any economic reforms and privatization would directly and indirectly affect the ideology, the politics, the legal constitution and the government organization of a nation. The changes in these super-structural variables would require skilful management. Mishandling or unnecessary exaggeration of its importance would do more harm than good. These variables are the most volatile and the most troublesome ones - they happen mostly in the heads and on paper, perhaps a lot of talking, and finally fighting on the streets.

Perhaps it is better to view economic reforms and privatization as an economic tool for use in dealing with specific sets of problems and once solved, it will be put aside. It must be remembered that this descending transition period is merely a historical economic moment, a passing moment in the economic history of mankind, a history which will last as long as the existence

of mankind. The extinction of mankind will be very far away in the future. No one can guarantee that there can be no reversibility of privatization because the "reversible process" under the names of ascending nationalization, monopolization, and the least suspected one known as "The essence of competition is accumulation" has occurred before. Privatization as an economic moment cannot be the last economic moment – only ascending nationalization and a descending privatization in the economic system of the time - for an evolving humanity which has many thousands of years to come.

One would expect modification (additions and subtractions) of the political, the legal and the government constituencies. Ideology is the most difficult variable to handle because ideas cannot be killed. The strangest thing in this reform and privatization is that they are carried out by communists and non-communists as well. Minds are very tricky substances indeed.

Attempts have been made to measure political reforms in terms of the amount of "democratic gains". However, this attempt is in the bud as the tigers of mega nation hegemonism is still lurking in ambush to eat its small and weak nation preys.

### **3.0 Cultural and Ethnic variables**

One obvious trend is that sudden economic and political reforms release the raw and latent psychological forces in man which rapidly found an outlet in ethnic conflicts, civil wars and the battle for independence. Another incomprehensible thing is why is the Military Factor held constant? These conflicts in turn result in economic chaos and brake economic reforms temporarily.

### **4.0 Industrial Unrests**

The number of strikes and demonstrations going on in the CIS and the East European Countries is a historical record. Labor strikes and demonstrations occur almost uninterruptedly and occupying the whole transition period.

The closing down of industries, the privatization of ownership, the increasing rate of unemployment and inflation, the insecurity of a capitalistic market-based economy and the chaotic political, legal, ethnic, social and ideological situation, fanned by hegemonistic Western countries create this difficult period of industrial unrests. Even the mistakes in the pre-reform period are being held responsible for all that have happened.

Summarizing our discussion on the issue of other variables, I must stress that the economic reforms in the East Asian Countries, did not create instability in these super-structural variables - no record of chaos has been significant. The result is that the speed and success of economic reforms in this region has been faster and better. A new economic giant is in the making!

While privatization and economic reforms are economic metamorphoses, changes in the super-structural variables are super-structural metamorphoses. There is also an accompanying psycho-ideological metamorphosis. This transformation of the psycho-ideological octave is the process of the dialectic of the mind, a sophistication of the mind and a consolidation of a renewal to better equip the psyche to an environment which is volatile. A new psycho-ideological species is probably in formation.

## **X. THE ECONOMIC ZONES**

The creation of economic zones, the enactment promulgation of a series of laws and regulations to protect foreign investment in these zones goes back to 1979 in china. At the end of 1991, such zone was established in Primor in the Far East of the CIS. Recently, North Korea and Vietnam are creating such economic zones. The late start for the CIS might be one of the causes of economic-reforms-in-a-hurry. No one wants to lose an Economic Race.

### **1.0 Buffer And Cushioning Effects**

During the experimental period, the economic zones created in China were meant to act as a buffer along the boundary between the two distinct type of economic systems - the socialist economy and the capitalist economy. Theses free enterprise economic zones are created in areas where a socialist country and a capitalist country meet geographically and politically. Economic zones are like shock absorbers acting between the car and the road. It is a necessary device to cushion off shocks created by the "collisions" of qualitatively differentiable entities.

The economic, political, legal and ideological principles in the buffer zones are formed in a way acceptable to both parties, thus reducing damage to both parties. The genesis of the economic zone is no accident as the law of necessity dictates it.

### **2.0 The Shenzhen Special Economic Zone**

The Shenzhen Special Economic Zone is China's free enterprise zone, was created through party decree as part of the foreign policy of China during the leadership of Deng Xiaoping, the architect of China's modern economic reform.

China's economic reform and Open-door policy necessitate protection of foreign investments and businesses by law. Observation reveals that the scope of protection and encouragement given to foreign investments in the economic zone has been very positive. Some of the characteristics are:

1. Protection combines with encouragement.
2. Good and fair treatment accorded to foreign investors
3. Protection of the ownership of foreign properties and the profit derived therefrom.
4. Guaranty of the remit-ability of foreign investments and the profits earned

5. Guaranty for foreign investor's right to bring court actions and the right to demand arbitration in order to settle disputes
6. Favorable preferential taxes and rent. For example, rate of income tax on foreign enterprises is 20-40 percent. Rent period can be around 20-50 years at 10-200 RMB per square meter per annum.

### **3.0 The Economic Zone at Primor in the Far East of CIS**

Primor in the Far East of the CIS has recently become a Free Enterprise Economic Zone. Alexander Koronev, a law professor at the Far Eastern State University reported that the US-Soviet International Law Centre for Far East is drawing up regulations for the free economic zone.

The features would include:

1. All foreign ventures to lease land for at least 50 years
2. Eliminating visa requirements for foreigners
3. Guaranteeing favorable customs treatment. Imports into the zone would be free of charges, and duties would be imposed only on unprocessed goods shipped to the rest of the country
4. Encouraging foreign exchange and commodities markets. Foreign banks and other financial institutions would be given equitable treatment as an encouragement for them to set up branches throughout the province
5. Establishing investment guarantees
6. Simplifying business registration procedures to about a month for registering a new business
7. Developing a basic tax system
8. Creating a labor structure that would encourage workers and management to solve disputes autonomously, not through state intervention. A new labor law prepared by the CIS supreme body will lay out general guidelines and minimum standards

## **XI. A PANORAMIC VIEW OF PRIVATIZATION IN SELECTED COUNTRIES**

### **1.0 Malaysia**

Malaysia Incorporated was introduced on February 25, 1983. Malaysia is conceived as a corporation with the purpose of doing business with foreign investors and the local private sector. However, the major controlling sector is still the government. A panel of Negotiation between the private and the public sector was set up after 1984. Government officers were given posts in the private sector to learn and gain experience. Privatization was introduced only in 1984, a year later. It involves the transfer of government services and enterprises to selected factions of the private sector. A body to enforce and run the privatization programs and control was established.

The purpose is to maximize profit, improve efficiency in service, cut down red-tape, reduce financial and administrative burdens of the Bumiputera Commerce and Industry (the most important objective). A wage reform also took place in October, 1991 and the New Matrix Salary Schedule for all government servants in the country was implemented on January 1, 1992. It is a step towards the market orientation of labor, also a crack in the existing iron salary, a slap on the iron rice bowl and a pat on the iron chair.

Below is a list of government enterprises already privatized by 1992:

- i) Permodalan Nasional Berhad
- ii) Kelang Container Terminal
- iii) Malaysia Airline System
- iv) North Kelang Bypass
- v) Airod Sdn Bhd.
- vi) Sports Toto Sdn Bhd
- vii) Telecoms
- viii) Malaysia International Shipping Corp.
- ix) National Electricity Board
- x) Postal Service

### **2.0 Other East Asian Countries**

The privatization enterprises are:

a) Pakistan:

- xi) Habib Bank
- xii) Muslim Commercial Bank
- xiii) Pakistan International Airlines
- xiv) Pakistan National Shipping
- xv) Pakistan Standard Oil
- xvi) Sui Northern and Southern Gas Pipelines

b) Singapore (under consideration):

- i) Singapore Airline
- ii) The Civil Aviation Authority
- iii) Port of Singapore Authority
- iv) The Public Utilities Board
- v) Telecoms

c) Others:

- I ) Manila International Container - Phillipines
- ii ) Commonwealth Bank - Australia
- iii ) Ansett ( airline ) - Australia
- iv ) Chang Hwa Commercial Bank, Hua Nan Commercial Bank and First Commercial Bank - Taiwan

### **3.0 Latest Privatization Problems in East Europe**

Plan to sell off Eastern Europe's state industries have hit a shoal of problem from many aspects but reformers are learning as they go and continue to press ahead with the privatization. However, sell-off plans are not being abandoned, but they are being delayed or modified.

*Czechoslovakia's* bold mass privatization plan has been delayed. The first sales are likely to be in March or April, 1992. All adults have the right to vouchers worth 1,000 crowns (Koruna) which can be used to bid for shares as virtually all large companies are sold off in waves.

*Hungary* has abandoned its scheme to sell 20 top companies and is selling off the other firms as fast as it can, amid the government and Hungarians may lose out to foreign buyers. Hungary has concentrated on transferring control rather than full ownership of enterprises, and has been ranked among the most successful in East Europe in attracting foreign partners.

*Poland* uses a range of techniques. Privatized firms give 10 percent of shares to employees, 60 percent to 10 percent to 20 percent investment funds in which all citizens will receive shares. Foreign investors can also seek stakes. Poland wants to resolve the issue of the ownership of factors to all citizens of Poland. A brilliant idea indeed! To make common ownership in terms of more or less equal number of shares for all the individuals in the country. This is the philosophy of unceasing privatization to reach "communism".

*Romania* has an ambitious scheme similar to Czechoslovakia, but no firm timetable. *Bulgaria* and *Albania* will soon adopt a privatization plan.

One obvious lesson to learn concerning privatization is that it must not be carried out in a hurry. You might sell a good enterprise cheaply and regret afterwards! There are many Beelzebub's grandsons and granddaughters around to con your goods. One can expect a lot of invisible corruptions side by

side with the economic transactions in the process of privatization. There is a very strong temptation to sell the social character of factor property cheaply for personal benefit and there is also an equally strong counter force to revenge on individuals who steal socialist property for personal gains.

Another thing to learn about privatization is that it has the political goal of removing the state from business and creating a new middle class of entrepreneurs and shareholders, and the financial motive of raising revenue for cash - strapped governments.

The privatization must be fair and efficient and must meet the high morality required of mankind. Mankind has yet to be able to undertake such a godly and sinless task – reciprocal destruction devils are now awakened and civil wars of territorial gains and wealth-grab are coming at the doorsteps.

#### **4.0 A Wee Bit about East Germany**

The East German privatization and economic reform continues but is overshadowed by the unification process all too sudden. East Germany experiences 12 years of national-socialist war and 40 years of socialist ideas and principles and communist ethics. The unification creates a new breed of human beings who are good "switch boards" - whose left hand is socialism and whose right hand is capitalism. Many experts have made a mistake at first in predicting that the so-called socialist go-slow no-responsibility attitude towards work would take years to get rid-off. But time has proved them wrong. East Germans very quickly changed their attitude once the rules of the game had changed. A survey among managers of East German companies revealed that the average time span for a worker to pick up western characteristics is only about three months. The fact that there are 400,000 new companies in the market 18 months after the opening up of the East German economy is indicative of quick learning and action. However, it is also expected that many of these newly registered businesses are short-lived and the "promising business men" would have to go back to become "employees".

According to the Currency Review of Citibank dated March 18,1992, the East German economy is improving gradually. Economic data showed month-to-month improvements. The latest industrial production data for November 1991 showed a 1.5% increase, but the figure is 28.2% lower than a year ago. Unemployment has leapt to 1.34 million in January or 17% of the workforce versus December's 1.04 million or 11.8% of total workforce. The Economic Ministry's projection of a 10% economic growth in East Germany will not even bring the economic performance to the country's 1989 level.

Negative super-structural interference on the economic activities is retarding economic growth, increasing unemployment and cost of living. Consumer prices have increased 14.2% in 1991 and are expected to worsen this year. As unification has occurred, any changes in East Germany will directly or indirectly affect the economic variables in West Germany. Investors in Deutschemark are switching out of this currency and are looking for

alternative currencies to park their funds for the time being. Germany's physical proximity with the troubled Soviet Republics will weaken the Deutschemark. Any unrest in Poland or the CIS may weaken the Deutschemark.

## **XII. TRIALECTICS AND THE ECONOMIC OCTAVES**

While the process of trialectics has caused us to separate socialism from capitalism according to the law of unity of opposite, the law of the transition of quantitative changes into qualitative changes and the law of negation of negation, the law of economic octaves have enlighten us with the idea of the ascending and descending economic branching of the economic being.

The law of negation of negation in economic process implies that the positive aspects of capitalism would be absorbed and reproduced in a modified way by forces that operate in the socialist economic system.

An economic octave is a special qualitative economic action of a specific type, a thinking as well as a practical process, which is a result of active men at work along definite economic ideas. It is descending if the forces of change emanate from the State and ascending if the forces of change emanate from the people. Neither the descending nor the ascending octave can operate in isolation. If the musical law of octaves is applied to economy, then privatization is an economic octave, a minor octave of the greater octave of economic reforms. It is an octave within an economic octave.

Like a growing seed, the forces of octave can slow down between certain notes and this slow down (retardation) requires some outside forces to cause it to proceed into the future. Otherwise, privatization soon stops sluggishly and slips out of the minds of the popular masses, once again in accordance with the law of octaves. At this point it is up to the active men to decide on the next step. There is no guarantee that the next harvest would be as good as before. In fact when privatization in East European countries and the CIS experiences resistances and problems, indicating a retardation in the economics octave of privatization, many privatization programs have been temporarily delayed, re-examined and modified. This retardation arises mainly from the peculiar contradiction of the law of factor ownership cycle: having a democracy, an equality, justice, liberty and freedom to the vital issue of Factor Property and Non-Factor Property Distribution when these properties have a public ownership character and paid for by the undifferentiated capital contribution of the public or the sweat of the public, and ownership character and paid for by the undifferentiated capital contribution of the public or the sweat of the public, and which is now in danger of entering of falling into the cycle of accumulation.

The economic octave of privatization awakens the psychological factor of greed in man and it is a good place to revive an economy which is hypnotizing itself to sleep. The initial thrust of privatization in accordance with the law of octaves may appear very forceful and unbending in its initial direction. However, at the point of retardation, it changes its direction and becomes weaker. Different privatization programs began to emerge in various sectors of the economy and the programs seeded to vary with different countries and with the intensity of the cravings for property. Further expansion leads to greater diversification and when the descending octave matures, the ascending octave of accumulation becomes more and more visible and prominent.

While the first note of a descending privatization octave is itself an octave of ideas of whatever psychological motives, the second note is a materialization of these ideas and consolidation as a social organ and is again another octave of a note. Man may give this responsible organ a variety of names such as a Gorbachev institute, a Ministry for Property Transformation, a Ministry in Charge of Privatization Programs, etc. However, the retardation, as well-known in the Law of Octaves (from *Do* to *Ti* or *TI-Do Interval*), requires a shock and this is just known by the word "revolution" in those nations experiencing reforms. This retardation, as ideas are changing into practice, is a slow-down which requires a political shock or a revolution or a shock therapy of many rounds of meetings to provide the force for the further development of the descending octave. Theoretically, there would be another slow-down at *Fa* to *Mi* or *Fa-Mi Interval* in this octave. This point occurs when the organs of social privatization become mature as a living social organ where the essence has truly appeared and a real situation of not having much "thing" to privatize further. It comes when the accumulation of property becomes a reappearing truth, when the accumulation of shares and forms of property become a reappearing truth; when the accumulation of shares and forms of property become a social headache. At this moment, a second shock is required, otherwise, the whole process of the privatization octave can only transform forms of property into Private State Monopoly. Although the process is long and winding, the Private State Monopoly would emerge and replace the original Public State Monopoly. The *Do* of the First Economic Octave becomes the *Do* of the next octave, however, with this difference: A new name without much qualitative difference in ownership. This octave after privatization cannot be called privatization again but it would be known as the descending octave of de-monopolization of the Private State Monopoly. This de-monopolization is possible because of the existence of the ascending octave of accumulation.

Privatization and De-monopolization on the one side, and Nationalization and Accumulation on the other side are like the *Yin* and the *Yang* of the *Yin - Yang* theory. Hidden in every *Yin*, there is the seed of *Yang* and hidden in every *Yang*, there is the seed of *Yin*. Hidden in every privatization, there is the seed of accumulation and hidden in every nationalization there is a seed of de-monopolization.

This concludes the conception of dialectics, the *Yin-Yang* philosophy, the trialectics, the laws of Octave and the formal and static categories of modern economic science as applied to the Inquiry Into the Recent Privatization and Economics Reforms of the 1990's.

The democratic value of equality of ownership is a super-structural balance line of which accumulation and de-accumulation of forms of property, finance and intellectual property fluctuates, Equal property of all kinds, balance of *Yin* and *Yang* for the property health of a social organism or creature is achieved by the counter forces of the two octaves of accumulation (moving towards few Men) and de-monopolization (moving towards Many Men).

The transfer of ownership to an abstract legal entity such as a corporation places the ownership into the non-human factor but the creation of shares into

unlimited units into the human factor. But if all these ownership units flow back into Few Men, than the whole purpose of privatization is defeated. The society is as unhealthy as before and is in danger of the law of repeated privatization or de - accumulation. The complicated zigzag forces of Great nature are not easily predicted. What may seem impossible may become possible – a massive feeding and reciprocal destruction of humanity.

It is an enigma in the formal categories of most economic texts that the chapter on ownership and forms of property is treated most lightly as if insignificant. But in real world life, every economic and business activities is closely and eternally bound up with the flow of 'The-Ownership-of-the-Thousand-Petals-of-Forms-of-Property', a potential ranging from the material ownership Below to the spiritual ownership Above, from the coarse to the fine. Although the nature of material property and intangible property is difficult to investigate, the nature of spiritual property is no easier.

If we look into the ascending economic octave of accumulation and the descending economic octave of de-accumulation from the standpoint of state regulation and control, it is not difficult for a stable state to decree on "privatization" as a condition for any registered and practicing business units which have accumulated wealth up to a predetermined amount as promulgated by law. Thus when these business units become more and wealthy they would be required to transfer ownership through shares and other methods so that the rule of Many Men is continuously maintained.

The laws of trialectics and the law of octaves must necessary work into the economics domain because economy is centered on man and man is subjected to these same laws. The procedure to satisfy the unlimited wants of many men is real economy not a few men, but the source of these unlimited needs and wants is in man and subjected to the laws governing man. Without man, the whole of the economic being would come to an end.

The two processes of accumulation and privatization, of the movement of ownership towards Few Men and towards Many Men respectively, constitute a natural behavior of unceasing accumulation and de-accumulation that build the Factor Ownership Cycle. However, the philosophy of unceasing privatization or recurring privatization of the private and the public sectors will lead to an interesting form of society in this most important realm of ownership. The mathematical transformation of ownership into an infinite number of discrete shares capable of supplying the ownership need of every citizen and business organization is a new thesis in resolving certain contradictions in handling the vital issue of ownership but not the real Scarcity and Abundance of resources in production, distribution and consumption.

Concerning these business units, it must be pointed out that besides being widely regarded as organs of providing goods and services and defined so by every economic and business books, they are also organs of accumulation in the factor ownership cycle. While the outward flows are considered providing goods and services, the inward flows (or feedings) are the processes of

accumulation of wealth. The success of these business units is commonly measured by a factor known as profit which is an element of accumulation and expansion of surpluses. The centering of management and decision-making goes hand in hand with this expansion until it becomes a huge organization with a distinct *Central Planning Economic Apparatus*. The modern concept of Central Planning Economy is an outcome of this accumulation and conglomeration. The little citizens of "Central Planning" in the cycle of accumulation and also conglomeration directly results in the demand for some forms of huge *Central Planning Methods*. Decentralization goes hand in hand with this de-accumulation.

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## APPENDIX

This statistical table shows the extent to which private ownership has become public ownership in many so-called capitalist countries by 1978. Notice that in the US, these circles are white in color, showing that 91% are privately owned ( the Few Men theory, some sort of a Private State Monopoly, a monopoly on the other side of State / Public Monopoly ).

### Statistical Data on Foreign Investments in Vietnam

Source : Vietnam Economic News ( VEN )

Year of implementing a liberal foreign investment law : 1988 Approved Foreign Investment (1991) : US\$1.23 billion

Total no. of projects licensed since 1988 : 363

<u>Country</u>	<u>No. of projects</u>	<u>Investments</u>	<u>Rank ( in 1991)</u>
Taiwan	46	US\$602.8m	1
Hong Kong	90	US\$393.9m	2
Australia	18	US\$280.2m	3
France	27	US\$276.4m	4
Japan	22	US\$104.0m	5

Data on earlier Monopolization -- Mergers and Takeovers  
by Sergei Dalin, D. Sc ( Econ. ), "The Scientific and Technological  
Revolution and Aggravation of the Contradictions of Capitalism"

<u>Year</u>	<u>No. of Mergers and Takeovers</u>	<u>Country</u>
1965	2,125	U.S.A.
1968	1,020	Japan
1969	6,132	U.S.A.
1972	2,000	France

### Data on Ownership shifts towards " Few Men "

1960 : 5% British taxpayers owned 75% of all private wealth  
1965 : 90% US population held no shares  
1968 : 0.25% of the working population ( 2000,000 people ) have private fortune greater than US\$1m. There are 750 largest industrial, banking, insurance and trading monopolies which consists of 5,000 people.

( Source : F. Lundberg, American researcher, from Sergei Dalin )

1964 : 1.7 of adult population in Britain own 75% of all share  
1965 : 1% US population own 76% of all share

( Source : Prof. Lampman, IS, from Sergei Dalin )

1990 : The richest fifth of the world's population, by nation, earned 60 times more than the poorest fifth double the gap in 1960 Mozambique is the poorest country in the list with a GNP per capita of US\$80 in 1989, compared with US\$29,880 for Switzerland, the richest.

( According to UN report released on April 23,1992 )

### Data on Ownership shifts towards " Few Men " ( continued )

1977 to 1990

- i ) The richest 1% of Americans, an estimate of 2.5 million people, reaped 60% of the income gain in U.S. from 1977 to 1989.
- ii ) The number of people below the poverty line grew from 11.7% of the population in 1979 to 12.8% in 1990 after hitting a high of 15.2% in 1983.
- iii) The average income of a family of four in the richest 1% of U>S> grew in a dozen of years from US\$310,000 a year to US\$560,000, or a 77% gain. The

average middle class family gains only about 4% of the income range experience real income drop.  
 ( Source : Figures are taken from the U.S. Congressional Budget Office, released in December, 1991 )

Singapore Household Survey, Monthly Income :

	1972/73	1987/88	Annual Change (%)
Top 20%	S\$2,852	S\$5,322	4.2
Middle 60%	926	1,700	4.1
Bottom 20%	373	644	3.7

( Source : New Straits Times, Malaysia. September 22, 1991 )

Russian Privatization Plan Information ( Source : New Straits Times, Malaysia February, 1992 )

1. Plans to sell off 25% of state - owned enterprises by the end of 1992.
2. Minister in - charge of the privatization program : Anatoly Chubias.
3. According to Anotoly Chubias, it would take 10 to 15 years to break up Russia's State Monopolies.
4. Price liberalization : January 2, 1992.
5. Privatization to be based more on selling instead of giving .
6. Expected to raise 92 billion roubles through the 1992's privatization and up to 500 billion roubles by 1994.
7. Russian Central Bank, current exchange rates, January 1992 is 110 roubles per US dollar.
8. Share distribution method:
  - 25% stake in each firm to go to the workers
  - Workers have an opportunity ot acquire another 10%

The Economic Zones Plan ( Source : New Straits Times, Malaysia. February, 1992 )

Plans have been developed to create a Special Economic Zone in the Tumen River Region Bordering China, Russia and North Korea.

Vietnam too is breeding her own Economic Zones.

In the Non - Socialist blockm these special regions are not called Economic Zones Technically, although they are the same essencely.

This is a picture of the front and back sides of the Foreign Exchange Certificate currently used in China.

This table on the left shows the Food Products in Russia which is low with no significant increases.  
( Source: The New Straits Times, Malaysia. January, 1992)

#### Why Socialism?

( Extracts of an essay by Albert Einstein, the great physicist, which appeared in the first issue for MONTHLY REVIEW, May 1949. )

Is it advisable for one who is not an expert on economic and social issues to express views on the subject of socialism? I believe for a number of reasons that it is.

The economic anarchy of capitalist society as it exists today is, in my opinion, the real source of the evil. We see before us a huge community of producers the members of which are unceasingly striving to

deprive each other of the fruits of their collective labor - not by force, but on the whole in faithful compliance with legally established re'es. In this respect, it is important to realize that the means of production - that is to say , the entire productive capacity that is needed for producing consumer goods as well as additional capital goods - may legally be, sad for the most part are, the private property of individuals.

Private capital tends to become concentrated in a few hands, partly because of competition among the capitalists, and partly because technological development and the increasing division of labour encourage the formation of larger units of production at the expense of the smaller ones.

Moreover, under existing conditions, private capitalists inevitably control, directly or indirectly, the main sources of information ( press, radio, education ).

Production is carried on for profit, not for use, There is no provision that all those able and willing to work will always be in a position to find employment; an " army of unemployed" almost always exists. The worker is constantly in fear of losing his job.

Unlimited c ompetition leads to a huge waste of labor, and to that crippling of the social consciousness of individuals.....

This crippling of individuals I consider the worst evil of capitalism. Our whole education system suffers from this evil.

I am convinced there is only one way to eliminate these grave evils, namely through the establishment of a socialist economy, accompanied by an educational system which would be oriented toward social goals. In such an economy, the means of production are owned by society itself and are utilized in a planned fashion. A planned economy, which adjusts production to the needs of the community, would distribute the work to be done among all those able to work and would guarantee a livelihood to every man, woman, and child. The education of the individual, in addition to promoting his own innate abilities, would attempt to develop in him a sense of responsibility for his fellow men in place of the glorification of power and success in our present society."

This is an extract from Albert Einstein, the greatest physicists of the 20th Century concerning his view on socialism and capitalism in the 1950's