ECONOMY IN EASTERN EUROPE AFTER CMEA SYSTEM

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I. Eastern European Transformation and Foreign Investment

1. Parliamentary Democracy and Market Economy

The reason for the collapse of Communism in Central and Eastern Europe is the mixture of the inefficiency of the political organizations and the economic organizations. Centrally-controlled democracy made politics to be governed by Communists' NOMENCLATURA. It had a tendency to be dependent on the U.S.S.R and populism. The Centrally-controlled economy had a tendency to be dependent upon workers' self-management of actual production levels. But where there was "NORMA"-based production by products, no competition is developed. Such dependencies do not encourage motivations of efficiency in production, especially in product quality and market-oriented product development. As technological innovations for private mass-consumptions were not valued, those were not advanced. Using old machineries were considered good evidence of the existence of a "Hero of Workers". A good example is shown in a Polish movie named "A Man of Marble", directed by Andrzej Wajda.

Politicians were spoiled by their eliteness, nepotism, bribery and lack of criticism. Workers were spoiled by Lifetime Employment, obsolete mass production and insufficient facilities to develop and reform their production lines. People who advocated reforms were criticized as schismatics. Two oil shocks in the 1970s spurred the development of energy saving technologies and electronic innovations in Western countries. By contrast, in the socialist countries, there was no motivation to adapt themselves to such new technologies, since oil

production in the U.S.S.R. was sufficient to satisfy their demands. Information from the West revealed that Western countries had advanced in their wealthiness and quality of life. Such information was given to Eastern Europe by advanced electronic instruments, such as TVs, faxes, and radiocassette taperecorders. As those instruments and automobiles were precious and limited in number, they were the envy of the citizenry.

In 1967, GNP per capita in the Eastern European countries indicated that they were ranked in top 30 in the world. However, by 1988, Eastern European Countries in per capita GNP dropped to the low 30s or in 40s in world rank. For example, Poland's per capita GNP declined from 28th to 43rd, overall. I think those situations set the stage for the events of the fall of 1989.

The above situations did not however, spur a movement to the market economy, but people in the areas believed that only market economies would be able to follow the new technological innovations and improve their standard of living. This view caused widespread popularity followance the Helsinki Declaration of Human Right, and the introduction of loans from the Western banks. People thought that a lack of freedom in politics would slow on prevent economic liberalization. The late 70's was a time of the borrowing from Western banks. At that time, Yugoslavia was one of the NICs (Newly industrialization Countries). When the term NICs was first introduced, NICs consisted of Asian NIES, Brazil, Mexico, Greece, Portugal, Spain and Yugoslavia. Eastern European countries, like Latin American countries, attempted to gain memberships in the OECD. And they introduced foreign borrowings and Western machineries. The Western bankers looked for new borrowers. Because of the economic recession caused by the 2nd oil shock, the banks could not find borrowers in OECD countries, and received increased deposits by OPEC countries.

The borrowed money was not utilized for economic efficiency, instead, it was used for the projects which the Communist Government approved. Such approvals were based on political considerations, not economic efficiencies. Therefore, Eastern European countries were

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not capable of repaying accumulated foreign debts. And Western bankers were left to undertake reschedulings after having thought incorrectly "Government never goes bankrupt".

2. Abolishment of CMEA system

In the late 1980s, the U.S.S.R. struggled for to support its socialist system in the face of fiscal deficit. As the U.S.S.R. was an oil exporter to CMEA countries, oil price increases through the adoption of international oil pricing was good for its fiscal reformation. This policy triggered the collapse of CMEA system. For the Eastern European countries, this meant they might become supporters to the U.S.S.R. The U.S.S.R. might take their hard currency which was earned through trade with the Western countries. There were no complementary relations under CMEA system. Thus, the CMEA system was abolished. This meant that the Eastern European countries might also have a chance to earn hard currency from the U.S.S.R.. Results up to that time had been miserable. Their products could not compete with the ones made in Western countries. Even if their products were inexpensive, former CMEA countries had very little hard currency to spend. Sometimes they entered into barter trade agreements to meet their needs, which was time consuming and reduced foreign trade. They lost foreign markets in the East and the West. Not only in the West but also in the domestic market, the quality of their products was criticized severely. In the days of transition, people preferred consumer goods from the West, as those were strong against domestic inflation. When shock therapy was adopted in Poland, foreign currencies were spent on consumer goods from the West which were esteemed as precious goods in former days, and not on capital goods from the West. Some people in Eastern Europe equaled the market economy to speculation.

3. Foreign Investment

Foreign investment is welcomed because host countries need hard currency and access to Western technology. They lost confidence in their own production systems. But up to now, results of the introduc-

tion of foreign investment have been poor, because their new regimes are not reliable, and their economies are poorly run. Even if the host countries made foreign investment laws and related regulations, high-tech industries in the West were not be attracted, and only small and medium sized companies, especially service companies and those in-retail fields, invested in the areas. In these fields, emigrants from the host countries, like the Europeans and Americans of Polish, Czechoslovak and Hungarian origin are re-investing their money in their mother countries.

The U.S. government has supported the U.S. joint ventures in the area through enactment of the Support for East European Democracy Act of 1989 (the "SEED Act"). The primary purpose of the law is to promote the development of private sectors by introducing hard currency loans and equity through the Enterprise Fund by the SEED Act. Main users of the Enterprise Fund are the emigrants in the U.S.A. who trace their roots to the Eastern European countries. Other investors are the Germans. The reasons for German Investment are twofold: there are emigrants, and the East Policy led by the ex-prime minister Brandt who considered Eastern Europe as their markets. Japanese investors are reluctant to make new investment in the region. In the CMEA era, there were few investors, as under the protection of the host government, in domestic and CMEA markets joint ventures might produce some profits. The Government protection banned competitors, and provided for government purchases of their products in the domestic market. These policies are prohibited under the new market economy. In Hungary, SUZUKI Automobile Company made new investment. This was of a particular case, because SUZUKI looked first to the EC market and failed it in the EC countries. SUZUKI now aims firstly at Eastern Europe and secondly at Western Europe.

4. Is Socialist Economy Abolished?

Socialism has been abolished. But it means only abolishment of the centrally-planned economy and the sovereignty of workers remains. The former is dead, but the latter is alive. Yugoslavian way

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was the case, which aimed at the sovereignty of workers. Cooperatism (Syndicalism) is the big back ground of it. "Social Owned Economic Organization" is the key term to the socialist economy.

In Yugoslavia, the "Cooperative Economic Sector" is the major part of its economy. In other socialist countries, "State Owned Enterprises", were the major components of their economies. The Centrally-controlled economy might more easily control the latter than the former, because management is nominated by its shareholders. In a cooperative company, the shareholders are its members; members are the workers where they work. In the late 1970s, the Yugoslavian Government could not control the capital introduced by the Western banks. This money was spent by big cooperative companies which had placed pressure to the Government, and had expansion plans. The lack of a careful appraisal of these expansion plans by the Government caused economic inefficiencies on a country-wide basis.

Workers' sovereignty has not collapsed. The managements in each economic organization always have to pay keen attention to it. Even if a company needs a technological innovation, it should be permitted if the dividends or salaries of the workers will increase because of it. Workers' needs have to be fulfilled in the short-term. Companies do not have enough capital for new investment, as their assets depreciations are short for fast technological innovation. And monetary reserves of the companies are scarce since their major expenditures are for the workers.

Workers in the areas have enjoyed relatively rich lives, under the name of quality. If they do not require human rights and freedom of private economy. "Economics of Shortage" introduced by Prof. Kornai is well managed in the areas.

5. Differences with China and Vietnam

The market economies in China and Vietnam are different from those in the Eastern European areas. In China, the market economy is only exploited in the coastal areas, where foreign investments are welcomed. In non-coastal areas, the centrally-controlled economy is

strongly existent.

In Vietnam, the market economy is introduced under the name of “DOI MOI” (i.e. reforms). But Communist government is still alive. It means competitiveness is promoted among state-owned companies and foreign investment companies. State-owned companies must change not to aim at economic efficiencies of mass-production, but rather at economic efficiencies of product qualities and appropriate production volumes. Monopoly in the socialist economy will be abolished in Vietnam. Competitiveness of product quality has been introduced and may spur foreign currency earnings through products exports. Therefore, in Vietnam, products prices controlled by the Government are strictly limited, and that saves the government fiscal conditions. Subsidies and compensation money from the Government will be soon cut off.

In China and Vietnam, foreign investment companies enjoy corporate tax incentives, similar to those enjoyed by the South-East Asian Countries. This policy aims at boosting of foreign currency by export-oriented industries which mainly consists of foreign investment companies. This policy is permitted under the condition that there are no domestic companies to produce similar products in the country. If there is a competitive domestic company, such company would claim corporate tax incentives. “It violates equal treatment between the companies, if a shareholder is a foreigner, and gets better position for tax payment, domestic companies may not encourage new investment, and thereby national economic growth will slow. A Free Trade Zone has been introduced in Bulgaria. If a foreign company invests in the Zone, it enjoys lower corporate tax and no customs tax for imported materials in order to export. The Bulgarian Government stresses easy access to the EC market through Danube River. The former two factors are valuable. But the Free Trade Zone is more valuable if there are cheap labour costs, abundant workers and good industrial estate. Such conditions will be present in Vietnam and China in addition to tax incentives. Bulgarian lower corporate tax rate is set off by labour costs, poor industrial estate and difficulties in acquiring trade licences. In other Eastern European countries, situa-

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tions are similar to those in Bulgaria. For a foreign investor, an investment in the Zone produces only tax incentives. The idea of a free trade zone, therefore, has not been introduced except Bulgaria.

II. Do Foreign Companies Have Interest in Eastern Europe?

1. Foreign Investment Laws

New foreign investment laws were legislated in the areas from 1987 to 1990. There is a common character among them. It is the existence of 100% foreign companies. It means the government of each host country does not interfere with the management of foreign owned companies, and welcomes foreign currencies and foreign technologies.

Corporate income tax rate range from 20% to 40%; 20% is applied for an investment to the priority industries in Hungary, and to the Free Trade Zone in Bulgaria, 40% is applied in Bulgaria, Poland, and Czechoslovakia. Tax holidays are beneficial. The biggest tax holiday is the Hungarian one. For the first 5 years from the beginning of commercial operation, corporate income tax is exempted. The shortest grace period is in Czechoslovakia; It permits 2 years only.

In Yugoslavia, corporate income tax is 10%. But it is a unique case. It seems that this low rate comes from its special concept of a "Social Owned Company". Profits of a company will first be distributed among the workers. Such a cooperative system does not fit well with a corporate income tax system.

These foreign investment laws are special laws to their company laws. But there are not big differences between them, because a foreign investment company is one of the forms of companies. If there is a big difference, domestic companies want to change their forms to foreign investment companies by using nominees from among foreign residents, because of the large number of emigrants.

So incentives by the host countries are unstable. Foreign investment laws and regulations in the host country can be amended easily. Romanian Government Policies do not appeal to foreign investment

applicants, because its foreign investment policies are stagnant. Gradualism is introduced not by the reason that the Government does not want to change its socialist economy, but by the reason that equal treatment between foreign investment companies and domestic companies are strongly required.

Usually foreign investment laws permit land usufruct but no land ownership for companies with foreign participation (Especially in a case where the foreign portion is a minority, it is difficult.). So such companies face great difficulty in getting local financing, because they are not allowed to offer mortgages on their land ownership toward financing institutions, as local law prohibits them to get land ownership. And land usufruct sometimes can not be mortgaged or appraised with small values. The host government says to foreign investors, "You can enjoy tax holidays. So you have to bring all funds for your needs. You can not depend on local financing." This will cause shortages of local currencies for working capital.

In the LDC countries, there are no claims for incentives to the foreign investment companies. There are two reasons for it. There are no competitive companies in the LDC country. The Government may take high-handed measures toward claims from domestic publics. Such authoritarian regimes sometimes provide better conditions for foreign investors. Indonesia is a good example of this. The Thai Government now struggle to remove incentives for the foreign investors by introducing VAT, as Thailand is now capable of being classified as a new NIES, not a LDC. So the Thai Government can not neglect public opinions. We can see the same situation in South Korea. Its authoritarian regime was lifted up and many labour strikes occurred. And labour costs increased steeply.

Each Eastern European Government must take consideration public opinions for equal treatments between foreign companies and domestic companies. And the domestic companies, usually state owned companies can produce similar products which will be made by foreign investors. The difference are quality, delivery term, brand name and international competitiveness.

As easy conclusion is that foreign investment laws are absorbed by

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general laws as such company laws, corporate income tax laws, and customs laws. But this conclusion never attracts foreign investors. For example, in Czechoslovakia, foreign investment laws were absorbed into new Commercial Codes and Civil Code in November 1991.

Still a foreign currency shortage remains. The Government's dilemma remains.

2. Where are the most attractive areas for new investments?

Which is a good country for new investment? The answer will be Hungary. Its market economy has been introduced gradually since 1968. There is a foreign joint venture bank. The Hungarian Government has never requested rescheduling of its foreign debts, although it has big accumulated foreign debts. On the contrary, the Polish Government requested to cut down half of its public debts, and it was accepted by the creditors in 1991. It means public creditors will not extend new loans and not underwrite guarantee for the foreseeable future.

The Hungarian Government and people are relied upon by the Western Governments and people for their business sense. And if Hungarian entrepreneurship could be cultivated more quickly, Hungary would be more attractive, and international institutions would also have a good impression of Hungary. As Western commercial banks are overextended, they are very reluctant to offer new loans. So new money is expected from the international institutions and some public financial institutions like the Export-Import Bank of Japan and Overseas Economic Cooperation Fund of Japan. Their money is expended in the form of balance of payment deficit loans, import finances for capital goods and infrastructure development. If a foreign investor works with such financial institutions, he may save investment costs and get confidence for foreign currency circulation.

3. Roles of International Institutions

Where do the international institutions focus for their new loans? International institutions, especially international financial institutions

like EBRD, IBRD, IFC, and MIGA check the progress of the free market economy and parliamentary democracy. In this checking, only shock therapy would be acceptable. But shock therapy might cause a disorder and create chaos, due to high inflation and layoffs. People might criticize their government, and in a parliamentary election, there might be a possibility that the socialist party would win. I do not think international institutions care for such situations. This will be a big crisis and a dilemma. Their answer to this dilemma might accelerate the development of free market economies. With large foreign capital, they would not make a U-turn to socialism. My question is, how much money is required and whether international institutions can supply such big money? Budgetary concerns in member countries make it difficult to contribute new money to the institutions. The U.S.A., U.K., France, Italy are running big fiscal deficits. German investment money is concentrated to former East Germany. The Japanese Government looks at Asian areas first, which includes the Russian Northern Island and Siberia. Although U.S. Enterprise Funds will support positive newly policies, the capital of each Fund is small, about US\$100 million. The Fund covers joint ventures ranging from light industry to private banks.

My answer is that the shock therapy might not be exploited to cut down workers' motivations for working. So social welfare to workers and pensionists should be more emphasized by the policies of the Government. And big state-owned companies or cooperatives should not be liquidated if they produce good profits and do not receive subsidies from the Government, even though their management are against free market economy. The problem is that they do not produce and thereby increase products prices. As they have big inventories, they can get great profits from non-working. Such situations are a big drain on the national economy. Under such circumstances foreign companies are not encouraged to invest in the areas, as they are afraid of a shortage of local procurements.

My opinion is as follows. Even if their managements are against newly introduced anti-monopoly acts or anti-trust laws, their managements are never blamed because they are monopoly activities. Their

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managements are not changed quickly as they are so regulated by SSA, which is referred in the following chapter. In a free market economy, speculations are never blamed. If a Government wants to check such activities with newly introduced anti-monopoly acts, it gets worse for the national economy. The managements of big state owned enterprises are rested in socialism. In their theories, monopoly under socialism is good for decreasing production costs with mass-production and efficient allocation of a factory. It causes social welfare among peoples with cheap and sufficient products. This situation is accepted if a distribution system of their products is well controlled by the Government.

But under a process of economic reforms, distribution systems were first broken down into disorder, because they were symbols of the centrally-controlled economy. Up to now, new distribution systems owned by private sectors did not grow. Struggles among tribes retard growth of private distribution systems. This does not only mean that conflicts among tribes cause difficulty in the physical transportation of products, but also that antipathy to the leading tribe in former socialism regimes causes unwillingness to transfer their products to the place where other tribes live without high profits.

The foregoing represents a good example of "Negativeness of a Culture", which was made by Prof. T. Aoki (Osaka Univ., Japan). The concept of Nation State rests on a fiction of a Nation. Nation State is not a Tribe State. Nationalism may minimize the conflicts among tribes which make up the Nation. Under a name of a Nation many tribes may live in complementary relationship with other tribes. But usually there is a leading tribe in a Nation. For my opinion, the Socialist State has a factor of a trans-Nation State. The idea of Soviet is a good example of trans-Nationality. Soviet itself is created not by a tribe, but by residents who live where a Soviet is made. The collapse of Socialism revitalizes a Nation State. Where integration powers are small, in other words, where a tribe can not get benefits from integration, people prefer a Tribe State to a Nation State. Such states are Yugoslavia, Czechoslovakia, and the Soviet Union. If a new State is made, in a State good complementary relations are required

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among all groups including tribes.

The EC is formed only because member countries want to tighten their complementary relations. So the EC is not a Nation State but a state of integration.

III. View-points

1. Theory by the Regulationists

To understand the Eastern European economy, the approach by the Regulationists (Prof. Boyer and Prof. Agrietta are the leaders) is useful. They analyze the economy by the terms of SSA (Social Structural Accumulations) and Regulations. "Fordism" is the key word for an integration of mass-production and mass-consumption. Workers of the Ford company were motivated to work by high wages in proportion to high productivity. Their work was simple and separated. Wage increases produce new demands of new products under mass-production lines. Collective bargaining system and threats of unemployment and layoff are built as factors of regulations. Under Fordism, economic efficiency by the volume of production is sought.

In Japan, Fordism is modified. Under the basic mass-production system, many kinds of products with high quality are produced. Workers are motivated to work with small group activities such as QC Circle Activities in their production lines. For example, various kinds of productions are capable by Kanban production system and Just In Time delivery system. They are the systems to minimize inventories. They save inventory finance cost. Workers are motivated by the lifetime employment and the wages fitted for their life stages. They never face layoffs and severe living standards. It means they can never enjoy rich lives. Such SSA is sometimes called "the Corporate-Capitalism".

In Eastern Europe, SSA is equality among workers and massproduction system under state owned companies. Their regulations are no unemployment, low living expenses, and no opponents to the Communist Government. Workers and managements are not motivated to increase productivity. Under Communism there is no need

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for rich workers, but rather of equality among the workers. Workers' self-management adopted in Yugoslavia and Hungary were the challenge of increasing productivities, and they were the attempts to change their SSA in order to compete with the products of the Western countries. Workers can select either good dividends in a long span or good salaries in a short span. However, this challenge failed, because workers selected good salaries in a short span. In 1974, in Yugoslavia, cooperatives named OOUR were established in a cooperative named RO. In a company (RO), each production line (OOUR) can trade with each other. Competitions were introduced, but they did not compete by products quality but rather by price. Each OOUR did not act like an industrial-capitalist but like a merchant-capitalist. The OOUR divided its profits to the cooperative members, (unfortunately, the words of wage or salary were never used since 1974), and never reserved them for new innovations.

The Privatization Act in Hungary 1989 is a good example of SSA of Eastern Europe. The State Owned Company Act of 1984 accelerated the minimization of the centrally-planning economy in an actual operation process of a state-owned company. The Government retreated from the industrial control of each particular company to regulations to national economy. About 75% of the state-owned companies are now operated actually by the workers' self-managements. One of the premises of privatization is the abolition of company councils and workers' general meetings, which are two vehicles of workers' self-management organizations of a state-owned company, because in order to introduce foreign equity holders, these organizations are not necessary.

Other premises are the 20% state ownership of a privatized company, and no division, and no liquidation of a company. Even if a company has big losses, bidders do not have the option to purchase one division of a company which may produce profits in the future. The bidder must offer to purchase total assets and liabilities of a company. The foreign investor must have a domestic partner named the Government. This can only be the case if the workers accept a voluntary division of the company before privatization bids are tendered.

These premises mean workers' sovereignty is alive. Further evidence of workers' sovereignty is the issuance of temporary share with credits. A municipal council (local government) where a company has an address, or big bidders can offer up to 20% ownership with such temporary shares. Owners of such shares can request to convert reserves of the company to their shares. It means that after privatization, if the company earns big profits, new owners will suddenly appear, who will request dividends. Dividend burdens will increase, major shareholdership will be feared by such new shareholders who consist of local government. The background concept is a company should belong to the area where the company is, and such area should be controlled by the workers who live in the area.

In Poland the first established commercial bank went bankrupt. There were many reasons for the bankruptcy. But one of the big reasons was a lack of entrepreneurship of the board of managements. Its board and the Government easily depended on each other. Both had an excuse that "we worked for the citizens." Such excuse was probably created from misunderstanding of workers' sovereignty. Under the reform of Mongolia, the State Bank of Mongolia made a big loss in foreign currency transactions in London. I think the reason was similar to the Polish bankruptcy case.

2. Entrepreneurship of Workers

Privatization in Eastern European Countries will be a key point for the success of reforms in the areas, because this may also change SSA. Main characters for their privatizations are the priority to the workers group for the privatized companies, no unemployment or no shelving of companies' big losses. These factors reduced the attractiveness of big state-owned manufacturing companies slated to be privatized. The private sector, including foreign investors, has no incentive to participate in such privatization.

In order to introduce new technologies and foreign money, privatization of big state-owned companies is greatly needed. But workers and management never sell their company at a low price. They resist their Government by prolonged payments settlements; Some-

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times they are called "Triangle Settlements". They create credits with each other, which is out of the control of the government. Such a situation makes it difficult to appraise the net assets of the companies which are scheduled to be privatized. Under the privatization programs in the Eastern European countries, a bidder has no option to divide a privatized company, so he must purchase bad debts and too much workers. Triangle Settlements will discourage foreign investor participation in privatizations.

Workers and management want big money through privatization. If such big money is paid in a long span, there will be a possibility that entrepreneurship of workers is cultivated. But up to now, there have been tendencies to look for big money in a short span. In Czechoslovakia, coupons for privatization were sold to the citizens with nominal capital (1,000 koruna). Citizens sold their coupons easily to some trust funds. They did not want to be shareholders, and to be beneficiaries from the trusts. This means general citizens aim at cash only. But probably, entrepreneurship of the workers will not be criticized by general citizens. Workers will be required as entrepreneurs and actual producers. Workers will be required to exercise self-restraint for benefits in a short span, in order to reserve profits for new innovation and research and development. If it is made successfully, it will be a better situation than the Sweden model. Kalmarism adopted by the Volvo factory in Kalmar is one example of the Sweden model. Even if cooperative form is not taken, workers would make their demands to the board of management, through supervisory committee to their company, because workers' representatives have 1/3 of the voting shares in the supervisory committee. Such system has been introduced in the company laws in the Eastern European countries.

3. The Role of The Managements

Japanese Fordism will be criticized because of its dividends system between companies and workers. Increased productivity in a company has not been distributed proportionally to the wages of the workers, because company managements are in a better position to

negotiate with workers. Workers salaries in small and medium manufacturing companies are lower than those in large manufacturing companies. Labour unions are rarely organized in small and medium companies. Labour unions in large companies easily cooperate with the managements because of the SSA in Japan. Sometimes such Japanese SSA is called Corporate Capitalism.

One example of Fordism in the Eastern European countries, is the GE joint venture in Hungary. It was newly founded to make electric goods for family use like light bulbs. Last year it produced a big loss, because of increased labour cost especially social welfare cost and stable local currency tied to U.S. Dollars. Under Fordism, workers may cooperate to increase productivity with a high return of wage. I think, the products of that company were not suitable for increased productivity. The productivity grows only under the conditions that products compete in the market and labour costs are small. Under the Taylor Method, workers are not motivated to improve their production lines. In that case, the products were matured, the production lines were not improved by workers' initiative, the workers requested high wages to compensate high inflations, the Government requested to increase contributions to the workers' unemployment, and IMF's policy to stabilize local currency to hard currency was successful. Paradoxically, Fordism makes no success under a market economy.

Micro economics says that if the level of the wage of workers is decided first, competitiveness of the company will worsen, because the managements can not take appropriate measures for distribution of company resources. Company management is required to be referee or judge to divide company profits among dividends to shareholders, wages to workers, reserves for new technological innovations, and social expenses as a corporate citizen (corporate philanthropy). Company management is required to be referee to exploit various company resources, such as human resources, material resources, know how, and utilities.

In Eastern Europe, the conditions for the judges will be as follows. Shareholders are the state, cooperative members, citizens after priva-

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tization, foreign investors, domestic private investors and workers of the company. Will workers take profits as expenses of a company (salary, wage and social welfare), or dividends of the company? Will foreign investors aim at dividends, marketing profits or profit from production processing? What kind of technological innovations are required? What is the proper productivity balance with innovation cost? What technique is appropriate for the market? Social expenses are environmental problems, relief to the weak people (pensionists, children), infrastructure, and company philanthropy. For whom do company managements work? Can the idea of workers' self-management coexist with Corporate Capitalism? What is the genuine nature of a referee for a company?

4. Model by Prof. Iwata

Prof. Iwata (Chiba University, Japan) has proposed his model to understand Eastern Europe. He refers to three ideas of the French Revolution. Freedom corresponds to Capitalism. Equality corresponds to Communism. Philanthropy corresponds to Socialism. This concept seems important, because in his context Socialism never dies. My analysis may raise a question; How will be able to exploit workers powers which were established in the Communist era?

The Eastern European Revolution surely needs market economy. But the introduced market economy should motivate workers more strongly. For example, if the members of an OOUR in Yugoslavia are motivated, the OOUR will be a good organization to do research and development and produce technological innovations. If the intellectual property rights are well established, efficiency of R&D will be cultivated under rather smaller organizations like OOUR not under larger organizations like RO. If a result of R&D is severely appraised in the market, an OOUR can choose easier than a RO, to focus its resources in that R&D project.

In this relation of market economy, foreign investment should be introduced. Foreign investors think of where their market is. If the area is not stable politically and economically, they will not be motivated to invest. Big manufacturing companies in the area need new

production lines and new technologies. Although foreign companies will worry about the large investment cost, foreign companies are requested to finance the project, because local investors do not have sufficient capital, but foreign investors will look for risk hedge. Private foreign banks are very reluctant to offer new loans, as they face accumulated debt problems in the area. Multinational Financial Institutions face money shortages as the U.S.A., although it is a top shareholder, can not contribute money for increased capitalization, because of its fiscal deficits.

The Export-Import Bank of Japan (hereinafter EXIM JAPAN) has been requested to co-finance Eastern European lending with Multinational Financial Institutions like IBRD and EBRD. The results amounted to over US\$ 650 million during last 3 years. And EXIM JAPAN continues export financing and investment financing to the areas, although Western bankers are reluctant to extend new loans. But its funding resources are post office deposits by Japanese citizens, not taxes. EXIM JAPAN is required to make full repayment with interest to the post office depositors. So the credit-worthiness of each project is checked severely. Eastern European countries are member countries to IBRD, EBRD and IMF. So they are trustworthy for their repayments to IBRD, EBRD and IMF. On the contrary, the EXIM JAPAN has only one shareholder, the Japanese Government. So the Eastern European countries will prefer repayments to IBRD, EBRD and IMF, repayments to EXIM JAPAN, as parent company loans are important. Even if savings motivations of Japanese citizens are strong, saved money should not rush to the particular areas.

Stock exchange markets in the areas are not active. So the markets cannot introduce domestic and foreign money. And intentional institutional investors look at other active country funds or big markets.

The last resources to be tapped will be their domestic savings. In a medium or long span, investment by their domestic savings will be successful. Productivity will be increased by workers motivations and domestic savings. The privatization program should be exploited to promote domestic savings. The bargain sales to the former manage-

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ments are better than that to the foreign investors, if the former management have a good entrepreneurship. Domestic savings will be promoted by the successes of domestic investments. The bargain sales do not mean the Government takes a loss, rather that it is forced to more reasonably assess its profit. To appraise their assets appropriately, the Government has expended too much to the foreign accounting houses and the investment banks. This policy seems to me improper, because it means precious foreign currency recycles to the West. But in these dealings, corruption and bribery should be carefully rooted out.

Currently, it seems that expectations of foreign capital and technology are too high. They should understand that the roles of foreign investment are not big, and foreign investment works only to support domestic investment. Foreign investors always make ready to flee, because they act in accordance with their principles of market economy. They can select a site of their new investment, not in the map of Eastern Europe, but in the world map. If it holds a party named a foreign investment, the attendants should be many numbers of hosts and hostesses, and small numbers of guests. A guest can select the most attractive host or hostess.

Now shock therapy is criticized and citizens in the areas are tired with reforms. Citizens in the areas should overcome the severe, unsparing market economy through self-help.

I believe that the big points of attraction of Eastern Europe will be, with borrowing concepts of Prof. Iwata, Philanthropy, and good triad balance among Capitalism, Communism, and Socialism. Under the idea of Philanthropy, workers are motivated to work creatively. The opportunity for workers' self-managements is a sound concept, with a capital for technological innovation being reserved in a company, and creative, challenging work being supplied to workers on a lifetime basis. Ideas of Freedom and Equality are based on ownership. A good example is "who is the owner of a company?". Ownership is an absolute controlling right to an object. It is based on a principle of exclusion. The idea of Philanthropy is based on usufruct, not ownership. There needs to be a coordination between overlap-

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ping rights of ownership. The principle of exclusion shall be adjusted. The principle of adjustment is efficiency of usufruct. Each member of ownership may be forced to compromise for the sake of efficiency of an object. Efficiency will be calculated by the market mechanism. The market economy in Eastern Europe should be like this. So, it is important that good triad balance among Capitalism, Communism, and Socialism be maintained. I never mention the regimes underlying these ideologies, I only mention ideal concepts of these ideologies.