
Bottom-up transformation: prerequisites, scope and impediments

Bottom-up
transformation

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Introduction

The fall of the iron curtain and the drastic changes in the political system of former socialist countries in Eastern Europe has led also to a collapse of the economic planning system and to a dramatic downturn of economic performance. It has become a widely shared view that in order to cope with these economic problems a transformation of the Eastern systems to a Western-type market economy is necessary. Viewing an economy as a population of firms, there are two alternatives for such a transformation of post-socialist economies: "top-down" and "bottom-up". Whereas top-down denotes the privatization of state-owned enterprises, bottom-up characterizes the change of economic structures that is due to the establishment of new enterprises or to the development of the private firms which already exist. This paper discusses the experiences of bottom-up transformation in post-socialist countries and draws conclusions as to the most feasible and appropriate policies to be employed when implementing the transition from a command economy to a free-market system.

The article provides a brief outline of the impact which new and small businesses have in Western market economies, and then derives conclusions on the role which small firms and start-ups might play in East European countries. This is followed by an analysis of the legacies of post-socialist economies in their impact on bottom-up transformation and an elaboration on the prerequisites for a dynamic development of small enterprises in East European countries. We focus on some information on the development of the private firm sector in the post-socialist countries. Final conclusions lead to an agenda for economic policy during the period of transformation.

The role of new and small firms in Western market economies

In the countries of the West, small and new firms have attracted the attention of major research and of economic policy only during the past 15 years. The initial impulse was the well-known and heavily criticized 1979 study by Birch (1979).

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In his analysis, based on US employment data, Birch concluded that during the 1970s small and particularly new firms were the major source of new jobs. This finding induced euphoric reactions and severe scepticism as well. Some saw small firms as a solution to the problems of unemployment and stagnation while others expressed considerable doubt concerning the empirical analysis. In fact, Birch's way of preparing his data proved to be questionable and further research showed, that the results presented by him do not hold true universally for all periods of time (Acs and Audretsch, 1993). Nevertheless, his work has been of a strong impact on further research and stimulated numerous analyses of the importance of small and new firms in economic development.

The results of the foregoing research on the role of small and new firms in Western market economies may be summarized in a few conclusions:

- Small and new firms may be of great importance for innovation (cf. Acs and Audretsch, 1990) and employment; still this is no reason for general enthusiasm about small firms.
- This impact may vary considerably from country to country, region to region, and period to period of time (Acs and Audretsch, 1993; Sengenberger *et al.*, 1990. For the impact of new firms on regional development see Audretsch and Fritsch, 1994; Fritsch, 1994; 1995 and Reynolds, 1994).
- Although some of the small and new companies perform very well, many of them are merely marginal and do not make substantial contributions to economic development; they provide poorly paid jobs for employees with only basic qualifications.
- In most countries small firms are discriminated against by economic policy and are faced with much more serious drawbacks than large firms.

There is a consensus among many researchers in the field that economic policy should focus more on the small firm sector than is commonly the case. Yet, it may be said that the role small and new firms play in job generation in Western market economies is often overestimated.

A central feature of small and new firms is that they may be seen as indicators of the dynamic properties of an economic system. Growing new and small firms play an important part in the process of economic development once illustrated by Marshall (1920, p. 263) in his comparison of the economy to a forest, in which "the young trees . . . struggle upwards through the benumbing shade of their older rivals" and where the old trees sooner or later have to give way to the young ones. Marshall's "ecological" perspective is similar to Schumpeter's view of economic development as a process of "creative destruction". Schumpeter (1942) argued that destruction or the economic decline of firms is a necessary component of economic development in order to set free resources for a better use by other actors. According to Schumpeter this development is driven by dynamic entrepreneurs who introduce "new

combinations” to contest the established market positions of existing firms. Therefore, new-firm start-ups can be looked on as an indicator of the contestability of established market positions and of the openness of the economic system to innovation and entrepreneurial initiative.

Marshall’s “ecological” view and Schumpeter’s perspective of “creative destruction” have at least two important implications (Audretsch and Fritsch, 1994). The first implication is that exits of firms from markets are inevitable and constitute an essential element of economic development. As a consequence, one should not care too much about the decline or dying of firms. A second implication is that in such a process of “creative destruction” new firms and growing small firms are of central importance. They do not only challenge the already existing firms, they are, moreover, particularly necessary to make the process creative because deaths and exits without corresponding growth is only destruction and nothing more.

The potential role of small and new firms in post-socialist countries

These views expressed in the analysis of small and medium-sized enterprises in the West had a considerable impact on the perception of small and new companies in the transforming economies of Eastern Europe. The governments of these states as well as international organizations and institutions assisting them regard the setting up of a new private enterprise sector to be a major task in the process of transition (EBRD, 1994). This view is based on the hope that small and new firms may make a considerable contribution to the solution of economic, social and political problems (Keren, 1995; Reynolds, 1995). It is also based on the insight that the process of top-down privatization turns out to be much more difficult than initially expected (Arzeni, 1995; Rühle and Winkler, 1994) and that financial resources to subsidize state-owned enterprises are no longer available. If top-down transformation does not appear to be a promising way to cope with such problems as unemployment and insufficient economic growth all hope rests in the bottom-up strategy, particularly in the emergence and growth of new private businesses.

In the post-socialist countries of Eastern Europe, bottom-up development is expected to meet four functions in the process of transformation towards a market economy (Hauer *et al.*, 1993; Werner, 1994):

- (1) Small and new enterprises perform an important political task in creating a pluralistic society. The existence of independent entrepreneurs reflects the personal freedom granted to individuals and the decentralization of economic power. Individuals may change from dependent into independent persons exercising power and shaping a democratic society and economy. The right to establish an enterprise when, in whatever field and wherever wanted constitutes a shift from formal rights to material ones. Thus, small enterprises contribute to and

safeguard the very existence of a modern democratic society. They stabilize economic order and guarantee a certain quality of life.

- (2) Small and new enterprises contribute to competition and may help to prevent market failure caused by market power and the dominance of a few big companies.
- (3) In addition, the small firm sector has a structural function. Small firms are regarded as institutions which improve the flexibility of the economy as a whole, particularly in terms of innovation and the necessary adaptation to the rapid changes of demand and supply. Moreover, an increase in flexibility may assist in removing regional disparities. The birth and death of enterprises may make a considerable contribution to the structural change needed for the national economy to be competitive in the world market.
- (4) The small enterprise sector is seen to have an impact on the employment situation. It is regarded as a means to compensate for the job losses caused by the decline and the labour shedding of the big state-owned enterprises. Consequently, small enterprises may serve as a social cushion in the labour market.

Thus, the role of small and new enterprises in the process of system transformation is regarded as very positive. However as pointed out (above), these expectations are only partly supported by the experiences made in the market economies of the West.

Legacies of post-socialist economies for bottom-up transformation

Bottom-up transformation assigns a key role to private entrepreneurs in the process of transformation and economic recovery. However, for a number of reasons, the small firm sector and entrepreneurship in all socialist countries of Eastern Europe was underdeveloped. This legacy leads to highly problematic starting conditions for a quick development of a dynamic small firm sector.

At first there were ideological reasons which demanded the reduction or even the abolishing of the private sector (Andreft, 1993). Private initiative was regarded as a bourgeois and contradictory element in a socialist planned economy. Private enterprises were seen as possibly contributing to the revival of "reactionary" ideas and as opposed to the socialist value system. Moreover, an autonomous private sector constituted a contradiction to an economic system which aimed at the implementation of total central planning and, consequently, had to be suppressed. The state favoured the creation of large-unit enterprises with a high degree of vertical integration which seemed to promise economies of scale and which could be commanded and controlled more easily.

Towards the end of the 1960s and during the 1970s there was a revival of the private sector in most East European countries. This development, however, could not be a true base from which to start to a market economy based on

private property (Brezinski, 1992). These private entrepreneurs enjoyed more or less a monopoly situation. The administration rigorously controlled the number of companies that entered a market, characterized by severe shortages. Moreover, in order to improve the supply for the consumers official access to markets was only granted in specific fields, e.g. services and small trade. In view of the scarcity of goods and services the government fixed prices. In practice this constituted minimum prices. As a result entrepreneurs did not reflect those characteristics Schumpeter attributed to them, namely the desire to be innovative and to take risks. The most important task for private entrepreneurs was obtaining inputs; marketing was not necessary. The insecurity about future economic policy of the socialist governments towards the private sector and the possibility of private property rights possibly being weakened, caused private entrepreneurs not to be much interested in investing. Moreover, the lack of competition was no motivation to be innovative. Institutionally the private sector was more or less integrated into the state sector, albeit in a subordinate position. In the allocation of supplies, commercial space and market shares state enterprises were given preference (Pickel, 1992). These conditions, the restrictions to invest in private business and lacking the incentives and opportunities of accumulating private capital, left the previously private sector in post-socialist countries undercapitalized to a high degree and ill equipped to cope with the transition to a market.

Our analysis of the situation of the private sector as it existed previously applies also to the underground economy in the former Communist Bloc countries. This black economy was centred mainly in those fields where shortages due to the failure of the planning system prevailed or where the fixed price system allowed for gains from arbitrage. The underground entrepreneurs who engaged mainly in speculative operations and constantly risked being detected, were interested only in big short-term profits with no inclination to invest these profits (Andreft, 1993; Arzeni, 1995). To a high degree this was an unproductive form of entrepreneurship (Baumol, 1990). Consequently, the legal and also the illegal private sector of the economy can hardly be seen as an adequate basis for a take-off towards a market economy. On the contrary – as will be pointed out in the next section – those entrepreneurs working in the underground economy may be considered to be obstacles to transition (Arzeni, 1995).

In addition, the old planning system did not contribute to the creation of entrepreneurial skills and ethics. The system of fixed prices together with planned output and allocation of resources did not provide incentives for socialist managers to make efficient use of resources or to be innovative. The bonuses for the fulfilment or the overachievement of the planned targets were small. Since a better performance than planned led to higher targets in the next plan there was a clear disincentive to overachievement. The planning authorities discouraged or even impeded unplanned innovation and any other form of flexibility aiming at increasing efficiency.

The specific foreign economic policies of the socialist countries was highly protectionist. The system of foreign trade monopoly of the state and the

inconvertibility of the national currencies isolated the national economies from international competition. Consequently, the change of world market prices had no impact on entrepreneurial decisions. Therefore, the liberalization of foreign trade from 1989 on resulted in a shock for the previously private enterprises which were not used to engaging in competition.

Prerequisites for the establishment of an efficiently performing sector of small and new firms

There are a number of prerequisites that have to be fulfilled if private entrepreneurial initiative is to lead to a prospering economy that generates the jobs needed.

The first of these prerequisites is that private production and entrepreneurship is legal and that – if there is price regulation by the government – this regulation allows for some profit. In addition, private enterprises must have access to inputs and be allowed to market their outputs. As to the availability of inputs there are three methods to organize the allocation of inputs for private firms. In the worst case these resources are supplied by the state itself or by a state monopoly. Another possibility would be a government-controlled market, i.e. the state authorities strongly influence the amount of supply or prices. The third and most promising method is a free competitive market in which the government only sets some general rules and leaves the process of exchange to the individuals. All three methods to solve the problem of supplying resources presupposes a certain degree of acceptance of basic property rights necessary for enforceable contracts (Charap and Webster, 1993).

In the post-socialist countries of Eastern Europe one can find a whole variety of methods of resource allocation to the private sector. In nearly all these countries black markets and irregular activities play and have played a considerable role. This applies to inputs and outputs. To some extent this is the extension of the former practice of a society of shortage. Today, this phenomenon is aggravated by the attempt to evade taxes and the knowledge that the risk of detection and of punishment is relatively small. In addition, the dramatic fall of demand has left many resources unemployed and willing – in particular in the case of unemployed workers – to find employment at lower wages than are paid in the regular economy (Ners, 1995). Rapid institutional changes cause regulations to be virtually non-existent or not to be implemented successfully (Bartlett and Hoggett, 1995; Haav, 1995; Houbenova-Delissivkova and Puchev, 1995; Tschepurenko and Vilensky, 1995). Often there is collusion between the local authorities, criminal organizations and the managers of former state-owned enterprises. This general framework has served as a catalyzer for the rise of black market activities in most East European countries (Arzeni, 1995; Brezinski, 1995).

This development has several consequences:

- A relatively high share of private sector entrepreneurship is either illegal or is at least legally questionable.

- Due to the high risk connected with illegal activities transaction costs are high since property rights cannot be enforced.
- A growing underground economy impairs the influx of the much needed foreign capital because Western investors lack the knowledge, the information and the access to a social network to operate successfully "... in a business climate lacking the basics of a modern economy: business ethics, codes of conduct, and reputation" (Charap and Webster, 1993). Moreover, corruption and illegal practices are regarded as rampant and costly. All this impedes a quick transition and reduces the chances for enterprises to be set up as suppliers of large foreign firms or to get access to foreign capital.

A market which is to ensure a viable allocation of resources requires prices which express the degree of scarcity. Scarcity prices and hard budget constraints on the part of the enterprises as well as in the public sector will stimulate a reallocation of resources which are no longer needed. Unless this reallocation takes place, the market supply will be too limited and resource prices systematically will be too high. Under normal conditions one would expect that the opportunity to obtain a return for a resource that is no longer useful for an actor generates an incentive sufficient to sell this resource. Thus, even at an initial market price that is too high, this positive price would induce further supply until the appropriate price is attained. Experience in the post-socialist countries, however, shows that this is a very gross assumption which ignores the low level of market transparency and the inelasticities in production. A major reason is that managers of state-owned firms frequently still have a limited incentive to act efficiently because they do not perceive their position or income as depending on profits. Moreover, often horizontal links between entrepreneurs are virtually non-existent, as is shown in the empirical analysis of private manufacturing in St Petersburg by Charap and Webster (1993).

In addition, what is needed is favourable taxation to create incentives, a functioning banking system which provides for the necessary capital at reasonable interest rates (Meth-Cohn *et al.*, 1994), less government regulation, and transparency of the markets. It may be concluded that in many post-socialist markets adjustment mechanisms are heavily distorted and that it is difficult for investors to obtain credits to finance the investment which is needed.

Other prerequisites of a successful bottom-up transformation are macro-economic conditions: some stability, especially a stable currency are desirable for a functioning market mechanism. If inflation is high or highly unpredictable, actors will hesitate to sell resources and will try to save some real value from inflation. Moreover, a frequently discussed issue is how far trade liberalization is desirable at the early stages of the transformation process. The advantages seem to be clear: free or liberalized trade leads to an enlargement of the market on the supply side as well as on the demand side, it stimulates the international division of labour and links national prices to world market prices. This requires a convertible currency and a low degree of protectionism.

However, these advantages do not materialize in the reality of post-socialist countries. Given the inelasticity of domestic supply and the gap in technology and know-how, domestic suppliers may not be able to adapt quickly to market conditions. Therefore, cascading tariffs for certain goods may be an appropriate means to protect, for a limited time, the domestic industry and, in particular, the newly emerging enterprises.

Last but not least, a successful bottom-up transformation necessitates the existence of a sufficient number of persons with entrepreneurial abilities and a socio-psychological climate favourable to private initiatives (Arzeni, 1995; Reynolds, 1995). Both factors are not in affluence neither in former socialist countries nor in Western market economies. Creating a culture of entrepreneurial spirit seems to be one of the secrets of our time. Even, if we assume that certain qualities that contribute to entrepreneurial success are innate or culturally determined, e.g. a propensity to risk taking – there is still room for political action (d'Andrea Tyson *et al.*, 1994). Some ingredients of entrepreneurship, e.g. management skills, can be learned or improved. The effectiveness of entrepreneurial talent depends in part on the availability of inputs and the implementation of the appropriate legal framework for a market economy. Historical experience shows that some nations or regions have been very successful in fostering entrepreneurial innovation through supportive policies, e.g. Japan and the Republic of Korea. But the same experience also shows that the emergence of an entrepreneurial culture normally takes generations.

The development of the small firm sector in post-socialist countries since 1989

It is very difficult to determine, how many new private firms have been founded or what share of employment or of gross domestic product (GDP) is due to private sector activities in the post-socialist countries. Reasons for this are deficiencies in the statistical recording and reporting systems, problems in identifying new firms (EBRD, 1994) and ambiguities in the classification of activities as “public” or “private”. A special issue is the high share of black market activity for which only rough estimates are available. It is, however, clear that the degree of privatization of the economy differs among the former socialist countries and that the share of the private sector as well as the number of private firms is increasing in all these countries. For example, in Poland the number of private firms rose by more than 219 per cent between 1989 and 1993 (Brunner, 1995), in Hungary the number of private firms rose by more than 200 per cent between 1989-93. Obviously, the vast majority of these firms represent only self-employment and they create jobs only for the owner and possibly for members of the family. But, the number of private firms that are organized in a corporate form rises at tremendous rates in some countries (434 per cent in Poland between 1989 and 1993; 1,450 per cent in Hungary in 1988-93) and start to make a significant impact on employment.

Looking at the private sector's share of GDP and employment we find Poland, the Czech Republic and Hungary at the upper end of the scale with

more than 55 per cent of GDP and employment; at the other end of the scale there are the southern republics of the former Soviet Union with only about 15 to 20 per cent of GDP (Belarus, Tajikistan, Turkmenistan, Uzbekistan, Georgia and Kazakhstan) produced privately and a private sector employment share of less than 20 per cent in 1993 (EBRD, 1994). An analysis by sector reveals the highest share of private activity in retail trade, services and construction.

In some of the post-socialist countries the agricultural sector is privately operated to a high degree. This is due mainly to previous patterns, e.g. in Poland, or to (wild) restitution, e.g. in Romania. Manufacturing and transportation have relatively low private activity shares. Thus, newly established enterprises do not play a decisive role in industry. This may be explained, among other things, by the relatively high need for capital that is characteristic of start-ups in manufacturing, a capital which is not provided by the financial system.

In view of the immense problems of top-down privatization in which the share of the private sector activity can be taken as an indicator of the intensity, a bottom-up strategy has been pursued in these countries. This becomes obvious when observing that by mid-1994 large-scale privatization has been undertaken in a satisfactory manner only in the Czech Republic (Ners, 1995). Over 50 per cent of state-owned enterprise assets have been privatized by a scheme that allows for external control and reflects support for corporate finance. Enterprise restructuring which substantially improves the corporate governance may implement strong financial discipline at the enterprise level and is considered to break up large conglomerates has not taken place in any of the economies in transition (EBRD, 1994). However, small-scale privatization has been more or less implemented in countries such as Croatia, the Czech Republic, Estonia, FYR Macedonia, Hungary, Kyrgyzstan, Lithuania, Poland, the Slovak Republic, and Slovenia. In these countries the growth of private enterprise during the end of 1992 and mid-1994 has increased considerably. To a large extent this is due to the removal of legal barriers to entry and requirements restrictive to production. However, the official data often tend to overestimate the number of newly created enterprises; e.g. in Estonia about 30-50 per cent of start-ups are apparently not in operation (Haav, 1995; Houbenova-Delissivkova and Puchev, 1995; Ners, 1995).

It may be expected that the post-socialist countries which are ahead in small-scale privatization will be better prepared for the systemic structural changes which still will have to take place when integrating in the world economy. In these countries comprehensive price liberalization and competition have been introduced. Yet, experience shows that in many cases privatization leads to a severe reduction in employment. As a result, start-ups are needed urgently to compensate for the job losses in the former socialist sector. At least in that respect they can make a significant contribution to the reduction of social tensions caused by unemployment; they may help to create political stability. Although the transformation of the East German economy is a very special

case, it is interesting to note that only a few years after this process started, the vast majority of private sector jobs in East Germany is provided by newly founded businesses. The jobs that are due to top-down privatization constitute only a small share and their number is constantly decreasing (Fritsch and Werker, 1994; May-Strobl and Paulini, 1994).

In general, bottom-up transformation may be considered a way of transition that is likely to be relatively successful. However, much can still be done to improve the economic performance in those countries which practise such a strategy by making better use of the potential for an increase in welfare.

Conclusions and implications

The discussion leads to a number of conclusions and recommendations for economic policy. It makes clear that the development of entrepreneurship and a small firm sector represent dominant components in the transformation process of post-socialist countries. In most of these countries it is the only potential source of economic recovery that can realistically be hoped for. Economic policy should therefore include the following actions.

Legalize entrepreneurial activity

As has been argued above, black market activity is not only costly in terms of transaction costs; it also leads to a high proportion of unproductive entrepreneurship (Baumol, 1990). Converting illegal activities into legal ones means creating a stable market. One can expect that this, in turn, will have at least two effects: exchange of goods and services being cheaper because of lower transaction costs, more transactions will take place which induce an increase in the division of labour; many forms of illegal and unproductive entrepreneurship will no longer be profitable, thus decreasing such activities.

Implement market conditions conducive to productive exchanges

The form of the market constitution, i.e. the "rules of the game" is, to a large extent, decisive for market behaviour and performance. We do not know exactly which constitution might be optimal for a specific market since it probably varies from country to country and may rely also on cultural factors. Therefore, the creation of an optimal market constitution may be regarded as an evolutionary process. Yet, still some fundamental guidelines for a market constitution conducive to productive exchanges are evident:

- the market constitution must provide incentives for private actors to start new businesses;
- market prices should primarily be determined by market forces and not by government authorities;
- markets should be open, market positions contestable. There is a need for anti-trust legislation as well as for measures to safeguard fair competition.

Generate an efficient financial system

Since entrepreneurs were not able to accumulate capital in the past, they need access to monetary resources. Therefore an efficiently performing banking system on the national as well as on the local level is needed. In addition, since entrepreneurs do not have collateral, they need institutional guarantees from institutions such as enterprise development funds (Gulácsi, 1993; Schlotter, 1994) or international institutions. Moreover, quite often the capital is provided for by family members and friends, i.e. it originates from an informal circuit of capital; fiscal incentives are needed, because the chances of losing the invested money is about 50 per cent (Meth-Cohn *et al.*, 1994).

Stabilize the legal, political and social framework

A predictable legal, political and social environment will reduce uncertainty and transaction costs for the actors. In particular, stability will allow for the emergence of more long-term market relations and “hybrid” forms of inter-firm co-operation which lead to an increasing division of labour (Brezinski and Fritsch, 1995). This, in turn, can be seen as a precondition for the emergence of a strong entrepreneurial culture.

Promote entrepreneurial qualifications and try to increase the number of successful entrepreneurs

As mentioned above, our knowledge of the number of private firms in post-socialist countries as well as of their quality is limited. But, we do know that many of the entrepreneurs do not have the skills needed for successful entrepreneurship. It is also obvious that a large number of qualified entrepreneurs is necessary to overcome the problems of unemployment caused by the breakdown of the large units of production that once dominated the economic system. Given the widespread lack of understanding of working of markets and the non-acceptance of market results still often to be found in the East European countries, it remains unclear, where these large numbers of qualified entrepreneurs are to come from. The private firms which existed in the socialist system under central planning cannot be expected to be a nucleus for entrepreneurship and the question regarding which groups of the post-socialist societies might be suited for setting up growing firms is still open.

Economic policy should stimulate entrepreneurship, provide training of necessary skills, develop an infrastructure to support entrepreneurship, and try to create an entrepreneurial culture. This includes the formation of entrepreneurial self-organizations such as chambers of commerce, workers’ unions and employers’ associations (Gulácsi, 1993).

Stabilize macro-economic conditions

This, in particular, means that a stable currency is needed and that government economic policy becomes predictable for actors. Otherwise, markets will not function optimally and – what might be even more important – actors will hesitate to (re)invest and will take their profits abroad.

Integrate the national economy into the world market

The countries in transition suffer from a wrong division of labour which was imposed on them in the past and which was conserved by a strict protectionism. Integration can only be achieved by granting market access. This requires the access to Western markets, especially to those markets which are heavily regulated, such as agriculture, steel and textiles because the East European countries have exactly comparative advantages in these fields in the short run (Brezinski, 1994). The opening of their markets to foreign products should not be achieved immediately by abolishing the tariffs completely, because domestic producers are not internationally competitive. Thus, cascading tariffs are needed. Moreover, convertibility of the national currencies is needed in order to generate a capital influx from the West and in order to avoid a capital flight on a massive scale. Exchange rate policy has to be designed in a way that the national currency is undervaluated in order to increase exports and reduce imports of consumer goods.

Considering the problems of top-down transformation, the bottom-up strategy appears to be a promising chance for the post-socialist countries to a market system that should not be missed. Given the limited amount of Western aid available this may even be the only way to prosperity. But this way is long and East European countries are only poorly equipped in terms of new firms and entrepreneurship for a speedy recovery. As has been shown, much can and should be done to speed up the development by supporting the newly founded private firms and by stimulating productive entrepreneurship. Our analysis makes clear that bottom-up transformation cannot be a strategy that yields satisfactory results unless it is profoundly and intensely supported by government policy. So far bottom-up transformation has been observable nearly exclusively in the services and trades. For the future, however, this type of economic transformation will be necessary and practicable rather in the industrial sector since reorganizing this sector will virtually mean restructuring the economy.

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