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**North Korea: East Asian Socialism, Capitalism, or What?
An Analysis of Past and Current Developments**

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Abstract

The debate about varieties of capitalism and different socialisms in Europe and Asia tends to focus on cases such as Central and Eastern Europe, the former Soviet Union, or China. Vietnam has so far received relatively little consideration, and North Korea seems to be even more unexplored in the said context because of the dominance of security and humanitarian issues. Starting with a basic framework of classifying economic and political systems, the paper will attempt to generate an objective answer on how to interpret North Korea against the background of the mainstream concepts of socialism and capitalism and in comparison with the above mentioned cases. This task is methodologically challenging and further complicated by a lack of empirical information on the North Korean case. It will be argued, however, that the few verified facts and the available means of information are sufficient to provide at least a cautious assessment of the situation of the North Korean society.

The official North Korean position is similar to the Chinese concept of “our style socialism”. This flexible approach stands, however, not only in sharp contrast to the orthodox framework of Marxism; neither does it fit major Western categorizations as the one by Janos Kornai. There seems to be a huge discrepancy between facts and image. The analysis is further complicated by the centrist search for a “third way” as it is considerably popular in the West, assuming that socialism or capitalism are not mutually exclusive options, but that they can rather be fruitfully combined (Macmillan, Giddens, Putnam, Winter). The position as emphasized in this paper is that it might be necessary to lift the analysis to a sufficiently high level of abstraction to avoid falling into the trap of particularism. However, after having completed this step, it can indeed be useful to return to the question of varieties of either capitalism or socialism in order to acknowledge the strong differences between the actual cases.

These theoretical considerations will be supplemented by empirical information on economic reforms and their effects on society, including the political sphere, as well as on the official North Korean position regarding these issues. It will be argued that the cases of China and Vietnam can provide important clues for an analysis of North Korea, but that there are also a number of issues that prevent the application of these cases as a model. That includes the question whether China and Vietnam have ever experienced “classical socialism” at all.

Finally, it will be argued that despite the principal unpredictability of future developments, it is nevertheless possible to generate a number of very likely scenarios for interpreting the background and the direction of current developments in North Korea's economy and society based on the above mentioned theoretical and empirical research. The process of transformation has started in North Korea and is irreversible; however, neither the actual outcome nor the process itself can be predicted with sufficient certainty because internal and external shocks cannot be excluded. In this context, stabilization becomes an important tool of increasing the chances for a gradual and steady development. This brings the very practical topic of international aid and assistance as well as integration via (North)East Asian initiatives such as ASEAN+3 or the EAC into the focus.

In the end, many striking connections between Europe and East Asia can be identified, ranging from theoretical debates about capitalism and socialism, the issue of transformation and post-socialism until direct influence via economic and political interaction as well as indirectly with the EU as a not undisputed, but nevertheless hardly ignorable benchmark for regional integration.

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North Korea: East Asian Socialism, Capitalism, or What? An Analysis of Past and Current Developments

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Given the seriousness of the issues at stake when debating the development of North Korea - such as the nuclear question, a chronic food shortage affecting millions of people, or human rights - it is high time to structure, professionalize and de-emotionalize the related academic discussion. In this paper, it will be attempted to get closer to an understanding of the North Korean economic system by integrating it into standard frameworks of analysis and modeling. This is a necessary precondition for extracting lessons from other country cases, if this is possible at all. The underlying questions are: Is North Korea indeed socialist? If not, what is it? And is there any chance we will see a development towards capitalism? If so, how would we know?

It is little surprising that North Korea itself is not an easy object of research. However, the very definition of the categories for this analysis proves to be quite challenging, too, although (or because?) the terms capitalism and socialism have been widely used for a considerable time and both within and outside social sciences. While it seems relatively easy finding descriptions of real or imaginary forms of both systems, these versions often deviate substantially from each other. Moreover, despite the abundance of literature on capitalism and socialism, the extraction of a few key characteristics that can be used for identification and classification remains a challenge.

The question of identity is one of the oldest issues mankind struggles with. There is a continuous demand for systematic and structured images of us, our societies, economic and political systems. However, few if any attempts at classifying societies have been broadly accepted. A critical debate and disagreement are almost inevitable if we not only consider the different perspectives and normative concepts that lay beneath analytical frameworks, but also the very nature of a model, by definition being an abstraction, i.e., a deviation from reality. Therefore, the first step in a discussion of any classification of such complex entities as societies is to acknowledge that the result might be valid in principle but hardly satisfying everybody and that it will become more debatable the higher the level of detail becomes.

With this in mind, a look at some of the most popular definitions of capitalism and socialism is in place, followed by the extraction of some key defining features for practical use. This will be the foundation for an analysis of North Korea based on a historical evaluation, factual evidence and official statements. At the end, we will hopefully be able to answer the questions whether North Korea has ever been socialist, whether it still is, or whether it has embarked on a post-socialist way that might lead to some form of capitalism.

Capitalism

Capitalism is usually seen as connected to industrialization and to a complex division of labor. Later in the debate, the importance of financial resources, or capital, was stressed primarily. Capitalism's emergence as a topic of academic research is associated with the work of classical economists such as Adam Smith and David Ricardo, who openly attacked mercantilism and its instruments. They opposed the idea that the world's wealth is a given constant and hence a nation's wealth can only be increased at the expense of others. They regarded labor as the source of actual growth, promoted free trade and a hands-off approach by the state and criticized monopolies as barriers to competition, as well as tariffs and duties as barriers to trade. They believed in the ability of the market to be the most efficient arbitrator of resources. Critics associated these early researchers of capitalism and the term itself with an uncompromising free trade policy that would come at the cost of weaker partners, and with an extreme laissez-faire policy that let the Invisible Hand rule no matter what the social consequences were. However, in "The Wealth of Nations", there is no mentioning of the term capitalism itself.

Building on the work of the classical economists, Karl Marx developed his historical perspective of capitalism (which he explicitly named so) as a mode of production. He added the generation of a value surplus aka profit to the portfolio of images associated with capitalism and lauded it as the most advanced, even progressive form of social organization in his Communist Manifesto. At the same time he criticized it as the source of exploitation of man by man, i.e. the working class (poor masses) by the bourgeoisie (an affluent minority), adding to the negative connotation of the term capitalism. Lenin expanded this critical view of capitalism by arguing that it would eventually lead to imperialism, with an aggressive foreign policy and even sharper internal contradictions that would make life of the majority so unbearable that a forceful overthrow of the capitalist system by a socialist revolution was the only and unavoidable way out.

While these approaches to capitalism were mostly focused on the production side, Max Weber in his studies of capitalism looked at exchange relations on the market, which he found to have become much more rationalized, legalized and de-emotionalized as compared to previous forms of economic organization in societies, thereby opening new opportunities for the expansion of production and the increase of productivity. One of his most famous theses connects certain value systems such as a religion with the resulting work ethic and the very approach to economic activity.

Austrian economist Joseph Schumpeter (1942), who actually had a skeptical view of capitalism's future, became famous for his interpretation of the destructive forces of capitalism that could be observed on an every-day basis. Instead of viewing the frequent failure of businesses negatively as a source of destabilization and poverty, he argued that such destruction was necessary to ensure a continuous rejuvenation of the capitalist system which would rise again and again from its own ruins like Phoenix from the ashes. Accordingly, representatives of the Austrian School such as Ludwig von Mises and Friedrich von Hayek argued strongly in favor of a system that removes barriers not only on market entry but also on market exit. Von Mises (1922) further pointed out that a functioning economy must know the value of a good or service, which cannot be calculated as an absolute number but only be observed as a result of the price mechanism which is defunct in socialist economies. Only under capitalism, which at that time they already opposed to socialism, would the state refrain from interfering with individual action by producers. These should be punished or rewarded by the market, not the state, for wrong or right decisions. Especially in the work of von Hayek, who in "The Road to Serfdom" (Hayek 1994) critically analyzed the situation in his exile

Great Britain, we find a close connection between notions of economic freedom and political freedom. Like Adam Smith, he stressed the ability of markets to self-regulate, and that the most valuable driving force of capitalism was unrestricted individual economic activity that did not need (or would actually suffer from) centralized coordination to achieve optimal results.

This orientation on the supply side was not entirely shared by John Maynard Keynes who rather emphasized demand as the most crucial issue in capitalist societies. Based on the experience of the economic crisis in the late 1920s and early 1930s, he argued that without state interference, capitalism could find itself locked into a stable equilibrium of underproduction and unemployment. This was a highly controversial statement since it implied that the market, or Smith's Invisible Hand, can actually fail.

Classical economics returned in the form of neoclassical monetarism. Milton Friedman argued that recessions are a result of inappropriate state interference with market forces, such as an ill-advised contraction of money supply by a central bank. Friedman suggested that monetary policy was the key to economic stability; central banks should regulate money supply in concert with the growth of economic production. He was strongly against Keynes' anti-cyclical policy and suggested a neutral role of the state, including the privatization of state-owned enterprises. Milton Friedman repeated von Hayek's argument that economic freedom is a necessary condition for political freedom, and categorically excluded the coexistence of socialism with democracy (Friedman 2002: 8). He argued that there are only two ways of coordinating the economic activities of large numbers of individuals: either central direction, which he connected to the modern totalitarian state, or voluntary cooperation in the context of a market. He defined competitive capitalism as a "free private enterprise exchange economy" (Friedman 2002: 13).

Although this is easily forgotten given the political background of critics and supporters, capitalism is, first and foremost, an economic order. Although often associated with this term, its defining characteristic is not a specific mechanism for distribution such as markets, but rather a particular form of ownership. Markets have existed in pre-capitalist societies, and they can exist in socialist economic orders, too¹. However, property rights under capitalism are different from those under feudalism, where they often belonged to the feudal ruler who delegated rights of use, but not ownership itself. In capitalist economic systems, property rights in means of productions are largely private, well-defined and transferrable. Hernando de Soto (2000) pointed at the connection between capitalism and property rights, which links the economic order of capitalism to the existence of a stable state that can create and guarantee a formal, transparent system of ownership and transactions. While the ruler of a feudal society could take means of production away from his subjects as he only bestowed temporary rights of use upon them, property once acquired legally in capitalist systems is almost sacrosanct and well protected against arbitrary expropriation by the state.

With these few basic theoretical positions in mind, we can now try to identify a set of neither necessarily coherent nor exclusive indicators of whether a society can be classified as capitalist. There is some interference between the single points, as the theories discussed above show a number of similarities. This overlapping has little effect on the viability of the following points and can be quite helpful in their actual application.

(1) Property rights: Division of labor, profit-making and unequal distribution of wealth as well as a massive participation in economic exchanges as the only way to maintain one's existence imply the need for a stable environment of rules and enforcement mechanisms. This is especially important for property rights, their protection and their transfer. In capitalism, private ownership dominates.

¹ Interestingly, this is an argument also used by North Korea's Kim Il-sung, as will be shown later.

(2) *Exit and Entry*: Capitalism is not regarded as a static system, but rather as one of continuous dynamic renewal. Accordingly, mechanisms of autonomous market entry and exit must be in place.

(3) *Decentralized coordination*: Despite arguments in favor of state intervention, such as an anti-cyclical economic policy, social cushioning or monetary stability, capitalism is characterized by decentralist and spontaneous coordination rather than centralized planning and steering. This includes the Invisible Hand and the impact of incentives and disincentives that are not set politically. In capitalist societies, allocation of resources takes place via the market.

(4) *Division of labor and industrialization*: Obviously, an economy must have reached a relatively high level of development to be capitalist. This includes a sophisticated division of labor and also implies industrialization.

(5) *Free trade and exchange*: For a number of capitalist theories, the free exchange of goods domestically and internationally plays a central role - not for defining what capitalism is, but for making it work in the most efficient way.

(6) *Profit*: Assuming that individuals strive to maximize their (marginal) utility, investment of resources and risk into an activity that yields no profit will not be sustainable. Making a profit and keeping a certain part of it are therefore core characteristics of capitalism.

(7) *Inequality in the distribution of wealth*: Capitalism is characterized by a division of society into a minority of affluent owners of means of production and a majority of people who have to sell their workforce to cover their needs, plus a relatively large middle class of small-scale capitalists or well-paid professionals.

(8) *Political pluralism*: The specific features of a capitalist economic order, such as decentralized coordination and protection of individual property seem to imply that capitalism develops best under political pluralism, and in turn supports the development of pluralist political orders.

(9) *Motivation*: Actions imply costs, so individuals need a sufficiently strong incentive to act, including engaging in economic activities. While ideologies such as nationalism and religion are not alien to capitalist societies and can have an impact on their performance, they are not central to the very functioning of capitalism. In capitalist societies, individual motivation is (economically) rational. Individuals autonomously try to maximize their (marginal) utility.

(10) *Minimal intervention*: Even a Keynesian economic policy does not aim at controlling and micro-managing every single transaction. In capitalist economies, there is broad agreement that state intervention should be at a minimum, although there is a heated debate about what exactly this means.

(11) *Competition*: Although perfect competition can only be found in textbooks and reality is rather characterized by a relatively small number of competing entities, competition as such is regarded as a core mechanism of a functioning capitalist economy.

(12) *Price formation*: Prices in capitalist systems are usually not set by the state but result from the interplay of demand and supply on free markets. However, the state can influence prices indirectly via taxation, subsidization, import restrictions and, if it controls the Central Bank, via monetary policy such as interest rates and money supply.

(13) *Market structure*: In capitalism, private enterprises of various sizes coexist and compete with state owned enterprises and other forms, such as cooperatives.

The major characteristics of a capitalist system seem to be private, protected property rights; decentralized coordination and allocation of resources; and free market entry and exit. Most other points are in one way or the other dependent variables of these core characteristics.

With these points in mind, we can embark on a structured debate of whether a given society is capitalist or not. The result will not necessarily be clear without ambiguity. For example, Altmann (1993: 60) points at the experience of developing countries from the perspective of dependency theory. In these cases, so he argues, a peripheral capitalism emerges, i.e., an economic system with capitalist characteristics in only a few centers such as large cities, foreign settlements, industrial zones etc., while the rest of the country remains underdeveloped and often mired in feudal structures. Cases like this will have to be kept in mind. Also, some of the 13 points as laid out above seem to be exclusive characteristics of capitalism (such as property rights), whereas some of them (such as division of labor and industrialization) can be perfectly shared by other forms of economic organization of societies, including socialism.

As so many complex and controversial topics have been touched, a disclaimer is due. The motive behind this section was to indentify a number of characteristics to define whether a society is capitalist, and not to debate how capitalism should be organized. Therefore, issues such as public goods, redistribution, protectionism, business cycles etc. have been largely ignored, although they do have a significant impact on the actual face of capitalism in various societies. As Howell (2003: 103) notes: “national capitalisms are distinguished one from another by particular configurations of interlocking and interdependent political-economic institutions that produce different forms of behavior on the part of economic actors, different economic and social outcomes, and different patterns of economic development“. Authors like Hall and Gingerich (2004: 7ff.) emphasize different ways of coordination within firms and institutional complementarities as leading to the relatively stable formation of either liberal market economies or coordinated market economies. This is covered in discussions on varieties of capitalism, contrasting, for example, the American system of market-oriented capitalism with the Japanese and South Korean system of developmental capitalism or the German system of social market capitalism (Gilpin 2001: 148ff.). For the purpose of this paper, the most fundamental differences between capitalism and socialism as aggregates are at the center of interest. It is nevertheless useful to be aware that capitalism is neither homogenous nor is the term undisputed. And, as the following section will show, the same is true for socialism.

Socialism

Although they are often characterized by opposing goals and approaches, there is no perfect dichotomy of socialism and capitalism. It would therefore not be sufficient to simply use the direct opposite of the 13 points above to define socialism. Rather, it will be helpful to contrast them with the essence of socialist systems as it was gathered independently. Since our starting hypothesis is that North Korea is indeed socialist, the discussion in this section will be somewhat more detailed than the one of capitalism.

The term socialism emerged in the early 19th century in Europe as a prominent anti-thesis to capitalism, with which it shares the unspecific nature of definition. The Encyclopedia Britannica (online edition) associates it with a broad array of ideologies and political movements that aim at building a socio-economic system in which property and the distribution of wealth are subject to control by the community. While socialism is indeed predominantly an economic concept with roots that reach back as far as ancient Greece, it is closely connected to the historical and political thoughts of Marxism, which regards (scientific) socialism as a stage in the historical development of societies. This development follows objective laws that can be understood but not deliberately influenced by individuals, so socialism is more or less inevitable. Socialism is seen as following capitalism and being superior to it, and as serving as an intermediary stage on the way to communism. In socialism,

class antagonism as it existed under capitalism is basically gone since the working class has taken over control of the state. Remnants of the old bourgeois class can continue to exist for a certain period of time, but they are not in power anymore and are governed by the dictatorship of the proletariat. The latter is necessary to prevent a reactionary counter-revolution. The working class is the majority in society, which is why the dictatorship of the proletariat is seen as the perfect realization of democracy. The majority uses its power to reeducate the minority, to integrate it into society and to lay the foundations for communism.

Despite sharing the same basic characteristics with regard to ownership of means of production, the working class is too big and heterogeneous regarding the individual's abilities. Hence, it needs an avant-garde that acts on its behalf and in its interests (Bucharin 1921). Under socialism and from its theoretical viewpoint, it would be absurd to let this party (*the Party*²) compete with other domestic political forces since there are only two classes who have a strictly antagonistic relationship, and one of them after revolution enjoys a natural monopoly of political power. Different political parties in a socialist country would imply the existence of opposing forces, which is a characteristic of capitalism but not of socialism. There are, however, different strata within the actually homogeneous society. These can be represented by separate parties. They do not run against the Party but form an alliance with it to demonstrate the big overarching unity as members or friends of the working class. In predominantly agrarian societies, the result is often euphemized as “the masses”, indirectly admitting to the difficulties of orthodox Marxist theory in dealing with farmers and self-employed. During elections, citizens (the principals) are not asked to choose between various political options but rather to reconfirm their trust in the Party-led alliance (the agent) as their executive committee.

The assumption of economic superiority of socialism rests on the idea that central coordination is much more efficient than capitalism's decentral mechanism. Whereas valuable resources are wasted under capitalism for over-producing without knowing the exact demand beforehand, central planning helps to utilize these scarce resources with maximum efficiency by producing not more and not less than what is actually needed. Double investments are prevented; costs for unemployment, advertisements, constant change of models and types of product are avoided, and the costs of supervision are lower than under capitalism. All this is expected to drive down prices. Since there is no competition, innovation is freely shared and therefore easier accessible. Workers freed from exploitation supposedly work more responsibly and enthusiastically, raising productivity. Moreover, under socialism, economies of scale can be realized without the negative side-effects of monopolies as they exist under capitalism, because the de facto state monopoly is not driven by the profit motive but serves the purpose of maximum public welfare.

As is evident already from this rough summary of the self-image of socialism, a number of its theoretical claims can be challenged; especially the idea that demand can be calculated ex ante, and that individuals can be motivated effectively and sustainably by non-material incentives. Moreover, in the 20th century there has been extensive practical experience with actually existing socialist systems that often deviated substantially from the ideal-type socialism of the textbooks. This invites criticism of the idea of socialism, which is not the subject of this paper; however, it also makes a classification of these cases difficult if done on a purely theoretical basis. It is therefore useful to turn to the analytical framework based on the practice of socialism as it has been developed by Janos Kornai. His model will be used to

² The term “Party” with a capital “P” is henceforth used for Communist parties with a power monopoly in their respective countries; the actual names can vary, such as Socialist Unity Party in East Germany, Korean Labor Party in North Korea, or Chinese Communist Party in China.

identify a number of characteristics that can be applied on specific country cases in order to determine whether they are indeed socialist.

The Four-Staged Socialist System of Janos Kornai

Kornai (1992: 19, 27) makes an important argument in that socialism more or less typically passes through various stages (revolutionary-transitory, classical, reform and post-socialist). This is truly worth considering since it helps to integrate various, obviously different actual cases into one coherent framework. These stages also explain the strongly varying performance of socialist systems not only across countries, but also on the same territory over time. In other words, the fact that socialism often started out performing well but ended up failing miserably has to do with its own internal development. This is an important observation if we want to avoid mistakes during a classification of countries as this will be attempted with regard to North Korea later in this paper.

The heroic stage

Following an indigenously developed or externally imposed revolution, socialism usually starts with the revolutionary-transitional system, or the “heroic stage”, characterized by enormous dynamics, chaos, and bold changes almost on an everyday basis. Old rulers are removed, symbols replaced, a new ideology introduced. Factories, banks etc. are expropriated and transferred into state or collective ownership; production and distribution are centralized. The great estates of the landowners are confiscated and then divided among the landless and the poor peasants who had been dreaming of owning their own plot for centuries and hence meet the new order with enthusiasm. “Measured on a historical scale, the revolutionary-transitional phase is the brief moment in which the socialist system comes closest to applying egalitarian principles.” (Kornai 1992: 316). The response by the majority is usually positive; partly because potentially hostile elements have already been driven out or silenced by the revolution, but also because socialism indeed seems to be able to deliver on its promises. The one-time redistribution of wealth as well as the regaining of stability after the turbulences of revolution improves the economic situation of large segments of the population. Individuals who hitherto were living at the periphery of society now have a chance to grab leadership positions in the administration.

However, there is a downside - the “heroic stage” can last only for a limited period of time, usually a few years. The effects of the singular redistributions of economic and political wealth wither away. Few individuals are ready to continuously sacrifice themselves by working overtime and for insufficient wages. Ideological incentives lose their effectiveness. Most people want to get back to “normal life” and can only be encouraged to perform well by the “traditional” means, i.e., material rewards or penalties (Kornai 1992: 28-29). Once the rich are expropriated, once the land is allotted to “the people”, these material rewards have to be generated in the old-fashioned way - by production, not by confiscation. This, in combination with pre-revolutionary promises to eliminate backwardness and to foster development, as well as a number of external and internal challenges, leads to the emergence of a strong political desire for “swift and spectacular” economic success. The latter requires order and discipline, leading to the institutionalization and bureaucratization of the new system, which now enters into what Kornai calls the classical stage.

The classical stage

Classical socialism represents what is commonly understood under “socialism”. Revolutionary fervor and the youthful image of socialism disappear, structures become static, the revolution becomes bureaucratized, and the bureaucracy becomes entrenched. The state develops sophisticated tools of economic planning and guidance, but also of political surveillance and propaganda. Individuals get used to this and find their niches; they pay lip service to official slogans, appear routinely at mass rallies and demonstrations, and develop successful strategies of underperforming at work. Individual ambition is tamed, upward social mobility is only possible within the boundaries set by the state; a career in the party or the government is often the only way to advance (Kornai 1992: 42).

Acknowledging the confusion over the term socialism, Kornai (1992: 361) presents a hierarchical order of characteristics, of which the first two are necessary conditions to call a society socialist: (1) Undivided, lasting power of the Communist Party³ and dominant influence of the official ideology⁴; (2) Dominant position of state- and quasi-state ownership⁵; (3) Preponderance of bureaucratic coordination; (4) Plan bargaining, quantity drive, paternalism, soft budget constraint, weak price responsiveness; and (5) Forced growth, chronic shortage economy, labor shortage and unemployment on the job, the system specific situation and role of foreign trade.

While points (1) and (2) are given, (3), (4) and (5) are consequences thereof. It would be somewhat beyond the scope of this paper to conduct a detailed derivation of the single characteristics and consequences, but it is nevertheless useful to spend some time on gaining an understanding of the systemic features of socialism. This is also necessary for extracting a number of yardstick points at the end of this section. Since these issues are heavily interdependent, the order as presented here does not necessarily represent a ranking.

Property: Socialism differs first and foremost from capitalism in having replaced private ownership with public ownership, at least for the majority of means of production (Kornai 1992: 87). Public ownership led to an extreme depersonalization of property in socialist systems. Neither gains nor losses have direct and exclusive effects on specific individuals; responsibility typically is enormously low. Private property continues to exist in socialism; Marx actually ridiculed his opponents already in the 1848 Communist Manifesto with regard to this point. However, it is limited and does not cover means of production, especially not those that enable employment of hired labor. In cases where property could not be transferred into the hands of the state, collective property such as in the case of agricultural cooperatives or small handicraft businesses was introduced or induced. In theory only, membership is voluntary, and ownership as such is not affected legally. Collective ownership is seen as an intermediary stage that will eventually be replaced by state ownership.

Low economic performance: In marked contrast to the theoretical claims of economic superiority of socialism over capitalism, the practical experience of socialism in the 20th century showed a tendency to develop low productivity, low levels of innovation, and a chronic shortage economy, even if initially high growth rates could be generated through massive investments.

³ Communist Party serves as an umbrella term. The Party in the sense of Kornai’s definition has the power monopoly for a prolonged period, thereby excluding cases in which a CP might have won a democratic election.

⁴ Note that “ideology” has not been specified; this can be Marxism-Leninism, but also any other ideology that is deemed suitable for a Communist Party.

⁵ Quasi-state ownership stands for collective ownership as it is often practiced in agriculture; “dominant position” indicates that other forms of ownership, including private, are not necessarily eliminated completely. However, they are excluded in strategic sectors, or what Kornai (1992: 71), quoting Lenin, calls the “commanding heights” of an economy: mining, energy production, and manufacturing.

Seller's market: One of the most distinguishing features of a classical socialist economy is what Kornai (1992: 245) calls a seller's market. The buyer bears all the transaction costs: he acquires information on where and how to get the product (hence there is no advertising), he adjusts to the supply by the seller (forced substitution), he does his best to win over the seller, and he mainly bears the consequences of uncertainty and hence has to build up reserves including the capability to produce a good in short supply himself. This is almost diametrically opposed to capitalism, which can be characterized as a buyer's market. The reasons for this huge difference are manifold: central planning, state ownership, absence of a labor market, absence of competition, dysfunctional money, the soft budget constraint for producers. In more abstract terms, a seller's market is a stable situation in which demand continuously exceeds supply. Since the entry of new firms is limited by legal and indirect means, the existing producers enjoy an unrivaled position (Kornai 1992: 301). These firms act as buyers during their own production/acquisition process and hence face a huge disincentive to sell; selling also entails few positive incentives, because jobs are secure, wages are fixed, profits are transferred to the state, investments as well as promotions usually are the result of hierarchical negotiations, not of performance.

Central planning: With the state owning most if not all major production facilities and the market mechanism defunct, the complex and multidimensional production process that organizes itself spontaneously under capitalism must be organized in a central, bureaucratic way. The necessary inputs for the production of final and preliminary products must be determined and organized; political priorities must be considered; the demand of consumers and producers must be anticipated, and proper exchange relations must be defined by price setting. This is a huge and costly task for the administration and gets the more complicated the more sophisticated and technologically advanced a national economy is. In fact, it seems that planning is easier in underdeveloped economies with few goods and few firms, and becomes almost impossible in intricate advanced economies.

One of the many difficulties of the planning process is the typical principal-agent problem. The state (principal) has all the power and uses it to make the agent (worker, lower level of bureaucracy etc.) perform a certain function to the best of his abilities. The agent, however, possesses information that the principal is lacking, especially on the actual productive potential. Revealing this information would be harmful, since the principal has a habit of demanding continuously growing output. He uses fulfillment of the plan as the only criterion of assessing the agent's performance; negative assessments will result in denial of promotion and even repression. Knowing that much is at stake, principal and agent engage in a tough pre-production negotiation process, in which the principal seeks to achieve the highest and the agent the lowest possible production target. This process takes place repeatedly, with the actual performance of the preceding plan as a yardstick. Assuming rational behavior, a producer will therefore never produce more than the plan prescribed, which means that low productivity becomes institutionalized. This is even more the case since the idea of the original plan can become disconnected from its reality. One typical example is the fixation with quantity because it is much easier measurable than quality. In addition, the agents quickly discover that there are more ways to please the principal than by fulfilling the plan. This includes false information and bribing, and also utilizing the fact that for the principal, economic goals compete with political and social objectives. The agents can therefore compensate poor performance in terms of production with an increase in the percentage of party members, enthusiastic participation in mass rallies, additional hours of political training or an outstanding childcare facility for working mothers, to name just a few examples.

Central planning has another built-in weakness. Once the complex plan has been composed and announced, it is almost impossible to change it, so that reaction to unanticipated events has to wait until the next planning period. This inflexibility is emphasized by Kornai (1992:

129) as he shows how overproduction can have distorting effects on the plan, which is a closed system. If a firm produces more than planned, it will create a larger than expected demand for inputs. If the suppliers do not increase their output proportionally, increased productivity of single units leads to a supply shortage and a possible decrease of output in other sectors that compete for the same inputs.

Soft budget constraint: Another structural weakness of socialism that similarly is a characteristic feature is the soft budget constraint for producers from the state-owned and collective sectors, while the budget constraint of households and of the private economy is hard. Faced with continuous demands to increase output and simultaneously suffering from low productivity, the only option to increase production is raising investment levels, sometimes recklessly. With quantity at the center of the plan and a distorted price system, return on investment is less important and hard to measure. The consequence of such behavior of a firm under capitalism would eventually be bankruptcy. However, under socialism market exist is restricted both formally for ideological reasons, and de facto since the state as the only owner of all production facilities either deliberately or without even noticing tends to cross-subsidize underperforming production units. This creates a serious moral hazard (Kornai 1992: 146) that results in a lower-than-usual price responsiveness of state-owned firms under the classical socialist system and helps explaining the seller's market as discussed above. It also results in over-investment at the expense of consumption and a neglect of risk-assessment strategies. Interestingly, such expansionist behavior is not limited to socialist economies but rather seems to be a characteristic of bureaucratically administered economies. The example of the chaebòl (large business conglomerates) in South Korea during the developmental dictatorship of Park Chung-hee showed similar patterns that eventually contributed to the financial crisis of 1997/98 where these unproductive expansions received their delayed punishment by the market.

Prices: The coordination of transactions via prices is a typical feature of a capitalist economy. In a socialist system, giving prices so much power would not only require an adequate market structure including granting extensive property rights to private entities; it would also directly challenge the plan and the state who created it in their attempts at distributing resources in the economy. Although this basic contradiction and irreconcilability seem rather easy to understand, in socialist reality prices were rarely completely eliminated; in many cases it was even attempted to integrate the price mechanism into economic planning. One result were multiple official and unofficial price systems. This was most obvious for the exchange rate with "hard" currencies, but also for various goods, leading to bizarre situations in which a ten-year old used car purchased privately cost more than a new one (same model) bought from the state. The distorted price system that fails to reflect real scarcity levels makes firms and consumers relatively price-inelastic; in other words, they do not respond adequately to rising or falling prices since these are more or less meaningless. Kornai (1992: 152) puts it bluntly: "the relative prices emerging under the classical system are arbitrary and irrational." The only reason why prices do at all exist under classical socialism is the necessity to measure qualitatively unlikely goods or services. Accordingly, prices show a remarkable stability; inflation does of course exist in socialist economies, almost naturally since demand routinely exceeds supply, but this is rarely expressed via prices.

However, unlike firms, households in classical socialism systems operate under a hard budget constraint. Their funds are limited. Hence, they do respond to prices. Since the state sets these prices, they become of high political relevance. Accordingly, prices for basic goods and services such as staple food, medical service, childcare, housing etc. are usually subsidized, while demand for so-called luxury goods (cars, consumer electronics) is regulated by setting artificially high prices. Consumers react promptly and as suggested by classical economic theory; they purchase more of the subsidized goods than they would in a market equilibrium,

and resort to hoarding in anticipation of coming shortages. Excess liquidity is often soaked up by black or “parallel” markets which exist in every classical socialist system (Kornai 1992: 86; 156) on which rare goods are available at inflated prices.

Since such a situation affects the every-day life of a majority, the state has to react. Kornai (1992: 170) identifies a threefold strategy to deal with the consumption shortages. Citizens are asked to either sacrifice the fulfillment of their own desires for the sake of future generations, or to postpone the fulfillment of these desires, or their desires are neglected. In particular in the first two cases, ideology plays an important role. This is connected to repressive systems of control that have the task to prevent discontent from emerging, being organized, and being expressed (see above).

Investment: In addition to overinvestment, the various economic and political specifics of socialism also lead to very distinctive priorities in investment decisions: Investment goods over consumer goods; domestic production over imports (import-substitution); the productive sphere (material goods) over the unproductive sphere (services); industry over all other sectors, including agriculture and transportation; heavy industry over light industry; priority of arms industry; new installations over maintenance of existing ones; big installations (“cult of scale”, “gigantomania”) over small ones; focus on priority products and investment projects; economic development over environment (Kornai 1992: 171ff.). These investment decisions have the same consequences as they would in a capitalist system, although in the latter, they are unlikely to be made.

Labor: As shown above, prices are distorted under socialism. In the case of labor, this is even more so because of ideological considerations. The reason is the Marxist criticism of the treatment of labor as a commodity. Not only is the price of labor set arbitrarily because the planners cannot know the equilibrium wage in lieu of a labor market; it is a matter of principle not to treat the wage as a price of labor at all. Under such conditions, formal unemployment - reflecting the unwillingness of employers to pay a certain price for labor - does not exist. Unemployment under socialism is usually hidden unemployment or unemployment on the job. Another reason why formal full employment is a typical characteristic of socialist systems has to do with the low productivity of labor and the chronic shortage of capital and technology. Often, there is a high immobility of labor between geographic regions, either for political or for practical reasons (such as housing shortage). Education and training are as planned as other inputs under socialism and suffer the same problems in case of wrong anticipations. Firms are neither free to determine wages, nor are they allowed resorting to aggressive headhunting of employees from other socialist firms. The result is a chronic and growing labor shortage (Kornai 1992: 211).

Shortage economy and rationing: As indicated above, shortages occur in various areas of a socialist economy. In fact, these phenomena are so widespread and characteristic that Kornai speaks of a “shortage economy”, which can be observed when shortage phenomena are general, frequent, intensive, and chronic (Kornai 1992: 233). This differs from a wartime economy, which is usually of a temporary nature and caused by a traumatic event, whereas the socialist shortage economy is lasting and systemic. As indicated above, a typical reaction to shortages by individuals as well as by firms is hoarding. Informal or parallel markets develop and provide incentives for moonlighting. Many firms spend valuable resources on manufacturing supplies themselves that they cannot purchase. In especially severe cases of shortage, the state reacts with rationing. This is not necessarily related or limited to staple food. Gasoline, coffee, and from an abstract position even children (see China) have been rationed to ensure that the aggregate supply available (or deemed to be acceptable) could be distributed as equally as possible. Waiting times are also a form of rationing, and refer to cars, telephone lines, housing, etc. The one or the other form of rationing could be observed in all

classical socialist systems (Kornai 1992: 243). It is important to note that just as market distribution instills a certain behavior on individuals (maximizing their income, bargaining for the best price, etc.), administrative distribution or rationing does the same. Kornai (1992: 274) lists a number of criteria that can help an individual to maximize what he or she receives: need (size of family, health), recognition of political merits, recognition of other achievements, standing and prestige in the bureaucratic hierarchy, income and wealth, connections and bribery. This means that the shortage economy affects the whole society way beyond the economic sphere.

Money: It has been pointed out before that money as such does not matter much in a socialist economy. Even if a classical socialist system is nominally monetized, in reality this is a "semimonetized system" (Kornai 1992: 131) because of the only limited functions money is allowed to play in the economy. The money is "earmarked": Money that a firm has on its subaccount for wages cannot be used for purchasing raw materials, etc. "investment money" can not be converted into "wages money" or "materials money". For individuals, too, money is not a universal means of exchange. The budget constraint of the firm is soft, so what counts is the availability of supplies, not their price. The latter is also true for consumers, although their budget constraint is hard. However, because of money overhang created by forced saving or purchasing postponement, their demand often is also relatively price inelastic. The distorted price system adds to this. Accordingly, under classical socialism there usually is no active monetary policy, and interest plays no appreciable role whatsoever on the creditor's or the debtor's side (Kornai 1992: 276).

Social security: Socialist societies are typically known for their generous social security systems. This includes full employment, free education, full coverage by the pension system, state-provided subsidized housing (albeit at low quality), a welfare net for orphans, the sick, and the elderly, and high public security with a low crime rate.

Trade and FDI: Foreign trade in socialist countries is part of the plan; hence it is rarely done by firms independently, but rather through the intermediary function of specialized organizations such as foreign trade firms, which determine the market, the prices, terms of delivery, deadlines etc. The parallel existence of socialist and capitalist countries has created an interesting pattern in the foreign trade of socialist countries: attractive products were preferably sold against hard currency to capitalist partners, whereas in trade with socialist partners it was attempted at trading less attractive goods (Kornai 1992: 334f.). The interaction with capitalist trade partners which naturally takes place at market prices also often highlights the artificial nature of domestic state-set prices. Since the currencies of socialist countries are not traded and hence not convertible, trade takes place in hard currency. Exchange rates exist but are more or less numbers to assist the domestic planning process. An active exchange rate policy is useless.

Interaction with capitalist partners is usually shunned in principle by socialist countries because of the relatively shaky ground on which this stands ideologically; not only is such interaction dangerous because of ideological contamination, it is also questionable whether one should support the exploitation of workers in the partner countries by purchasing their products. Whenever possible, a socialist country will typically opt for import substitution rather than export expansion. However, experience showed that socialist countries have been very eager to trade with capitalist partners. The main reason is the hunger or imports of goods that are either of short supply or not at all available. To pay the import bills, hard currency must be acquired, often by all means. Whenever possible, loans are accepted without much fear of debts (Kornai 1992: 350). For ideological reasons, trade is preferred over foreign direct investment; the latter, if it occurred, took place in the form of Joint Ventures and was usually treated more or less confidential.

Travel: Not only interaction of firms with external partners is restricted; this is also true for individuals. Heavily fortified borders and huge penalties for illegal border crossing occur in capitalist countries, too; however, this usually refers to entering the country, not to leaving it. In addition to political motives, it is often an economic calculation that makes leaving a socialist country attractive for its citizens. This could quickly create a painful brain-drain and also an aggravation of the already serious labor shortage, in addition to being dangerous to the ideological stability. Since other incentives fail, repression is left as the only option for socialist countries to prevent a massive exodus of its citizens.

Ideology: Kornai (1992: 50) notes that as the classical socialist society develops, the former, more general sources of ideology "tie in very closely" with emerging, very particular characteristics of the system to "justify what arises in practice". These different ideologies across socialist countries share some common characteristics, such as the "Messianic" belief that socialism is historically destined to save mankind, and the conviction that the socialist system is both economically and morally superior to the capitalist system. Even more, official ideology suggests that the creation and maintenance of the socialist system is in itself a thing of value, a primary good. Since the socialist system can only function if citizens overcome their instincts as individual economic beings and start acting altruistically and in the interest of the community (as the state defines it), ideology is vital to the success of socialism as a whole. Religions are competing ideologies and as such usually treated with suspicion or outright enmity.

Paternalism: All socialist societies have in one way or the other been characterized by paternalism on various levels. This is a direct function of the Party's power monopoly and the dominating role of the ideology. In an interesting way, this is a return to feudalism where property rights and political power were concentrated in the hands of a few, their claim of legitimacy of this situation being supported by religion. Although socialists would strongly protest such a comparison, the parallels are striking. This is also true for the paternalistic bureaucracy that considers it necessary and acceptable "to force people against their will to adopt a way of life that eventually will be for their own good." Kornai 1992: 88). In extreme cases, paternalism can develop into what is known as cult of personality. Such a cult is supported by the absence of an election system and the long terms in office of the top leaders.

Militarism: The highly militarist nature of socialist societies has three main reasons. One is of a historical nature. Socialist revolutions have either resulted in military conflicts, such as the ones in Russia, China or Cuba, or were the results of major wars (Eastern Europe). Class struggle, either real or fabricated ex post, has been at the core of ideological legitimization of the leadership and single leaders. Furthermore, the very nature of a centralized, planned societal development implies the existence of vertical hierarchies and of top-down command, which resembles the structure of the military. Finally, the enforcement of collective interest against individual interest and the omnipresent "siege mentality" of socialist societies who see themselves surrounded by hostile capitalists support a military spirit even among those who do not wear a uniform; as Kornai (1992: 59) notes, "all citizens should feel they have been mobilized." However, this does not make socialism a military dictatorship, since power remains in the hands of the party and the bureaucracy. Rather, the military is under their control and utilized to achieving their goals. Kornai (1992: 46) quotes Mao Zedong: "Our principle is that the Party commands the gun, and the gun must never be allowed to command the Party."

Perfection drives: As the problems of the classical system aggravate, the leadership becomes aware of them but remains convinced that the system itself is right, just the correct principles are not applied correctly and consistently enough. The results are attempts at making socialism work; these can take various forms, including the reorganization on the upper level,

the merger of firms, or the improvement of planning and direct control (Kornai 1992: 401ff.). Perfection drives do not affect the socialist system itself and hence are not reforms; their effects will not be lasting, so in many cases there were a number of consecutive perfection drives over time.

Reforms and the End of Classical Socialism

According to Kornai (1992: 52, 416), the classical stage is over once the idea that certain features of capitalism need somehow imitating or incorporating into socialism begins to pervade officialdom. Perfection drives are intensified and become more encompassing and bold. Issues that once were taboo can be openly debated in public including the media. The leadership is still not ready to give up the power monopoly of the Party, its ideology, and state ownership. Rather, it continues in the fashion of the perfection drives as described above, still hoping to make socialism work, this time with capitalist ingredients. However, this is an illusion: The internal coherence of the single components of the (classical) socialist system are so strong that the whole system is prone to collapse if only one integral part of it becomes unstable. Socialism “produces a fabric so closely woven that if one strand breaks, it all unravels sooner or later” (Kornai 1992: 383).

The following four groups of inducements obliging the system to change Kornai (1992: 382ff.) can be observed in the case of reformed socialist systems: The accumulation of economic difficulties, public dissatisfaction, a crisis of confidence by those in power and the outside example. In such a situation, the hitherto very effective political repression does not function anymore, losing support even from adherents of the socialist system and creating not obedience but resistance. The Achilles heel of any ideology-based system with claims of moral superiority is its legitimacy; once it is lost, support can vanish at breathtaking speed.

While actual cases of transformation differ, it seems that none of them could occur without support from the top and from within, the so-called “reform Communists”. As Kornai (1992: 413) notes, the emergence of such a group is often connected to the revelation of the top leadership’s crimes against its own standards.

The last, i.e., the post-socialist stage of socialism overlaps with the debate on varieties of capitalism as discussed in the preceding section. It is the subject of a heated debate over the question whether formerly socialist societies that have transformed into the one or the other form of a capitalist market economy should still be described as post-socialist or leave this realm and simply be regarded as capitalist. The answer obviously depends on the historical perspective and the level of abstraction applied; however, this debate, too, has to be largely ignored for the sake of staying in line with the basic rationale of this paper. The next task is therefore not a discussion of post socialism versus varieties of capitalism, but rather a summary of the major points that can serve as breakpoints to analyze the North Korean system.

Classical Socialism and its Main Characteristics

Even more than in the case of capitalism, we can make a certain distinction between economic and non-economic features, although in reality, these are closely interconnected.

(1) *Political power*: undivided, lasting power of the Communist Party and dominant influence of the official ideology; dictatorship of the proletariat, which is seen as a democratic form of political rule; elections take place but do not offer choices

(2) *Ownership/property*: Dominant position of state- and quasi-state ownership; extreme depersonalization of property; private property not allowed for employment of hired labor

- (3) *Centralized Coordination*: central bureaucratic coordination, central planning including typical principal-agent problems, plan bargaining, quantity drive, disregard of quality, withholding of performance
- (4) *Motivation*: non-material incentives; careers in the party or the government are often the only way to advance and hence regarded as highly desirable
- (5) *Stages of socialism*: socialism passes through various stages during which it will exhibit different characteristics; initial enthusiasm will vanish; the state replies with intensified propaganda plus repression
- (6) *Labor*: No labor market, no official unemployment, unemployment on the job, chronic labor shortage
- (7) *Trade and FDI*: trading via specialized organizations; preference on the acquirement of hard currency; interaction only cautious; preference for import substitution rather over export expansion; weak loan repayment discipline; preference of trade over foreign direct investment; FDI mostly as Joint Ventures
- (8) *Low economic performance*: low productivity, low levels of innovation, chronic shortage economy, rationing
- (9) *Seller's market*: demand continuously exceeds supply
- (10) *Soft budget constraint* for producers, overinvestment at the expense of consumption, limitations on entry and exit of firms;
- (11) *Prices*: distorted, multiple price system; state prices set politically; heavy subsidization/premiums; unrealistic exchange rate; high nominal price stability; hoarding; parallel markets with inflated prices; producers and consumers show a weak price responsiveness
- (12) *Hard budget constraint for consumers* and disregard of the state for consumption; consumers are asked to either sacrifice the fulfillment of their own desires for the sake of future generations, or to postpone the fulfillment of these desires, or their desires are neglected.
- (13) *Investment*: forced extensive growth; priority on investment goods over consumer goods; import-substitution; material goods over services; industry over all other sectors; heavy industry over light industry; priority of arms industry; new installations over maintenance; "cult of scale", "gigantomania"; priority setting; economic development over environment
- (14) *Money* is not a universal means of exchange, no active monetary policy, no market interest rate, multiple exchange rates
- (15) *Social security*: full employment; free education; full coverage by the pension system; state-provided subsidized housing; a welfare net for orphans, the sick, and the elderly; high public security with a low crime rate
- (16) *Travel*: restricted foreign travel, especially to non-socialist countries
- (17) *Ideology*: working class is at the center, sometimes substituted by "the masses" especially in agrarian societies; belief that socialism is historically correct and scientific; belief of socialism's economical and moral superiority over capitalism; socialism as a good of intrinsic value; enmity towards religions; combination of socialist ideology with traditional elements
- (18) *Paternalism*: paternalistic leadership with cult of personality; life-time terms in office at the top; paternalist bureaucracy forces ignorant people to act for their own good
- (19) *Militarism*: militarized ideology and rhetoric; preference for the military in resource allocation; top-down command structures; reflection of militarism in art and historical views;

transfer of military terminology and behavior to civil life; siege mentality and permanent state of mobilization; military controlled by the Party

(20) *Perfection drives*: attempts at making socialism work by applying changes that are not of a systemic nature, including the reorganization on the upper level, the merger of firms, or the improvement of planning and direct control

The major points seem to be the power monopoly by the Communist party; state and quasi-state ownership in the economy; and centralized coordination by the bureaucracy. The political component including ideology is of much bigger importance than this was the case for a definition of capitalism. The reason is the decentral structure of a capitalist economy making it function autonomously as long as a number of framework conditions are provided, while socialism not only needs to be micro-managed, it also requires the deliberate cooperation by a majority of the individuals in a society, a cooperation that will not occur spontaneously but requires education, propaganda and eventually also enforcement.

The Challenges of Classification: Is China Socialist?

The preceding section is based on an analysis of actual cases of state socialism as they existed in the decades since the foundation of the Soviet Union and until the collapse of socialist systems in Eastern Europe in the late 1980s/early 1990s. However, claim on the term “socialist” has been laid by other states or political groups that would not necessarily qualify as such if the above were applied strictly. The most prominent example is China. This case demonstrates how important a clear definition of socialism is, how academic and political viewpoints can differ substantially, and how tricky the application of criteria can become in reality. The official Chinese view is that it has been and still is socialist; but if we statically apply the points as extracted above following Kornai’s analysis, we could argue somewhat provocatively that China never went through a prolonged classical stage and at the moment appears as being in the middle of the reform phase. Who is right?

The Chinese emphasize that socialism has a number of competing fundamental tasks; in the past (a euphemism for the Mao era), a wrong emphasis had been placed on “class struggle”, thereby neglecting the development of “productive forces” (Wang 2004). The latter has developed into one of the main official arguments to keep ideology in line with changing realities as proposed by Deng Xiaoping in 1984. China has not given up socialism; it rather has shifted emphasis according to actual conditions. Wang, claiming to represent the official Chinese position, goes even further in his suggestions that public ownership is not a necessary ingredient of a socialist economy, central planning was inferior to decentralized market coordination, and Chinese socialism differs from socialism in other countries. He maintains that socialism is perfectly compatible with a market economy, and that having discovered this fact is one of the greatest theoretical achievements of the Chinese Communist Party. On the difficult issue of Communist Party power monopoly, he insists that the Party leads based on the rule of law, although one could argue that as long as the Party can alter the law unchallenged by political opposition, reality comes closer to rule *by* law. The term “working class” had been sidelined already under Mao and is used only rarely in today’s China. Moreover, the old euphemism “masses” increasingly becomes substituted by “overwhelming majority”.

A quick check against the points as extracted in the previous section shows that China has given up strict state ownership of means of production. The problem of institutionalized low productivity and inefficiency has been resolved, individual motivation is not ideology-based anymore, militarism in society is prevalent but continuously reduced, the shortage economy including rationing is more or less history, ideology dominates but is being transformed from

Communism to nationalism, the bureaucracy is strong but not as dominant as in the past, the seller's market has transformed into a buyer's market, the budget constraint of enterprises has hardened, prices are still affected by the state but not as artificially set as in the past, the economy is fully monetized. On the economic side, it becomes increasingly difficult to maintain the idea that China is socialist.

But what about the political sphere? So far, at least formally the undivided power of the Communist Party is still in place. But to complicate the matter, a certain de facto softening of the Party's power monopoly is evidenced by the inclusion of patriotic entrepreneurs under the Party's umbrella. This opens the way to expanded political pluralism, albeit for the moment only within the Party. One could however argue that the first steps have been made and the development of a multi-party system is a matter of time, since the society has become diversified in terms of economic power through the work of a market economy based on private or quasi-private property. How long will it take until wealthy businesspeople and successful local political leaders will ask for more direct representation?

An interesting feature of Chinese socialism emerges when we apply a dynamic view. Has China ever experienced the classical stage? If it was not absent altogether, we should at least emphasize its very short duration. The revolution took place in 1949, but the events of the late 1950s (Great Leap) and the decade after the mid-1960s (Cultural Revolution) disrupted the continuity of socialist development and destroyed the half-entrenched bureaucracy, significantly reducing resistance against the changes started in 1978.

If we look at the criteria developed for the classification as capitalist, the result is not waterproof either, but nevertheless much more convincing. China is quickly becoming the biggest trading partner of many leading economies in the world, replacing liberal market economies such as the USA; profit making is legal and so widespread that ideology is moved to the backstage for many Chinese; socialist egalitarianism is replaced by an alarming disparity in income and wealth across subregions and society; property rights are protected by the state, with private property on the rise although key enterprises are still in public hands; market entry and exit have been legalized; a central plan continues to exist but planning becomes increasingly indicative and decentralized; competition is rampant; prices are largely formed by independent market transactions, although the state maintains its influence on the exchange rate; allocation is increasingly done via the market.

China is not the subject of this paper, so the discussion must be stopped here; however, it has become evident that the answer whether a country is socialist is not as easy as it might sometimes seem.

North Korea: Classical Socialism?

Against this background, an analysis of North Korea promises to deliver interesting results. The example of China shows that premature assumptions can be misleading. If we apply only the major characteristics identified for capitalism (private, protected property rights; decentralized coordination and allocation of resources; free market entry and exit) we can already be relatively sure that North Korea is not capitalist. However, the real challenge is in the question whether it is, or ever was, socialist.

North Korea's Socialism: From the Heroic to the Classical Stage

Korea has been a colony of Japan since 1910 and became liberated when the Japanese lost the War in the Asia-Pacific. As the Soviet Army marched into the Northern part of the Korean peninsula in August 1945, socialism was imported in a similar way as this happened in

Eastern Europe. The transformation to socialism in North Korea was a consequence of power shifts in international relations, not the result of a domestic struggle like in Russia in 1917, in China in 1949 or in Vietnam in 1954/1976. This has its implications for the legitimacy of political rule and the available ideological options. I will later argue that it made Kim Il-sung less risk-taking on the domestic front than Mao Zedong but also explains his desire to leave a political legacy of his own in the form of national unification – either by military or by other means.

The revolutionary-transitional stage of socialism in North Korea began in late 1945 and lasted until about 1956, interrupted and extended by the Korean War (1950-1953). Formal statehood was obviously less important, as the Democratic People's Republic of Korea (North Korea) was founded only in September of 1948. The (Japanese-owned) industry was expropriated by the Soviets who regarded it as a war trophy; later it was nationalized as the emerging Cold War prompted Moscow to understand that it better left the economy of its allies intact. Establishing state property in industry was a relatively easy task since most of the former owners were the disgraced Japanese colonial masters who had left already. Expropriation of land was less uncomplicated, but the existence of U.S.-backed South Korea that also hosted the national capital of Seoul, the traditional residence of rich landowners, helped smoothing the process by providing them an exit strategy. Many landowners chose not to resist expropriation directly and hoped for a grand solution in the context of Korea's unification, which at that time seemed a matter of a few months.

On March 05, 1946, a land reform was started and declared successfully completed a few weeks later. Land of Japanese, of collaborators, or over a size of 5 chôngbo (about 1 ha) was confiscated and distributed to the farmers. On March 23, 1946, a 20-Point-Platform was promulgated that included the confiscation of the land owned by traitors and great land owners as well as the nationalization of big industrial and trading companies, but also guaranteed freedom of trade and commerce. A labor law concluded in June 1946 stipulated an 8-hour workday and a social security mechanism. In July 1946, a law on gender equality was passed, banning polygamy and prostitution. A law on the nationalization of industry was finally passed in August 1946, referring mainly to factories, banks and transportation. About 90% of the industrial sector became state-owned. Large-scale campaigns of alphabetization were started and access to education improved.

Political power in the Northern part of Korea formally rested (and still does) with the People's Committees. They originally were organs of local self-administration existing throughout the peninsula that quickly became dominated by Communist groups and hence treated as illegal by the U.S. forces in the South. The various domestic and exile Communist groups at first united to fight the much more powerful Christian and nationalist opponents. They formed, after a number of steps, the Korean Labor Party⁶ in August 1946 that received the full support of the Soviet troops stationed in Northern Korea. Through this, it became the dominating force in a typical socialist "block" of political parties, called Democratic United Front. After the non-Communist political forces were either eliminated or assimilated, factional strife within the Korean Labor Party took the center stage of politics. It lasted until 1956, when a putsch of the pro-Chinese and the pro-Soviet faction against Kim Il-sung's Guerilla faction failed and power was finally unified, monolithic and largely uncontested.

North Korea exhibited the typical features of the heroic, revolutionary-transitional stage of socialism. Reforms in ownership started with the expropriation and nationalization of industry and with the expropriation and distribution of land. Following the egalitarian ideology, hitherto disadvantaged large parts of the population were given a higher status and access to

⁶ This party is also frequently called Korean Worker's Party; Korean Labor Party is, however, the exact translation of the Korean term and hence used throughout this paper.

education. The past was rectified by punishment of former colonial masters, their collaborators (a handily flexible term) and rich exploiters. Communists took over political power. The formal institutions of a socialist democracy (democratic centralism) were installed. When the DPRK was founded in September 1948, the heroic stage was about to end. This development was disrupted by the Korean War that destroyed the stability achieved during the past five years, justified the demand for new sacrifices, and eliminated previous economic achievements. It also led to an acceleration of a number of processes. The war led to a tightening of Communist control, an extreme militarization of society, and the further reduction of the remnants of the old society, including private economic activity and political liberty. Punishing political opponents of Kim Il-sung's Communist rule was easier at times of military turmoil. The war also changed North Korea's importance for its socialist allies. They were formerly reluctant to provide large-scale economic assistance, partly because they were occupied with their own reconstruction after WWII, partly because North Korea was regarded as too peripheral. This had changed substantially in 1950, leading not only to a large-scale inflow of humanitarian aid, but also to massive industrial construction and technology transfer after 1953. This was the second transfer of wealth to North Korea after the expropriation drives of 1945 and 1946 and helped the economy to stay dynamic for some time. Collectivization of agriculture started in 1953 and was declared successfully completed in 1958 (Lee 1962); all plots that had been distributed among individual farmers in 1946 were transferred into collective ownership. The usual resistance against such a de facto expropriation was relatively weak thanks to the special situation after the Korean War.

The atrocities of a civil war and the feeling of powerlessness during the American aerial bombings strengthened the ideological side of the Communist rule. Not only were many political opponents eliminated during the war; it was now much easier to create a siege mentality that lasts until present time, to proclaim a quasi-state of emergency and to justify measures that would be similar to martial law. Ideology was increasingly merged with Korean national features. This is to some degree in line with Kornai's analysis, but also reflects the developments within the socialist camp after the death of Stalin and the beginning of the nuclear arms race. The Soviet Union decided to curtail its territorial expansion, discard militant class struggle and focus on economic, diplomatic and soft-power competition in the context of what was dubbed "peaceful coexistence" under Nikita Khrushchev. Moreover, the new leader openly attacked Stalin's cult of personality and demanded collective leadership. This was neither acceptable to China's Mao who was about to consolidate his power and prepared for forceful unification with Taiwan, nor was it in line with the interests of North Korea's Kim Il-sung who had to deal with a hostile regime in South Korea and with factional strife within his own party.

At first reluctantly, out of fear to lose the massive economic support by the Soviet Union and its satellites, but increasingly openly, Kim opposed the ideas of peaceful coexistence and collective leadership. He did not want to join Beijing's side, though, since the just-defeated major opposition faction in his party was actually Chinese-backed and Mao was much too risk-taking in the eyes of Kim Il-sung who could not afford gambling with his fragile and imported political power. When the Chinese started their Great Leap in 1957, Kim followed very cautiously with a flattened version in 1958, a work-harder-campaign called the Ch'ollima-movement. This was a very typical socialist effort at boosting output not by raising productivity but by increasing a key input, in this case labor. He also paid lip-service to Moscow's demands by simply neglecting the existence of cult of personality in North Korea. After the Bucharest and the subsequent Moscow meeting of Communist Parties in 1960, the differences between the Chinese and the Soviet Communists became so openly manifested that it was impossible to maneuver anymore. Kim Il-sung decided to raise the North Korean assimilation of Communist ideology to the next level by emphasizing the ideology of chuch'e,

a term first mentioned by himself in a speech in late 1955 but not too extensively promoted until the early 1960s. Chuch'e is generally described as socialism with Korean characteristics, or the correct adaptation of socialism to the specific conditions of North Korea. This is not only an open deviation from orthodox socialism as promoted by the Soviet Union and adapted by its Eastern European satellites; it has later turned out to be a very useful tool to overcome the ideological challenges of the reform stage of socialism.

The open refusal to take the Soviet side in the confrontation with China cost North Korea the huge external economic support it had received since 1951 and at an increased rate since 1954. Moreover, what was interpreted as Soviet appeasement during the Cuban missile crisis in 1962, combined with an emerging military dictatorship in South Korea since May 1961, prompted the North Korean leadership to allocate more of its already scarce resources to the independent buildup of its military, including an arms and ammunitions industry and related R&D. This put an additional strain on the economy.

Classical Socialism in North Korea: Checking the Characteristics

North Korea quickly moved into what is a typical example of classical socialism. The passages between single stages are usually smooth, so only rough estimates can be offered; I would argue that the classical stage started around the mid-1950s and lasted until the death of Kim Il-sung in 1994, i.e., for around four decades. If we apply the 20 characteristics as extracted above to North Korea in that period, we find an almost perfect match.

Political power was undivided and for a long time in the hands of the Communist Party; chuch'e was the official ideology with dominant influence; socialist democracy was in place including regular elections, a parliament (the Supreme People's Assembly), a constitution, and no choices. Ownership of means of production was in the hands of the state in industry and collective, i.e. quasi-state, in agriculture. Economic planning (Chung 1983) and central coordination by the bureaucracy became more and more sophisticated, growing on the fertile ground of a traditional neo-Confucian understanding of the organization of a society. The North Korean economy became a typical seller's market, with a limited choice of low-quality goods, unfriendly sales personnel, and forced saving by consumers who found few goods to spend their money on. Money had only a nominal function, since goods had fixed prices, they could only be bought if they were indeed available and in many cases also a coupon was required. As the various campaigns indicate, withholding performance was rampant by individuals who quickly realized that they should save their energy for permanent requests to work extra long. Material incentives existed occasionally, but the main emphasis was on ideological motivation through the omnipresent visual propaganda, but also by loudspeakers that were either installed in living quarters and workspaces, but also mounted on trucks so that they were available on construction sites and on the fields. The constitution stipulates that 8 hours are devoted to sleep, 8 hours to work, and 8 hours to ideological training.

Despite all attempts at keeping revolutionary fervor alive, enthusiasm seems to have vanished since the mid-1950s, as is evidenced by frequent ideological campaigns as well as reports from visitors (Frank 1996). The response typically included not only propaganda but also repression; the issue of labor camps (the official paradigm is reeducation instead of punishment) remains a major concern regarding North Korean human rights. There was no labor market; workforce was allocated centrally and was not mobile. Free movement of individuals within their own country was restricted. Unemployment on the job became especially evident when the state was forced to stop payment of wages to workers of non-productive factories during the famine of the 1990s, while at the same time offices and universities in Pyongyang were regularly emptied during the spring planting and the autumn harvest seasons to make up for the chronic labor shortage.

Foreign trade is not per se opposed, but nevertheless treated as a highly political issue in North Korea. It used to be limited to non-capitalist partners in the 1950s but had to be expanded according to the needs of the North Korean economy, and since the late 1980s also because of the global changes. Trade with socialist partners was more a case of diplomatic rather than economic interaction. Volume and contents were negotiated between governments; fulfillment of commitments, loans and prices/exchange relations were determined politically. Products in high demand such as gold or magnetite were sold on the world market against hard currency, much to the frustration of socialist partners. Individual enterprises could not sell or buy directly but had to do so via state agencies coordinated by the Ministry of Foreign Trade. FDI did not take place with the exception of a few Joint Ventures with pro-North Korean businesses from Japan since the mid-1980s. North Korea had a negative image concerning debt repayment among socialist countries since the mid-1950s, as is evidenced by archival documents disclosed in former socialist countries. The same happened with the West when larger loans became available in the context of the oil crisis; North Korea effectively defaulted on an amount that is estimated to be around 12 billion US\$.

The chronic shortage economy of North Korea prevented the abolition of rationing for food and other goods such as consumer electronics. Producers showed the typical effects of the soft budget constraint by overinvesting into unproductive areas, only to suffer from a lack of key inputs that led to continuously low levels of capacity utilization. This has been aggravated by the chronic electricity shortage. The transportation and communication infrastructure are badly maintained. Neither the founding of a business nor bankruptcy are possible; the state strictly controls market entry and exit. Prior to 2002, the price system was exclusively under the control of the state, characterized by heavy subsidies for food such as rice, and mark-ups for consumer electronics such as TVs and computers. There were three different currencies in circulation; one for North Koreans, one for foreigners from socialist countries, and one for foreigners from capitalist countries. The exchange rates for the latter two were different, and multiple exchange rates existed for foreign trade. A parallel market for food existed with prices clearly above the state level.

Propaganda continuously asked consumers to sacrifice; this went as far as suggesting two meals per day instead of one, and the consummation of meat only once a week. The capital city of Pyongyang was covered with huge ceremonial buildings, hotels and broad alleys, although neither traffic nor the number of visitors have yet justified these investments. Among the symbols of a failed investment policy is the 105-story Ryugyong hotel, construction of which was stopped in the early 1990s and not resumed ever since. The investment policy laid out in the economic plans until the 1990s followed the typical socialist pattern of prioritizing heavy and chemical industry at the expense of light industry. Where possible, imports are being substituted by local production. Pollution is not a major problem in most areas because of the low capacity utilization and lack of inputs of industrial facilities; however, deforestation has reached alarming levels, aggravating the effects of torrential rains and having prompted South Korea to offer a reforestation program.

The social security system of North Korea for a long time was a source of pride of the leadership. Medical services and education were free; the state cared for children and for the elderly. Housing was either free or heavily subsidized, as was staple food. Formal unemployment did not exist. Official propaganda used these points to prove that North Korea had indeed become a worker's paradise, implying that the promises of the revolution had been fulfilled and the sacrifices made so far were not in vain.

Travel in North Korea was heavily restricted at all levels. Without a special permit, individuals cannot move to another county. Leaving the country is even more difficult and only possible for a small ruling elite or for business purposes. The borders are heavily

fortified. The one to China seemed to be relatively open, although this openness did not reach the level of inter-Eastern European borders. Touristic trips of ordinary North Koreans abroad have not been reported. The number of foreign visitors was very small; they mostly came from among the pro-North Korean groups in Japan, from other socialist countries, or included Western businesspeople and diplomats.

The North Korean ideology described itself as socialist and Marxist-Leninist, although the latter vanished in favor of Kimilsungism. Being an industrialized country with the majority of the workforce employed in the industry, emphasis on the working class was less of a problem than for Mao; this is also reflected in the name of the Party and of the Party's organ, the *Rodong Sinmun* (Labor Daily). The historical correctness and inevitability of socialism has been stressed continuously. The claim of being scientific was especially well received by both leadership and population, reflecting an important part of Korean traditional thinking. Religions are not officially banned in North Korea but have de facto been eliminated or sidelined. The once dominant Christian religion has been reduced to a few officially sanctioned churches. Buddhist monasteries exist and are shown to foreign visitors, and the natural religion of shamanism is reportedly practiced in the countryside. However, it seems that the official ideology not only opposed religions; especially through the cult of Kim Il-sung and Kim Jong-il, it has been tried to replace them. This is exemplified in mystic stories about the leaders, their origin and their deeds, through rituals, pictures and places of worshipping.

Paternalism is a characteristic of totalitarian systems, of many religions and of Neo-Confucianism; it is hence not surprising to find it in North Korea. A frequent motive of depicting Kim Il-sung is that of the loving father of his people or the omnipotent leader who gives on-the-spot guidances on almost any subject. Leadership by example has been the typical style especially of Kim Il-sung, who according to North Korean sources made a total of 20,600 such guidances, travelling 578,000 km (see www.korea-dpr.com). The Party is described as the loving mother, officials are asked to take good care of their subordinates as if they were their children. The people are expected to show not only loyalty but love to their leaders. Disobedience is in such a context not a legal offense but an act of treason. Accordingly, the penal system focuses on reeducation.

Militarism in North Korea was a part of every-day life, prompted by the hierarchical structure of socialist societies, the emphasis on the revolutionary guerilla tradition as a source of legitimacy, and strengthened by the Korean War and the absence of a peace agreement that legally means the country is still in a state of war. In school, children wore uniforms and were organized similarly to military units; paramilitary training took place from an early age onwards and was continued at the workplace. Young men were conscripted to the army for about a decade of military service, the highest such number for all socialist countries. The leaders wore clothes resembling uniforms and were surrounded by generals on official occasions. Resources were primarily allocated to the military; in fact, it operated its own industry, called the "second economy", making it economically independent even from the other branches of the executive. The slogans displayed in North Korea used a militaristic language (fight, front, victory, struggle). The military was controlled by the Party.

As the failure of the socialist economy became obvious, the leadership reacted by attempts at making the system work. Examples are improved management systems such as the Taean System and the Ch'òngsanri Method, as well as numerous campaigns to work harder, to utilize scarce resources more efficiently, to raise hard currency, to increase output, to improve product quality etc.

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It is evident that the presence of the three main characteristics of socialism, i.e., the Communist Party's power monopoly, state ownership and centralized bureaucratic control, have the results that can be expected based on an analysis of other cases of classical socialism.

North Korean Socialism: Entering the Reform Stage?

If North Korea were on the way towards transformation, we should be able to observe changes to at least some of the points as made above. As it seems, the new global situation after the collapse of most socialist systems, the death of Kim Il-sung and transfer of power to his son Kim Jong-il, the changed attitude of South Korea and the success of China and Vietnam have not been without an impact on North Korean socialism.

Political power: The signals emanating from North Korea in this regard are mixed. Political pluralism is not even a distant possibility under current conditions. However, a certain challenge to the power monopoly of the Communist Party has emerged from the Military First Policy. Statements such as “the working class is not the leading group in our society anymore” and “fatherland is over ideology” are without precedence and therefore hard to interpret. They certainly indicate the end of orthodox Marxism-Leninism in an unusually open form; but, as Kornai’s study shows, socialism and Marxism-Leninism are not necessarily the same. It is therefore fair to assume that the Party’s power monopoly is intact. However, especially the well educated functionaries must have realized the hidden opportunities and contradictions of this new mode of thinking, so we should not be surprised if in hindsight, the Military First Policy marked the ideological beginning of the end of socialism in North Korea. Another indicator of irregularity is the fact that the so far last Sixth Party Congress has taken place in 1980, breaking with the tradition of holding such conventions every five years as it is still being observed for example in China.

Ownership/Property: State and quasi-state ownership are still dominant. However, the size of the so-called “kitchen gardens”, i.e., de facto private plots of collective farmers, has been enlarged; they are explicitly mentioned in the 1998 constitution. Reportedly, there were experiments with the reorganization of collectives based on enlarged families, a de-facto return to the pre-collectivization period between 1946 and 1953. In industry, state property has been left untouched, although individual enterprises have received much more responsibility within the state sector. A wage discrimination system was introduced in 2002, allowing factories to pay wages according to individual achievement and the overall situation of the enterprise, thereby raising the level of identification with the workplace through classical material mechanisms. New forms of property have been introduced, such as Joint Ventures between the state and private capitalists from abroad. It is not yet possible to speak of a dramatic reform in ownership; rather, we see single perfection measures aimed at incorporating some of the mechanisms of a capitalist market into socialist reality in North Korea without touching the system itself.

Centralized Bureaucratic Coordination: Again, the assessment is not entirely clear. The system of central coordination has not been abolished, yet it is far from being intact. This is not only exemplified by the collapse of the rationing system during the famine of 1995-1997 and its only incomplete resurrection thereafter. Economic planning showed signs of irregularity even before, when plan periods had to be extended by so-called supplementary plans to gain more time to reach failed goals. Currently, the plan exists but more as a symbolic, indicative figure. On the other hand, the allocation of key resources still does take place through the old central mechanisms and as a result of plan bargaining. Pressure to change is particularly high in this field since the malfunctioning economy has become publicly prioritized by the government.

Motivation: The dominance of ideological motivation is evident when strolling through the capital Pyongyang or the countryside; both are covered with slogans. Their content has changed according to the new priorities, either praising the Eternal President Kim Il-sung or his son, or asking to defend the country with a militant spirit. However, this says little about the effectiveness. In factories, propaganda pictures displaying revolutionaries fighting until

the end are supposed to inspire workers to follow their example, yet charts with individual achievements in socialist competition (the Three Revolutions Movement) are left empty. Anecdotal reports indicate growing opportunities to advance outside the state system, for example by being a successful trader on one of the markets, thereby reducing the value of traditional systems of motivation. The Special Industrial Zone in Kaesòng hosts over 80,000 North Korean workers, and the number is growing. The factories are South Korean, so not a single slogan or propaganda poster can be seen. Yet, productivity is high, teaching the workers a silent lesson.

Labor: Recent reports indicated that the state increasingly faces difficulties to staff its production facilities. In 2005, a diversification of the food rationing system has been introduced that rewards regular presence at the workplaces as assigned by the state, since many workers obviously left after wages could not keep pace with inflation and better paying side-line activities were a matter of survival. Especially women quickly developed skills to keep their families alive by processing basic foodstuff and selling the products on the markets for a profit. This not only frustrated men who wondered why they went to the factories for a fraction of what their wives made, it also deprived the state of a large part of its workforce. Accordingly, a minimum age for trading women on the markets was introduced and raised until about 50; enforcement seems to be a problem, however. From the Northern border regions with China, it is reported that workers increasingly seek jobs in JVs with Chinese companies because they pay higher wages and offer better conditions. This is not yet a labor market where enterprises freely compete over the best employees, but certainly a departure from the previous situation.

Trade and FDI: The pattern of trade has changed substantially since 1990. Preferential trade has not disappeared but changed its nature. Old partners such as Russia and other formerly socialist countries demand payment in hard currency and the delivery of the agreed quantity and quality, having nothing but economic motives for interacting with North Korea. Also, the partners are not other governments anymore but private entities or at least single economic agents. Preferential trade still takes place, as is easily proven by a look at North Korea's trade statistics. Imports continuously exceed exports, while access to international finance does not exist. Accordingly, the difference is covered by either aid or long-term loans that are de facto similar to a free gift. New partners for preferential trade have emerged, such as China and South Korea. Especially the latter is a difficult case; the language barrier does not exist, the cultural barrier is lower, so that uncontrolled dialogue is easier whereas misinformation is more difficult. Most importantly, the stance towards FDI seems to have changed. Since the introduction of the first Joint Venture Law in 1984 and the largely failed Special Economic Zone in Rajin-Sònbg, especially the Special Industrial Zone near Kaesòng has developed into a major hub for FDI. Other examples are the cooperation with the strictly anti-Communist Unification Church of Revered Moon, which under the label P'yònghwa (Peace) Motors builds cars in a factory in the North Korean city of Namp'o. Other examples abound.

Seller's market: Discounts, newly opened restaurants, street vendors, plastic money – all these are indicators of a substantial change in economic relations and of a change towards normalization, i.e., a buyer's market. This stands in close connection with the issue of money. The latter seems to regain a number of its basic functions, becomes valuable, and hence turns money-making activities into attractive options. The consequences are manifold and often of an indirect nature; they have the potential of seriously undermining the old classical system of North Korea.

Soft budget constraint: With increased responsibility of individual production units and the proceeding monetization of the North Korean economy, the budget constraint of firms hardens.

Social security and equality: The hardening budget constraint makes lavish spending on social security both transparent and more difficult. After 2002, North Korea has introduced modest social security premiums; the quality of the services lowers, and inequality according to available resources is growing. Considering that egalitarianism is a major claim of socialism, this will not be without its impact on the legitimacy of the regime.

Ideology: As indicated above, massive ideological changes are under way in North Korea. Most importantly, the economically defined elite (workers) is replaced by a politically defined elite (military), opening the way for much more flexibility in economic realities without colliding too openly with official theory. Socialism is continued to be substituted with nationalism, an ideology that is much less vulnerable to external attacks and to the effects of newly gained information about the affluence of people in capitalist countries including South Korea. In short, it is argued that although the South Koreans might be wealthier, the North Koreans are the true nationalists who happily and proudly suffer for the sake of national independence and integrity. Such an ideology is much harder to attack than socialism.

Paternalism: Still omnipresent, changes are observable in this area, too. Especially the cult of Kim Jong-il differs markedly from the one of his father. There is not a single Kim Jong-il statue in North Korea, no school, no road, no square is named after him, and his face is not printed on banknotes. About half of all slogans in Pyongyang praises Kim Il-sung; Kim Jong-il benefits indirectly as his eldest son and chosen successor. In a way, he portrays himself to the people as being *primus inter pares*, the first among the many loyal children of Kim Il-sung. This makes Kim Jong-il's position very safe, but also raises the question whether dynastic leadership can be continued. There are signs that there might be no next leader but rather government by a form of collective leadership.

Militarism: This has not changed, or has even become intensified. Missile and nuclear tests are new developments that raise the level of tension. On the other hand, the frequency and intensity of clashes at the border has diminished, terrorist adventures such as attempts at assassinating the South Korean president, abductions, the bombing of Rangoon or the bomb aboard a Korean Air plane have not been repeated since the 1980s. The increased emphasis on the military can in some way be interpreted as a sign of the regime's insecurity. Finally, it is important to note that the military-controlled part of the economy has played a progressive role in the economic transformation of China.

Perfection drives: North Korea has not given up socialism. All measures as discussed above are aimed at making the system work, not at reforming it. However, results not necessarily coincide with intentions, as was evidenced in many former Eastern European countries. Still, the North Korean leadership seems to hope to be able to follow the Chinese example of gradual transformation of the economy while keeping Communist Party rule intact and stable.

Today's North Korea: Neither fish nor fowl

Present day North Korea presents a hybrid image. Not classical socialism anymore, and not yet undergoing full-fledged reform and transformation, it has entered the reform stage and is in the process of accumulating the energy needed to overcome the last hurdles on the way to real change. As the example of former Eastern Europe has shown, such a process can last for many years, even decades; however, once a certain threshold has been reached, events can become very dynamic and quickly transform in a matter of weeks and months what seemed to be solid and insurmountable just the day before.

Such a development is difficult to detect and to penetrate in real time, as obvious as it will seem to have been in *ex post factum* analysis. A structured, continuous observation is therefore of utmost importance as an early warning system. The latter is not just a matter of

academic interest and curiosity; it has serious implications for a number of issues. The list is topped by the hitherto unresolved nuclear issue, which must be seen in the closest connection to the regime's fight for survival in obviously difficult and turbulent, threatening times. Humanitarian considerations play a role, too. This refers to the possibility of the system's reaction to widening cracks in domestic stability by stepping up repression. But even without this, a collapse of a society that even under stable conditions has difficulties feeding its population is highly risky, especially for the weakest parts of society who might simply die before the outside world realizes what is going on and organizes humanitarian aid properly. This in turn will have its repercussions on the reaction by neighboring countries, for which North Korea is also a strategic question. One often mentioned scenario is a Chinese intervention that could in the worst case lead to a manifest conflict with South Korea and the United States.

Having seen how significantly North Korea has been deviating from classical socialism in the past years, and assuming that such a change is in the interest of North Korean people and its neighbors, a policy oriented towards the further encouragement of such developments seems desirable. This could include the integration of North Korea into regional networks of cooperation, such as ASEAN+X (Frank 2008).

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