

POST-COMMUNIST CAPITALISM AND FINANCIAL CRISIS, OR THE MIXING OF THE NECROECONOMICS AND THE ZOMBIE-NOMICS

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Abstract

After the collapse of the Communist regimes and their command economies, the countries of the former Soviet Union found themselves with only a very small amount of goods to supply to the global market. In fact, no markets existed for many types of products. There was no way that they could have existed in that an economy of this type is nothing more than a corpse or a so-called “necroeconomy.” The purpose of this paper is to distinguish the various economic foundations of post-Communist capitalism and to examine the key economic problems of this type of society in the context of the modern financial crisis. As international experience shows, dead firms do exist and “successfully” function in the most developed of economies as well with Japan being the most obvious example. These insolvent and, in fact, bankrupt firms which continue to operate despite their “mortality” are commonly referred to as “zombie-firms.” Unlike developed economies, which are exposed to the threat of the zombie-ing of the economy under the conditions of a financial crisis, this threat is even greater for the countries of post-Communist capitalism owing also to their exposure to necroeconomy.

Almost twenty years have passed since the beginning of the period of post-Communist transition to a market economy. Naturally, this has resulted in the accumulation of a rather rich experience overall and one which allows us to make some generalisations. It may be asserted, that market economies, as such, have been established in almost all of the countries of the former Socialist bloc with the period of transition over and the individual newly-independent states having passed through this period with with varying degrees of success.¹

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¹ Belarus is perhaps the only exception (Antachak, Guzinski and Kozarzhevski, eds. 2001).

Some of the countries were so successful within their movement towards a market economy that they achieved EU membership (Papava, 2006) whereas others—in fact, all of the post-Soviet nations with the exception of the Baltic states—became “prisoners” of their own product; that is, post-Communist capitalism (Kennedy and Igen, 2007; Papava, 2005) which is a very special phenomenon of modern times and which includes in itself a wide range of different forms of capitalism (for example, Coates, 2000; Crouch and Streeck, eds., 1997; Gwynne Klak and Shaw, 2003; Hall and Soskice, 2001).

The purpose of this paper is to distinguish the various economic foundations of post-Communist capitalism and to examine the key economic problems of this type of society in the context of the modern financial crisis.

Necroeconomy – Heritage of Command Economy

In order to understand the essence of the economic foundations of post-Communist capitalism, one has to analyse one of the key peculiarities of a command economy; that is, the quality of its material and technical bases.

It is common knowledge that a command economy excludes any possibility for the existence of any forms of competitive relationships either domestically or internationally—inside any distinct economy or between different command economies—owing to its very nature. The majority of command economies used to be integrated into one big common economic space. The former Council of Mutual Economic Assistance (CMEA), which existed for approximately 40 years and was governed by a co-ordinating organ, is perhaps the best example of this. Economic co-operation with market economies was maintained upon a very limited basis and exclusively at an inter-governmental level.

The absence of competition in command economies quashed the only effective stimulus for economic development. As a result, the quality of products, as a rule, was very low—as were their prices—which were maintained artificially by means of national budgetary subsidies. The key sources of the former Soviet Union’s national budget revenues included the sales of alcoholic beverages and the export of raw materials (basically those of oil) which represented the only stable channel for the accumulation of foreign currency reserves.

Based upon the studies and generalisations of key aspects of the economic system of the Communist regime in Poland, Adam Lipowski came to a conclusion that when the whole world was divided between the “developed” and the “developing” countries, those with command economies could not qualify for either of the foregoing and so he invented the term of “misdeveloped” countries specifically for command economies (Lipowski, 1998, p. 9). In such cases of “misdevelopment,” Lipowski asserted that:

- the share of industries in GDP was too high because of a low percentage of domestic and foreign trade and services,
- a significant portion of industrial production accounted for manufacturing production as opposed to the comparatively small output of consumer goods,
- the volume of high quality competitive products capable of meeting international standards was very limited,
- the major part of industrial output included goods which were generally useless to customers and

- the share of outdated products in industrial output was too high.

After the collapse of the Communist regimes and their command economies, the countries of the former Soviet Union found themselves with only a very small amount of goods to supply to the global market. With few exceptions, such as some hydro energy outputs, oil and gas extraction and the primary processing of raw materials, the goods manufactured they manufactured failed to meet the high international standards as a result of their overall low quality and or high prices. In fact, no markets existed for these particular products. Moreover, in principle, there was no way that they *could* have existed in that an economy of this type is nothing more than a corpse or a so-called “necroeconomy” (Papava, 2001) or, similarly, a “virtual economy” (Gaddy and Ickes, 1998, 2002; Woodruff, 1999). The economic theory which deals with this kind of economy is called “necro-economic theory” or “necroeconomics” (Papava, 2002, 2005).²

Lipowski uses the term “divesting” (as an antonym to “investing”) in order to describe the process of a command economy’s being “stripped” (for example, Drucker, 1985; Teylor, 1988) which amounts to “liberating” the post-Communist economy from the list of pathologies characterising a “misdeveloped economy” (Lipowski, 1998, pp. 31-32) which, in our opinion, is the way in which a necroeconomy develops.

Naturally, even if one part of an economy is dead, the rest of it may still be alive which can be referred to as its “vital economy” or “vitaconomy.” Further accordingly, the economic theory which deals with this kind of economy is called “vita-economic theory” or “vita-economics.” By its substance, this is nothing more than economic theory itself—or economics in its common meaning—because economic theory, as such, is something which deals with the economy as a vital system.

Collectively, all of the aforementioned leads us to the question: What does necroeconomy have in common with vitaconomy and how do they differ?

In a necroeconomy, like in a vitaconomy, some goods may be produced which in fact means that there may exist *supply*. In contrast to those goods produced in a vitaconomy, however, those emanating from a necroeconomy are in a situation of no *demand* owing to their low quality and or high prices. Consequently, a necroeconomy *excludes any reasonable act of sale and purchase and, as a result—equilibrium prices*.

If any segment of an economy is “dead,” then theoretically there should be no problems within. Common sense tells us that a necroeconomy cannot have any influence over its vital parts. Under the conditions of a market economy, economic theory prescribes that uncompetitive productions must disappear and, at the same time, should not create any significant problems for the rest of economy. This explains the limited focus from the side of economic theory upon the problems of such a post-Communist market economy in which necrocompanies are exist.

Specifically, in the countries which are still undergoing the process of post-Communist transformation—as well as those in which post-Communist capitalism has already been established—*necroeconomy has grown on top of the roots of the command economy’s material and technical bases*. We can conclude, therefore, that the necroeconomy is *exactly* that which differentiates the economy of post-Communist capitalism from all other models of capitalism.

² Political science uses the terminology “necropolitics” (Mbembe, 2003).

The economy of post-Communist capitalism consists of the following groups of necroeconomy and vitanomics:

- Group 1. Necroeconomy in the public sector
- Group 2. Vitanomics in the public sector
- Group 3. Privatised necroeconomy
- Group 4. Privatised vitanomics
- Group 5. Vitanomics developed by means of new private investments.

The majority of the first group, as a rule, consists of large- and medium-size processing industry enterprises which, depending upon the types of goods they produce, are labelled “strategic” ones even though they are dead under the conditions of a market economy owing to their low or lack of competitive powers.

On the other hand, enterprises within the energy sector (first of all, electricity generation and transmission and the extraction and distribution of oil and gas), as well as those of transport and communications constitute a basis for the vitanomics in the public sector. When privatised, they move to the fourth group comprising the privatised vitanomics which may also include some medium- although mostly small-size industrial enterprises (prior to their privatisation).

The third group consists of the former first group enterprises following their privatisation. The change in ownership by itself does not automatically entail the restarting of formerly idle enterprises in that a “corpse’s” status does not depend upon whether it is owned by the government or a private firm. *Disregarding this fact is the key reason that the process of privatisation has been relatively discredited.* Privatisation, especially during its initial phases—irrespective and taken separately of any investments—has often been believed to be a universal remedy capable of restarting any inoperable enterprise, dead or alive. As we will seek to demonstrate, the institute of private ownership alone is not able to create sufficient conditions for the abolition of necrofirms.

The fifth and last group embraces the “healthiest” segment of the post-Communist economy which is based upon the principles of a market economy maintained by private investments. Some problems, however, may be discovered herein as well which will require adequately address. In particular, this refers to some foreign investments by means of which post-Communist countries receive relatively old technologies which have become obsolete from the standpoint of modern international standards. In our opinion, these could be labelled as “second-hand investments” with goods manufactured by means of this capital only being competitive in “emerging markets” and only for a limited period of time until the arrival of highly competitive goods which meet all of the international standards.

Zombie-Economy—Heritage of Financial Crises

We have already stated that necrocompanies are found within the countries of post-Communist capitalism but the question arises of whether or not this is a problem confined to such countries in transition alone or if these sorts of enterprises also exist in developed and or developing economies.

As international experience shows, dead firms do exist and “successfully” function in the most developed of economies as well with Japan being the most obvious example (Hoshi, 2006). These insolvent and, in fact, bankrupt firms which continue to operate despite their “mortality” are commonly referred to as “zombie-firms.”

A system of continued lending is the key source of the sustainability of these zombie-firms (Caballero, Hoshi and Kashyap, 2008; Smith, 2003) with their loans granted by so-called “zombie-banks” which extend beneficial credits to the firms (in particular, interest rates for such loans are lower than average rates at the market level) (Hoshi and Kashyap, 2005; Smith, 2003). In full risk of stating the obvious, these unreasonable loans can only lead these banks to direct and inevitable losses (Ahearne and Shinada, 2005, p. 368).

This, therefore, is the maintenance plan for zombie-firms but how, one may ask, do zombie-banks manage to survive under such circumstances? As a rule, such banks are backed by their country’s governments (Kane, 2000b, p. 301) which grant them all kinds of guarantees and assure their deposits, amongst other things, which eventually means that zombie-banks exist at the expense of taxpayers (Kane, 2000a, p. 164). To a certain degree, such a financial system even encourages “healthy” firms to turn into zombies (Hoshi, 2006, p. 40).

As a result of the aforementioned relationships between zombie-firms, zombie-banks and their governments, a “zombie-economy,” then, develops which becomes a heavy burden for the “healthy” segments of the economy. In particular, zombie-firms, by mere their existence—and which enjoy guaranteed beneficial loans from zombie-banks—block the emergence of new “healthy” firms in the market (Hoshi, 2006, p. 33) as they have to borrow at rather higher interest rates (Caballero and Kashyap, 2002). In addition, because of their access to guaranteed beneficial loans, zombie-firms, in their fight for market shares, are at liberty to drop prices (Smith, 2003, p. 288) and raise the salaries of their employees (Hoshi, 2006, p. 33). The limited market access for “healthy” and, even more so, productive firms eventually leads to the reduced productivity of the whole economy (Ahearne and Shinada, 2005, p. 364).

A zombie-economy takes its roots in times of a financial crisis (Ahearne and Shinada, 2005; Hoshi and Kashyap, 2004). Under the conditions of stagnation, the economy becomes characterised by a stoppage of production and trade for a relatively long period of time which, in turn, gives rise to unemployment, a reduction in wages and salaries and the overall decline of the standard of living. During these times, governments, as a rule, are called to help the economy to overcome such difficult conditions through the provision of bailouts and other attempts at keeping the banking sector (to avoid a banking crisis) and the entire economy on the surface. After the end of a financial crisis, the economy receives its own lifeless portion as a legacy of the difficulties and continues to try to preserve the old system of the government’s financial aid which was readily available to it during the crisis. A zombie-economy, therefore, can be viewed as a legacy of a financial crisis. It must be emphasised that a zombie-economy is a phenomenon peculiar not only to Japan and other developed market economies (for example, Holle, 2005) but also to those countries with developing economies as international experience has shown (for example, Kane, 2000a).

What Are the Similarities and Differences between a Necroeconomy and a Zombie-Economy?

One might have the impression that the terms necroeconomy and zombie-economy refer to one and the same phenomenon; that is, a dead economy which continues to subsist despite its lethal status. In fact, such an impression is both superficial and misleading in that whilst the two “economies” do indeed share one commonality—there is no doubt that they are both dead—there is a wide spectrum of significant differences between them.

First of all, both economies developed in essentially different economic systems. A necroeconomy grew forth from a command economy whilst a zombie-economy is the offspring of a market economy. Further, a necroeconomy, in fact, has nothing to do with a financial crisis whereas a zombie-economy is the immediate end result thereof. It is important to note once again that the existence of zombie-firms depends in the main upon zombie-banks whereas necro-economic agents subsist by means of immediate and direct subsidies from national budgets or tax exemptions. Moreover, the differences between a necroeconomy and a zombie-economy have also a lot to do with the sectors within which are mostly directly and readily exposed to their influences.

A necroeconomy, therefore, generally expands to large- and medium-size manufacturing industries as opposed to zombie-firms which show no traces of existence therein as evidenced by the situation in Japan’s economy (Hoshi, 2006). Moreover, the large manufacturing enterprises in a post-Communist capitalist country, have the greater probability of becoming a part of a necroeconomy. On the other hand, as the same Japanese experience demonstrates, most large-size firms, due to their great financial powers, are not zombie-firms but may also often be encountered in those so-called small businesses which are relatively “larger” than others (Hoshi, 2006).

It is important to note that whilst all international financial institutions, such as the International Monetary Fund (IMF) and the World Bank, insist that the post-Communist capitalist governments eliminate all kinds of national budget subsidies and tax exemptions, all lobbying efforts are mobilised towards pushing those bailout programmes into providing some extensive financial support to the national governments in order to enable them to build up some favourable lending systems under the circumstances of the financial crisis (Kane, 2000a, p. 163; 2000b, p. 288).

One may arrive at the conclusion, therefore, that necroeconomies and zombie-economies are related to each other but still differ to a great degree from each other as individual economic phenomena. Unfortunately, however, these differences are not always given due consideration. In some studies, the peculiarities of a necroeconomy are overlooked which means, as a result, that the problems of dead firms in the post-Communist countries (mostly China³ and Russia) are examined within the context of zombie-economies rather than necroeconomies (for example, Kane, 2000b, pp. 300-301; Lindsey, 2002, pp. 126, 153; Shleifer, and Treisman, 2000, pp. 106-107).

³ Despite its Communist ruling party, China’s market reforms render it more within the group of post-Communist market economies and, as such, enable us to call it a post-Communist entity.

Reproductive Mechanisms of a Necroeconomy and a Zombie-Economy

A key question with respect to a necroeconomy and a zombie-economy is what ensures their stable existence.

The answer may be found in an evolutionary theory of economic changes (Nelson and Winter, 1982) wherein the key tool is the concept of “routine” which implies a certain set of rules and ways of a firm’s conduct which regulates the reproduction (of such a conduct) (Murrell, 1992a, 1992b).

It is this very routine, which has developed over a period of several decades upon the roots of a command economy, which pushes dead companies in the countries of post-Communist capitalism *to work in the no-longer-existing regime of a command economy*. Without any special governmental support, therefore, the warehouses of these companies become filled with uncompetitive goods for which there is neither demand nor market. Given the fact that as a matter of principle these goods cannot be sold to anyone, the companies find themselves further and further in arrears as regards wages, salaries and debts to national budgets, social funds, energy sector industries and other businesses which eventually creates a network of mutually indebted businesses (for example, Åslund, 1995, Ch. 6, 2002, pp. 244-248, 328-330, 333-334, 2007a, pp. 132-133).

It was a long-established tradition in command economies that when an enterprise accumulated (often very deliberately) huge debts, its director raised the question before his country’s superior governmental institutions (such as Communist Party governing bodies, the Gosplan, the Ministry of Finance, etc.) to write off those debts and, as a rule, such requests were usually granted. Consequently, because of the almost unlimited (or much rather guaranteed) opportunity to have one’s own debts removed, enterprise managers did not regard debt accumulation as any kind of danger for their existence.

Such a mechanism of off-writing of debts represented a firmly established routine which, however unfortunate it may have been, reappears over and over in the countries of post-Communist capitalism and within various forms such as “tax amnesties” (for example, Nikolaev, 2002; Shul’ga, 2002).

As for the routine of a zombie-economy, it develops under the conditions of financial crises wherein governments and banks collaborate with each other towards a common purpose of developing and implementing bailout programmes for insolvent firms and, thereby, avoiding a greater economic decline and a further growth of unemployment. In the case of a relatively long period of stagnation, such collaboration grows into an established order which establishes the rules of a firm’s conduct and, in turn, ensures the reproduction of such a conduct.

In other words, the activities grow into a routine. Herein one must underline the continued character of stagnation which is a condition precedent for the formation of routine; that is, it must have enough time to develop.

When a financial crisis comes to an end, the routine undertakes the mission to ensure the subsistence of a zombie-economy. The reason is that under all other equal conditions, and irrespective of the crisis, no government would tolerate the growth of unemployment which comes as an inevitable result of the closing down of zombie-firms. Undoubtedly, “healthy” firms are never able to instantaneously react to the disappearance of zombie-firms and

quickly address the problem of creating new jobs (for example, Caballero and Kashyap, 2002; Lindsey, 2002, p. 235).

***Homo Transformativus* and *Zombie Economicus*—Carriers of the Necroeconomic and Zombie-Economic Routines**

The human factor, as a rule, is a matter of decisive importance for practically all kinds of economic developments. At the same time, an economic approach, as such, may be applied to any spheres of human behaviour (Becker, 1976).

The routine which reproduces a necroeconomy is conditioned by the behaviour of such a human being who is in the middle of the transition from the state of a *homo etaticus* (Hanhinen, 2000, p. 224) or *homo soveticus* (Buzgalin, 1994, pp. 250-253)—that is, one who is suppressed by the state and who totally depends upon the state—to *homo economicus*⁴ or a human being whose driving force is to get the maximum utility at a household and a maximum profit at a firm which is typical of a market economy.

The type of human being who manages the process of post-Communist transformation or, in other words, one who is a “central character” in post-Communist capitalism is someone we call *homo transformativus*; that is, a human being who failed to completely release himself from both the fear of the state and the habit of living at the government’s expense even though he gradually gets used to the situation owing to his private interest in obtaining a maximum utility and profit (Papava, 1996, 1999).

By analogy with Y.A. Levada’s concept of *homo adaptivus* (Levada, 1999), *homo transformativus* is a human being who is gradually becomes accustomed to the immanent rules of a market economy and, furthermore, gets involved in the process of setting and developing those rules.

In business, *homo transformativus* assumes a special form whose roots may be traced back to a command economy.

Even in the times of a command economy’s reign, a market economy (or, much rather, certain elements of it) was not eradicated in its entirety. Simply, it was oppressed by the state to the degree that it could only subsist within a “shadow” sector (for example, Shokhin, 1989, pp. 57-83).⁵ Under the conditions of a command economy, no director (perhaps with few exceptions) could possibly manage his enterprise without breaking a law adopted by the existing regime. In exceptional cases, therefore, elements of a market economy were actually applied. Such activities were referred to as “shadow activities” and the managers of such enterprises were called “shadowists” (Samsin 2003, p. 184). Nevertheless, under the conditions of a command economy and given their suppression by the former Communist regime, such directors never became—and could not have possibly become—truly market-type entrepreneurs. For this reason, those directors who applied some elements of the market economy within their managerial practices were not called “entrepreneurs” (Gins 1992, p.

⁴ The modern understanding of the features of the *homo economicus* has undergone significant changes in the aftermath of Smith’s epoch (for example, Avtonomov, 1998, pp. 57-201; Brockway, 1995, Bunkina and Semionov, 2000; Ferber and Nelson, 1993).

⁵ It must be noted that unlike a command economy, whose “shadow” sector may make room for some elements of a market economy, the “shadow” sector primarily embraces such activities which enable tax evasion (for example, Bunkina and Semionov, 2000, pp. 50-52; Svensson, 1983).

119) but, rather, “*del'tsy*” (the plural of the Russian word “*delets*” which means “businessman” in its literal translation but is typically rendered as “labourer” given its derogatory connotation).

Even after the collapse of a command economy, most of former *del'tsy* managed to preserve themselves as directors in public sector enterprises within various capacities (Åslund, 2007b, pp. 137-140). Moreover, after the privatisation of those particular enterprises, the same *del'tsy* exploited the rights of “labourers’ collectives” and became the owners of the same enterprises (Åslund, 1996). At the same time, whether or not they hired professional managers—especially in the initial phases of the post-privatisation periods—they still tried to manage their enterprises by their own way of thinking following a so-called *delets* way (for example, Nekipelov, 2003, p. 127).

Just as *homo transformaticus* has not yet become *homo economicus*, so is the case with the former *del'tsy* who have not yet developed into entrepreneurs. *Homo transformaticus*, therefore, takes on the title of “post-*delets*”⁶ in his entrepreneurship.

It is exactly these post-*del'tsy* who make up the spine of a necroeconomy in both the public and private sectors as they are the carriers of the routine of a command economy. By using their old connections, the post-*del'tsy* manage to break into governmental organs (parliaments, executive offices, etc.) and use their influence to try to politically justify and prolong the existence of the necroeconomy.

It can be stated without any reservation that a necroeconomy best serves the interests of post-*del'tsy* in that this type of economy will always enable the continuation of their existence until such time that they have been entirely replaced by true entrepreneurs through the means of appropriate institutional reforms.

The key to the understanding of a zombie economy’s routine may be found in the theories of public choice by James Buchanan in which politics is interpreted as a special variety of a market (Buchanan, 1997), and of “animal spirits” (Akerlof and Shiller, 2009). During a financial crisis, a type of economic policy develops which proposes the government’s interference in the economy with its uppermost goal of rescuing it from a critical state, on the one hand, and encourages the addressing of the private interests of those economic agents who have found themselves on the verge of bankruptcy as a result of the said crisis, on the other hand.

As previously mentioned, a zombie-economy’s routine is the product of a market economy in the state of crisis. Consequently, it is not a simple *homo economicus* who is the carrier of this routine but, rather said, a mutation which was formed in the process of his adaptation to the deformed conditions of the market economy as a result of the financial crisis. Conventionally, a *homo economicus* mutant may be called *zombie economicus* (Papava, 2009) in that he is the carrier of a zombie-economy’s routine.

From *zombie economicus*, as an already accomplished phenomenon, *homo transformaticus* differs by the fact that he is still in the process of adaptation to a market economy and, as such, he has not yet been established as a type of human being. Because *homo transformaticus* is still developing, one may ask the question of whether or not it is possible for a *homo transformaticus* to grow into a *zombie economicus* under modern conditions of the global financial crisis.

⁶ The original Russian-language variant is retained even in English discourse owing to the exclusively Soviet nature of this phenomenon (Papava and Khaduri, 1997).

How to Get Rid of Necroeconomies and Zombie-Economies?

There is no doubt that a necroeconomy has a very negative influence over the countries of post-Communist capitalism which requires the development and utilisation of a mechanism which would solve the problem of necro-firms. This mechanism must enable the universal dissemination of the market-based principles of economic order. The key to the solution of this problem rests in the abovementioned evolutionary theory of economic changes.

Government must pay particular attention to group No. 5 on the abovementioned list of firms—those within a viteconomy developed by means of new private investments—within post-Communist capitalist economies and must provide for the further strengthening and expansion of this group as well as for the development of such a stable political and macroeconomic environment which will encourage private investments and the emergence of new healthy firms. Account must also be taken that routine formed in this group will be one which is market-based by its nature and, therefore, the community will not be exposed to any necroeconomic danger.

The narrowing of the areas of expansion of group No. 1 and group No. 3 on the list—that is, necroeconomy in the public sector and privatised necroeconomy—must become a key priority for the economic policy of post-Communist governments. This process must come from the overall expansion of a viteconomy created through the inflow of new private investments. Despite the natural non-attractiveness of such firms which become established through so-called “second-hand investments,” they will not be able to create the necessary conditions for the emergence of necroeconomic agents under the conditions of an appropriate legal framework. Specifically, to the extent that such firms were created according to the principles of a viteconomy, their respective routine must ensure a painless disappearance of such firms from the market even if they have lost their competitive qualities.

As concerns the list’s group No. 2 and group No. 4—a viteconomy in the public sector and a privatised viteconomy and irrespective of whether or not the owner is the state or a private individual after its sale—these economies will inevitably be in need of more investments which would be attracted by the means of a partial sale of assets or, in the very least, by the long-term concession of a company’s management to a strategic investor. Without these inflows, there is a strong probability that the viteconomies of group No. 2 and group No. 4 will correspondingly turn into the same necroeconomies of group No. 1 and group No. 3.

As previously noted, privatisation alone does not result in the automatic elimination of a necroeconomy. Consequently, a government may have only one solution to solving the problem of ensuring the operation of the strategically important enterprises of group No. 1; that is, holding an open international tender with the purpose of choosing a strategic investor which may take over the management of a specific dead enterprise (or, much rather, obtain the right to start some strategically and domestically important production within the enterprise) upon a long-term basis. It should not be excluded that this step might not satisfy a strategic investor in which case the government would have to agree to privatise the enterprise even at a symbolic price given that a necroenterprise can naturally not be sold for a high price.

There is literally no future for the enterprises with group No. 3; that is, within a privatised necroeconomy whose only fair estimation of their material and technical base would be nothing more than scrap metal.

Theoretically, it must be made clear that the effective elimination of a necroeconomy is unthinkable without an effective bankruptcy law. As the experience of many post-Communist countries has shown, most of the past attempts at formally adopting bankruptcy laws have unfortunately produced only “stillborn babies” (Sánchez-Andrés and March-Poquet, 2002). In other words, they are “necro-laws” because the occurrence of factually bankrupt enterprises being proclaimed as legally bankrupt is something which happens only very seldom, if at all. In these countries, bankruptcy procedures are blocked by all possible means which, inter alia, may be explained by the assumption that bankruptcy does not “fit” into the institutional environments of those countries.

Post-Soviet Georgia, as one of the countries which carries the heavy burden of a necroeconomy (Papava and Tokmazishvili, 2007), is one of the most infamous examples of the ineffectiveness of a post-Communist bankruptcy law in which new institutions are very often created through the immediate and shallow imitation of their Western originals (Shavans and Manian, 1999). As a result, many institutions of a developed market economy are often extremely ineffective in the countries of post-Communist capitalism. Moreover, they may also lead to some extremely negative consequences such as, for example, the frequent and deserved criticisms lodged against the IMF for its hasty and even simplified approaches towards institutional reforms in post-Communist countries which have ultimately harmed—rather than helped—the process of the establishment of a market economy (Stiglitz, 1999).

The elimination of a necroeconomy may only be accomplished by establishing such institutions (Polanyi, 2001) which will boost the process of democratic reform and raise the efficiency of post-Communist transformation (Hare and Davis, 2006). The dying out of the phenomenon of a necroeconomy may be considered as an economic indicator of a country’s successful overcoming of the stage of post-Communist capitalism.

An effective bankruptcy law is another effective tool in the fight against zombie-firms and zombie-banks. Unfortunately, however, one has to admit that the situation in developed countries is not any better than it is in the countries of post-Communist capitalism. Specifically, there is a clearly observed tendency that the legitimate bankruptcy of many firms is not readily documented by means of appropriate legal procedures (for example, Cussen, 2008).

Contemporary Financial Crisis and the Danger of the Transformation of *Homo Transformaticus* into a *Zombie Economicus*

The contemporary global financial crisis (for example, Krugman, 2008) has created complex problems the world over and including the economic development of the countries of post-Communist capitalism. It is precisely within the context of the current crisis that the subject of the attack of zombie-firms upon the global economy has become so topical

(Stepek, 2008; Willie CB, 2009) which resulted in the emergence of multiple research works within the so-called new economic field of “zombie-nomics” (LeLaulu, 2009).

It is an established fact that many developed countries have resorted to certain special governmental bailout programmes in support of their financial institutions and real estate businesses (Mau, 2009, pp. 22-23) which creates a threat for the development of a new zombie-economic routine. This threat may become quite real if the financial crisis continues long enough to enable the zombie-economic routine to take solid root.

If only a few short years ago, the existence of a zombie-economy in the United States was categorically negated (Bonner and Wiggin, 2003, p. 120),⁷ most recently, however, many have started talking about the threat of the emergence of zombie-firms as a direct result of the financial crisis (Coy, 2009; Krugman, 2009b, Pesek, 2008; Rajiva, 2009; Wong, 2008). As a consequence, the US government’s bailout plan has been referred to as a zombie-programme whereas the US Treasury Department has been disparagingly called the “mother” of a zombie-economy (Kunstler, 2008).

To do justice, however, one has to underline that the first symptoms of the movement towards the zombie-ing of the US banking sector appeared long before the emergence of the present financial crisis when the US government extended subsidies to American banks in order to stimulate their mortgage lending insurance plans for the benefit of low-profit segments of population which failed to meet general banking standards (Holmes, 1999).

Remarkably, experts assert that an interesting difference exists between the mechanisms of the emergence of zombie-firms in Japan and those in the US. In Japan, for example, the government supports zombie firms through zombie-banks whereas the bailout plans envisaged in the United States are intended to be implemented without the mediation of banks even though the results in both countries are expected to be the same (Hoshi, 2009). Obviously, such an approach does not correspond to the reality which is being shaped in the US in relation to its government’s domestic zombie-banks’ bailout programme (Willie CB, 2008).

Furthermore, the danger of the development of a zombie-economy in Canada (Poschmann, 2009) and some EU countries (Kelly, 2008, Schnittger, 2009) has become a real as well.

In the countries of post-Communist capitalism, the present financial crisis also encourages the development of such governmental programmes which are aimed at the government’s providing its financial support to perishing banks and firms (for example, Illarionov, 2008c). Various proposals have been put forth which would establish some special governmental institutions (banks) and implement long-term beneficial lending and investing (for example, Danilishin, 2009).

Despite the fact that the economic theory has been proven a long time ago and that global experience has shown just how harmful a government’s interventions into the economy can be when it introduces favourable lending plans, both developed economies and those of post-Communist capitalism resort to this remedy again and again during the times of a financial crisis (Woods, 2009). Unfortunatley, however, and as we have already seen, such a move eventually leads to the emergence of a zombie-economy routine.

⁷ Higher officials ignoring the problem of the existence of zombie institutions in the US financial system which is typical at the present time (Krugman, 2009a).

The current modern financial crises bring the principle of “privatisation of profits and nationalisation of losses” up to date (Mau, 2009, p. 10).

Unlike developed economies, which are exposed to the threat of the zombie-ing of the economy under the conditions of a financial crisis, this threat is even greater for the countries of post-Communist capitalism owing also to their exposure to necroeconomy. There were no doubts, for example, that many Russian companies, amongst those in other economies, were able to get rid of their debts under the financial crisis without the receipt of governmental support (Mau, 2009, p. 5).

If one bears the nature of the material and technical base a necroeconomy in mind alongside the fact that it resides primarily in the industrial sector, then there is no surprise that it is exactly the drastic shrinking of industrial output under the conditions of the economic crisis through which a necroeconomy states its existence (Illarionov, 2008a, 2008b).

In the absence of a financial crisis, post-Communist countries with a large-scale market feel the pain of a necroeconomy far less than those with relatively smaller ones given that there is an opportunity to compete with each other within the market’s large dimensions and governmental support (for example, Schaffer, and Kuznetsov, 2008) which creates the illusion that a necroeconomy does not exist. In smaller countries, however, this problem is rather severe due to the fact that many enterprises may have no domestic competitors at all (Papava and Tokmazishvili, 2007).

This difference between the large and small markets has an influence upon the governmental policies supporting a necroeconomy. In particular, the illusion of the absence of a necroeconomy caused by domestic competition blocks, to a great degree, a governments’ will to get rid of a necroeconomy. In countries with small-scale markets, however, the absence of analogous enterprises eliminates the conditions for domestic competition which enables the governments of those countries to retain a greater stimulus to fight necroeconomy even though such a stimulus is not always utilised within a proper way (Papava and Tokmazishvili, 2007).

Under the conditions of a financial crisis, the governments of post-Communist capitalist countries may retain far less illusions that a necroeconomy exists. It comes as no surprise, therefore, that they witness a catastrophic decrease in their industrial output.

In view of the fact that it is precisely the financial crisis which creates the favourable conditions for the establishment of zombie-economy routines—that is, the zombie-ing of an economy—the zombie-ing of a necroeconomy is what happens in the countries of post-Communist capitalism which, in fact, is even worse than the simple economic zombie-ing which takes place in developed economies. If in Japan, for example, the zombie-economy never touched the processing industries, as we have seen, then one of the qualities of the necroeconomy is to concentrate *exactly* upon this sector of the economy. Consequently, the zombie-ing of a necroeconomy inevitably amounts to the zombie-ing of this already dead sector as well.

It is important to note that in Russia, for example, the first symptoms of necroeconomic zombie-ing emerged in the immediate aftermath of the August 1998 crisis in the country (Lindsey, 2002, p. 210) which gave rise to the phenomenon of the post-Communist zombie-economy (Lindsey, 2002, p. 211). The present financial crisis which has developed in Russia and which, in addition, has been “strengthened” by that at the global level, may continue to exist and, therefore, is able to have far more serious negative effects for Russia than its predecessor had. There is a very real possibility that *homo transformaticus* will eventually

grow into *zombie economicus*, rather than into *homo economicus*, which means that the economic future of the post-Communist capitalist countries could be even more dubious than it is today.

Instead of Conclusions

The dead enterprises which the countries of post-Communist capitalism received as their legacy of the command economy have proven to be quite “tenacious of life.” As a consequence, the market economies of many post-Communist countries have been loaded by the burden of a necroeconomy. It is the society’s necroeconomic foundations that make up the façade of post-Communist capitalism. *Homo transformativus*, therefore, is the carrier of a necroeconomy’s routine who transforms economy and society in the direction of capitalist values and, at the same time, transforms his own self in the same direction, too.

The phenomenon of a dead economy is also familiar to some developed economies as well. The occurrence of financial crises has encouraged the emergence of a kind of routine which guarantees the stability of a government’s bailout programmes implemented through the banking sector in support of de-facto bankrupt firms. As a result, a network of zombie-banks and zombie-firms develops upon which the entire system of a zombie-economy rests.

Unlike a necroeconomy, whose routine is carried by a human being which is “still-to-be-formed,” a zombie-economy’s routine is carried by the “gone and departed” man, the so-called *zombie economicus*.

Under the conditions of the present financial crisis, the threat of a zombie-economy is also aggressively knocking on the doors of those developed economies which, until recently, seemed to have escaped the zombie-ing of their economies.

This threat of an economy’s zombie-ing is even greater in the countries of post-Communist capitalism given that this zombie-ing also has a great deal to do with a necroeconomy which is a factor that will make it rather difficult to improve an economy’s health after the end of the financial crisis.

The only effective mechanism to get rid of both a necroeconomy and a zombie-economy is to adopt a sound bankruptcy law which, in turn, requires the strong political will of the ruling elite.

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