

A CRITICAL ASSESSMENT OF ECONOMIC REFORMS IN THE
COMECON EASTERN EUROPE
AND ITS LESSONS FOR INDIA

BY

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ABSTRACT

The general theme of the work is to review the recent economic reforms in the COMECON Eastern Europe. Besides discussing the nature and inevitability of economic reforms in these countries, it attempts to show that contrary to the opinion of many writers on this subject, these economic reforms do not indicate the beginning of the end of socialism. It also attempts to draw certain conclusions for developing countries in general and to India in particular, in the light of recent reforms in the COMECON Eastern Europe.

To begin with there is a brief discussion on the merits of private enterprise followed by an account of its working in the contemporary world. The theoretical advantages of Socialism are examined in the light of the contributions of socialist thinkers like Oscar Lange and Kalecki.

Chapter II is mainly concerned with the theory of economic reforms. While analysing the economic performances of the COMECON countries of Eastern Europe, it explores the reasons for the failure of the socialist system to develop in the manner assumed by theory. This is followed by an examination of various suggested economic reforms and their compatibility with socialist theories.

Chapter III is devoted to a critical examination of economic reforms in the COMECON Eastern Europe. A survey of economic reforms in these countries with special reference to Planning and Management, Prices, Wages and productivity is attempted. The effects of economic reforms with reference to the rate of economic growth, per capita income, economic fluctuations, impact of profit and wages on productivity and new problems like unemployment and fluctuations are studied. As an outlook for the future, the problems and prospects of these countries are also examined.

Chapter IV briefly discusses the lessons of economic reforms in these countries, for developing countries with special reference to India. These lessons are examined with reference to recent political changes in India, after explaining its experience with mixed economy principles which have been in vogue for the past twenty five years.

FOREWORD

While analysing a controversial topic of this nature the writer came across a relatively large number of articles and works by many eminent authors criticizing the actual working of the socialist planning mechanism. One can hardly wonder why this is so. The reforms adopted before and after 1965 bear testimony to a certain extent to this. Even the socialist writers do not anymore believe in 'one answer' to all problems. Most of the western writers do not seem to appreciate the positive aspects of socialist planning, probably because such lessons are of little use to a mature developed economy. Nevertheless, there are certain positive aspects worth learning from the experiences of these countries. This is especially so with reference to developing countries like India. This becomes more relevant when one compares the performances of China and India. Though the present writer is fully aware of the problems of socialist planning methods, the present work is more aimed to see the positive aspects and draw certain conclusions concerning India's economic development, rather than to add one more drop in the ocean of criticisms which are already in store.

No acknowledgement can give full appreciation to all those who have helped the writer in his endeavour. Many must perforce remain unmentioned.

The writer is greatly indebted to Dr. K.J.Charles, Professor of Economics, the supervisor of this thesis, for his immense help right from the beginning. Several passages in this thesis were completely rewritten at his suggestion, insistence and dictation. While the writer profusely acknowledges the same, the writer alone is responsible for the errors that remain. The writer is also greatly indebted to Dr. C.A.Jecchinis, Professor and Chairman, Department of Economics for his timely and sustained help. The writer takes this opportunity to thank all the learned members of the faculty for their advice and especially Dr. G. Kondor, for his valuable suggestions. Last but not the least, thanks are due to Mrs. Patty Drew, who tolerated the writer's presence in willingly sharing the physical facilities of the department.

The writer considers it as a great honour to dedicate this humble effort to his mother Smt. V. Saraswathi, with the hope that the writer may some day write a treatise more worthy of her sacrifice.

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CHAPTER I

The 'ISM's

Mr. X saw what he expected
Breakdowns in Transportation
A growing indignation
with Communist oppression.
A steady retrogression
to chaos bloody and red
Just as he had always said.

The sights that Y selected
Bore out what he expected.
Great factories arising,
An enthusiasm surprising
for welfare and education
A new world in formation
much better than the old
Just as he foretold. *

*

Michael Ellman, ECONOMIC REFORM IN THE SOVIET UNION, London:

P.E.P. Broadsheet 509 April, 1969.

Maurice Dobb years ago stated that 'the question of what was the nature and what were the moving forces of the decline of Feudalism as an economic system, and what connection had this decline with the birth of modern Capitalism is not entirely without interest, I think, for many under developed countries'.¹ In the writer's opinion, the insertion of the words 'socialism' for 'feudalism' and the word 'modern socialism' for 'capitalism' in the above statement provide a better description of contemporary reality, for today socialism has given birth to modern socialism instead of communism. The study of the nature of socialism and what were the moving forces of the decline of socialism and the connection between their decline and the birth of modern socialism is not without interest. This study examines the recent economic reforms in Eastern Europe² and the nature and dynamics of the present system with a view to drawing lessons useful to developing economies in their attempt to attain rapid growth.

1. Dobb Maurice, Lectures delivered at the Institute of Statistics of the University of Bologna on March 24, 1962 and published in Italian STATISTICA April-June 1962, Anno XXII, No.2, and reproduced in PAPERS ON CAPITALISM, DEVELOPMENT AND PLANNING, London: Routledge & Kegan Paul Ltd., 1967, p.1.

2. Centrally Planned COMECON countries of Eastern Europe.

The first use of the term socialism can be traced as early as 1826, though it became established in the 1830s. Since 1917 when the first socialist state was formed after the Russian revolution, to date, socialist countries are on the increase though strictly speaking there are only fourteen countries officially considered as socialist and controlled by the Communist party. There are many developing countries today which, while not fully socialist have borrowed many features of this system. The working of these socialist countries has influenced many of the traditional capitalist countries. Since the Keynesian revolution more emphasis is placed on macro studies and problems of growth and welfare have also forced them to think on a macro level. Mainly as a result of this changed perspective these capitalist countries have adopted some kind of planning like 'indicative', 'frame', 'goal', 'structural' or 'regional', to more effectively tackle problems of unemployment, welfare, price stability, growth and so on. There has been an increased sphere of government participation like anti-trust legislation, state marketing agencies, consumer protection etc. There is now increased control of banks via monetary and other direct regulations. There are increased controls like price, profit and wage controls. Obviously these are the outcome of the influence of the experiences of the socialist countries.

"Imminent and inevitable death of capitalism has been confidently pronounced several times during its turbulent history, but the funeral has always been postponed, confounding both its critics

and friends alike. Everytime, capitalism has risen from its death-bed to enter another phase of its exciting career".¹ Nevertheless, the working of the actual capitalist economy is far from text book description of free enterprise. Unfortunately supporters of this text book free enterprise continue to uphold a system that no longer longer exists. We will not discuss in detail here the problems of modern capitalism² except mentioning two of them.

It is always imagined that the people even in countries like the U.S. and Canada are enjoying fairly high standards of living. Even though this is true to a great extent, there are many people who are living in absolutely deplorable condition.³ Inequalities of income and wealth exist in these countries and with the absence of strong family ties or extended family system and government's lack of positive assistance and self centred attitude of the people have increased the magnitude of the problem.

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1. Charles, K.J., 'The Future of Capitalism', SOUTHERN ECONOMIST, Jan. 1, 1969, p.1.
 2. For a good account of modern capitalist practices and the problems see recent Government of Canada publications such as:
 - a. Dynamic change and Accountability in a Canadian Market Economy
 - b. A Proposal for Class Actions Under Competition Policy Legislation
 - c. A Study on Consumer Misleading and Unfair Trade Practices Legislation for Canada
 - d. Studies of Foreign Competition Policy and Practice.
 3. The writer has been living with such poor people and has an intimate knowledge of their material and psychological sufferings.

Another important problem is the monopolistic corporations of today. 'Commanding a significant degree of monopoly power, the giant corporation confronts the prices at which it sells its output and buys its inputs not as objective market data but as magnitudes which depend on its own operations and on those of a small number of other similarly situated concerns. As a vast enterprise not necessarily identified with any particular group of individuals but rather thought of by its owners and managers as an everlasting entity, it seeks to maximize the flow of profit over a much longer planning horizon than a small competitive capitalist can afford to take account of. Its drive for maximum attainable profits under such circumstances no longer involves merely finding the best ways to reduce the costs of production of a given commodity or group of commodities. It has to keep under continuous review the problem of what commodities to produce - their physical attributes, their outward appearance, brand names, etc. Durability and quality have to be determined in the light of the firm's other lines of production and traditional practices, as well as of the behaviour of other suppliers of related or possibly related products. In arriving at decisions, it is necessary to weigh advertising and other marketing costs; and in fixing the quantities of the various commodities to be produced as well as the prices to be charged, the shape of all relevant demand and marginal revenue curves has to be explored and taken into account. The outside world which the competitive capitalist has to take for granted not only directly influences the monopolistic

corporation's production process but is subject to deliberate manipulation on its part'.¹

The net result is obvious. In the working of modern 'free enterprise' there is neither economic 'freedom' nor the glorious 'enterprise' the engine of economic development under capitalism. From the theory point of view, the price is not equal to the point where $MC = MR$, violating the necessary condition for Pareto optimality. How are then the resources allocated and rewarded optimally? This eludes the solution for 'rationality'. To quote Baran and Sweezy² again, "... that the development of all these sophisticated and often genuinely scientific methods for guiding the behaviour of a monopolistic or oligopolistic corporation has anything in common with a search for the optimal allocation and utilization of society's productive resources, or for that matter even with the partial rationality standards which were relevant to the process of commodity production under a regime of competitive enterprise. The nature and volume of output, the technology employed, the investment undertaken the raw materials used, the prices charged - none of these, no matter how rational the methods by which they are arrived at, can be thought of as corresponding to the needs of society as a whole or even as

1. Baran, P.A., and Sweezy, P.M., "Economics of Two Worlds" in ON POLITICAL ECONOMY AND ECONOMETRICS - ESSAYS IN HONOUR OF OSKAR LANGE Warsaw: P W N and London: Pergamon Press, 1965, p. 19

2. Ibid., p. 20

reflecting the growth of the forces of production in one of its component parts".

As against these problems of capitalism, advantages of socialist system¹ may be examined:²

Production processes are determined by the economic plan. Appeal is made to higher social instincts and profits play a subdued role as means rather than as end. The market wherever allowed complements planning and forms an useful instrument.

A great advantage of planning is the maintenance of continued full employment with the inbuilt mechanism, planning can avoid over production and cyclical fluctuations.

A socialist economy has a more effective system for developmental take-off and sustained rapid growth by virtue of its control over the means of production and macro economic proportions. As shown elsewhere the growth rates have been comparatively better than capitalist countries. In view of the semi feudal conditions inherited, the absence of colonies, the widespread wartime devastation, western embargo, and practically no aid from the capitalist world, their achievements can be described by objective observers as

1. See for a detailed analysis of a case for socialism, Oskar Lange, "On the Economic Theory of Socialism", in Lippincot, B.E., (ed) ON THE ECONOMIC THEORY OF SOCIALSIM, Vol. 2, Univ. of Minnesota Press, (fourth printing) 1956, pp. 98-121.

2. Wilczynski, J., THE ECONOMICS OF SOCIALISM, Chicago: Aldine Publishing company, 1970, pp. 208-218.

spectacular.¹

With virtually no private ownership of the means of production or any property, wages and salaries are the only source of income. Though wage differentials are not ruled out completely, equality of real income is maintained by generous benefits out of the social consumption fund. Though the standard of living is lower than in the west, there are no striking contrasts or cases of abject poverty.

Supported by the political and ideological superstructure with the primacy of social over private preferences, the socialist state is in a good position to study and apply social cost and benefit-while the neglect of such negative externalities and anti social individualism capitalist society can never optimize in their allocation or welfare decisions. Moreover, capitalism is known for its wastes like artificial product obsolescence, unnecessary product differentiation, the unwarranted fragmentation and duplication of equipment and services, excessive sales personnel, misleading advertising, conspicuous consumption and production etc. Other kinds of waste include excess capacity caused by recessions, restriction of output, strikes and so on.

But the picture is not complete without an analysis of the weaknesses of socialism.² There is undue ideological and political dominance of the economic scene. Marxian theories such as labour

1. Ibid., p. 209.

2. Ibid., pp. 211-13.

theory of value overrides economic commonsense. Economic decisions are made by political leaders and there are many opponents of liberalization who regard economic reforms as kind of 'revisionism' which should be sabotaged.

The system is highly bureaucratic and inflexible. Significance is not attached to the problems arising at the micro economic level, and there is poor correspondence of decision making between macro and micro levels.

The system is liable to errors being committed on a large scale. Central planners are political appointees owing their success to the social set-up in force. Thus their decisions are likely to be biased. Even otherwise some of their decisions must be arbitrary. Erroneous decisions when they were made or rendered erroneous by subsequent development when they are taken at the macro level they assume large proportions.

The weakest point of the socialist system is that there is no rational and workable pricing system. Prices do not reflect input costs. Different prices for the same good according to use may have some rationality but it does not help for rational allocative function. The whole system thus becomes arbitrary. The critics often make prices as the major attack since even after introducing profitability without flexible prices they may not mean anything seriously.

Lack of competition may promote inefficiency. With prevalence of seller's market, no fear of unemployment, well developed social security and wage equality, the capable have limited scope while the indifferent and inefficient are sheltered by the system.

Section B Socialist Growth Theories

There are two essential forces which specifically determine the conditions of growth in a socialist system.¹

a) Socialism creates the possibility and necessity to present and solve economic problems on the scale of the national economy treated as a whole. According to Oscar Lange² there occurs the integration of particular aims into one general economic aim. In such conditions, growth - conceived as the basis of an increasing satisfaction of social needs - can be consciously set up as the aim of co-ordinated planned action on the scale of the entire national economy.

b) Through the nationalization of the means of production and the consequent putting of the basic resources at the disposal of the community, socialism creates the premises of the realization of a general economic aim. The allocation of the factors of production may be affected according to the plan, with a view to the full utilization of the existing growth potential, and the avoidance of obstacles caused by particular private interests.

Thus socialism creates practical possibilities of utilising in a high degree the national growth potential, and consequently of minimizing the discrepancy between the real and the potential rate of growth. However, it should not be concluded that the potential

1. Brus and Laski, 'Problems of Growth and Socialism', in Robinson, E.A.G. (ed) PROBLEMS IN ECONOMIC DEVELOPMENT, Proceedings of a conference held by the International Economic Association, London: Macmillan & Co. 1965, p.22

2. See for a detailed account Oskar Lange, op.cit., pp. 57-142.

is achieved under socialism automatically without difficulties.¹

Well before the Liberman discussion, Kalecki² developed his theory of growth with the emphasis on the development of a positive theory of dynamics of a centrally planned economy. Nevertheless it also pointed out certain shortcomings of soviet type planning. It challenged certain propositions such as: a) the growth rate of investment must necessarily outpace that of national income and *ipso facto*, capital formation must increase more rapidly than consumption; and b) the dynamics of technical progress leads to a rising organic composition of capital and inevitably always entails a more rapid growth of the capital goods sector.³

Kalecki singled out and analyzed certain fundamental constituent components and crucial factors governing and limiting growth processes. He argued that to each social system corresponds an appropriate theory of growth. The same equation for the rate of growth of national income, should be interpreted in a different fashion depending on the social system to which it is applied.⁴

1. Brus and Laski, op. cit., p. 22.

2. Kalecki, M., INTRODUCTION TO THE THEORY OF GROWTH IN A SOCIALIST ECONOMY, Oxford: Basil Blackwell, 1969. The original polish version was published in 1963.

3. Feiwel, G.R., 'Issues in the Economic Theory of Capitalism and Socialism: Michael Kalecki's Contribution over Four Decades', INDIAN ECONOMIC JOURNAL, Vol. XX, No.2, Oct-Dec. 1972, p. 164.

4. Ibid., p. 165.

¹Socialist growth models start with the problems of 'supply' rather than problems of aggregate effective demand. They can be represented in the following ways: a) From the point of view of current labour (labour reserves and their increase; level of labour productivity and its changes). Thus, gross national income (Y) is determined by the product of employment (Z) and productivity (W) defined as gross value added per employee

$$Y = Z \times W \quad \dots\dots\dots (1)$$

The same may be approached from the point of stored (stocks of means of production and their increase; effectiveness of means of production and its changes). Thus the product of the real fixed capital (E) defined as gross value added per unit of capital, i.e.,

$$Y = M \times E \quad \dots\dots\dots (2)$$

On the above basis Kalecki's growth model may be explained as follows: In terms of (1) above,

$$r = \frac{\Delta Y}{Y} = \alpha + \beta \quad \dots\dots\dots (3)$$

Where,

r is the rate of growth of national income during the period t

1. See for a detailed analysis of the socialist growth theory, Brus and Laski, op. cit., pp. 21-54 and pp. 69-74 and Plotnikov, K., 'Factors Influencing the Economic Development of Socialist Countries', Ibid., pp. 55-69.

- Y is the gross national income at the period t-1
- α is the rate of increase in average productive employment at the period t in relation to period t-1
- β is rate of increase in average labour productivity at the period t in relation to period t-1

The rate of income growth is the sum of the rate of increase in employment and of the rate of increase in productivity. But increase in employment and productivity assume a corresponding increase in real productive fixed capital and its effectiveness. Thus in terms of (2) above,

$$r = \frac{\Delta Y}{Y} = i \times \frac{1}{m} - a + u \quad \dots \dots \dots (4)$$

Where,

- $i = \frac{I}{Y}$ is the rate of investment at the period t-1
- m is investment outlay necessary to obtain an increase in national income by one unit.
- a is the coefficient of the decrease in national income resulting from the actual loss of means of production or the diminution in their effective functioning due to physical depreciation.
- u is the coefficient of the increase of national income resulting from all kinds of improvements raising the effectiveness of the existing real productive fixed capital

In a capitalist economy coefficient 'u' is not an independent variable and fluctuates greatly. Thus equation (4) above has limited applicability for such countries. As a contrast, for socialist countries this coefficient is positive,¹ reflecting the tendency of continued improvement of the existing productive apparatus. Thus the magnitude $i \times \frac{1}{m}$ becomes a strategic factor determining the rate of economic growth.

Combining (3) and (4) above, we get,

$$\alpha + \beta = i \times \frac{1}{m} - a + u \quad \dots\dots\dots (5)$$

The confrontation of these two aspects is important as it enables us to understand some of the interrelations needed to define the optimal rate of growth in given conditions.

To obtain the optimal rate of growth it would be necessary to do two things only.²

a) To establish satisfactorily the unequivocally determined rate of investment; (b) to put into operation a mechanism to ensure the actual attainment of such a rate of investment and its mainten-

1. According to Feiwel, G.R., this may assume positive or negative values. The negative value is attributed because of the retrogressive effect of the traditional planning system. See for details, Feiwel, G. R., 'Issues in the Theory of Capitalism and Socialism', op.cit., p. 166.

2. Brus and Laski, op. cit., p. 26.

ance at the same level. The importance of a socialist system is that it creates real premises for the direct establishment of a rate of investment on national scale that corresponds to the postulated rate of growth.

However, certain problems outlined by Kalecki is worth noticing. When an inordinately high r is forced, the output of certain sectors, and particularly those engaged in production of raw materials, lags behind demand for these products because of certain technological and organization ceilings limiting the rate of growth of particular activities; e-g. natural resources. During plan implementation insurmountable barriers arise whenever the rate of expansion of particular industries are forced beyond a certain limit, even if financial resources are adequate; e-g. protracted period of gestation of construction projects and its effects. Again any imbalances thus created have to be mitigated by indirect production and to maintain the balance of payments equilibrium, export promotion or import substitution is to be resorted. This will usually increase capital and labour coefficients and also growth affect growth processes.¹

An increase in the relative phase of investment in national income may bring about a rise in consumption in the long run.

1. Feiwel, G. R. , 'Issues in the Economic Theory of Capitalism and Socialism', op. cit., pp. 172-73.

But in the short run consumption is decreased. The choice between the present and future is crucial. The compromise is based on the political decision. In the theory of growth of a socialist economy Kalecki takes as exogenous variable the central planner's comparative valuation of the inter temporal pattern of consumption in the short and long run (consumption and accumulation) and the bottlenecks and ceilings on the rate of growth in single branches arising out of supply constraining technical and organization factors, appearing often under the guise of the difficulties in balance of payments, constitute the central problem of a substantive and realistic theory of growth in a centrally planned economy.

It should also be stressed that Kalecki believed that no 'general' theory of economic growth is conducive to understanding economic realities of different social systems for the institutional framework of a system exerts a profound influence on its dynamics.¹ Same is the conclusion arrived at by Brus and Laski when they state that 'socialism overcomes a number of fundamental contradictions of the capitalist system; this does not mean, however, that it eliminates all contradictions of every kind, nor that it avoids creating new contradictions arising from the characteristics of the socialist sytem as such'. And also, 'Socialsit socio-economic

1. Ibid., p. 173

system provides a possibility of different solutions of the method of functioning of the economy, thus allowing choice of alternatives in this field also, within certain obvious limits.' ¹

1. Brus and Laski, op. cit., p. 54

CHAPTER II

Review of Pre-Reform Discussions

'Political Economy is essentially a historical science
(and) cannot be the same for all countries and for all
historical epochs.'

- Engels -

Section A The Problem

The Soviet revolution of 1917 took place in a relatively underdeveloped country which found itself living in a markedly hostile world. The soviet government undertook to build up an industrial economy in the shortest possible time. A high degree of centralization was instituted under ministries which had supreme authority in their sectors for the entire country. Capital accumulation for heavy industry was viewed as the key problem, and all else was subordinated to this. In each successive five year period, beginning in 1929, growth in particular areas was held to be decisive, and the best efforts were thrown in to meeting each successive goal. Shortages in the implementation of plans were made up at the expense of areas of lower priority. Through these methods the soviet union did indeed build up its basic industry.

The achievements of this system were remarkable. Not only the level of output and capacity increased, the economy was so strong that it was able to throw back the German invader and become one of the great powers of the world. A formerly backward country with extensive illiteracy, low level of technology, was transformed by this system into country of sophisticated

technology, universal literacy, long life expectancy. It could not only put the first satellite in the orbit but also successfully demonstrated its superamacy in technology by putting the first man in the orbit. In the sphere of research and education the U.S.S.R. is next to none. It was a challenge which was accepted and executed. At the time when the soviet system was adopted not only many British (or elsewhere) economists were unwilling to tackle pressing problems of the day like mass unemployment, inequalities of income and wealth but were elaborating 'empty economic boxes'. This system successfully demonstrated that it is possible to create a classless society with a tremendous reduction of inequalities of income and wealth. In the 1930s the success of this system combined with the failures of capitalism led to the widespread belief that soviet economic system of 'planning' was the best solution to the question of rational economic organization. This system was also extended to the other Eastern European countries where it worked successfully for a decade. Nevertheless, what made these countries in spite of triumphant 'I-told-you-so's from Washington and continual diatribes from Peking, not to speak of the opposition of recusant stalinist diehards at home, to

adopt economic reforms which included elements which resemble the capitalistic features?

The traditional soviet economic system as adopted in U.S.S.R. and Eastern Europe gave rise to a number of micro economic problems:-

Enterprises often received plans long after the beginning of the period to which they referred. Not only enterprises often received conflicting plans from a multitude of higher authorities, plans were often changed.

The intermediate and capital goods which enterprises need in order to produce their outputs were allocated to them by the material technical supply system. The supply system was operated through the chief administrations for marketing of the union republics, and then, depending on the nomenclature, through the state planning committee to the all-union marketing administrations - has increased the time required to process the papers involved and has made the task more complicated. For instance, the Kharkov Economic council did not possess, by the middle of December 1958, the orders and specifications, or the

list of suppliers, for many fulfillment of the programme for the first quarter of 1959. Thus, centralized administrative allocation of resources often resulted in short supply of an important component or intermediate good resulting in idleness of men and machines. For example, the Krasnodarsk compressor plant with the approval of the state planning committee began production of ethylene superpressure compressors. When the production of the compressors had been mastered, it turned out that there were no pumps and that orders for them had not even been placed. The compressor plant had to make the pumps itself, and this involved high production costs and delay. In October 1958, hundreds of compressors worth 7.0 million rubles lay in the yard of the plant, since they could not be sent to the consumers because certain completing items were lacking. Such are the consequences of mistakes and miscalculations in planning.(1)

The question of whether output was useful, or wanted, or of good quality was immaterial to enterprise because its efficiency was measured not in terms of goods sold and profit earned but in varied terms

1. E.G.Liberman, "Economic levers for fulfilling the plan for soviet industry", KOMMUNIST, 1959, No.1

like, weight, value added and so on which created chain of ingenious ways of production not necessarily leading to production of good which were in great demand.

These target variables often led to distortions. For instance, factories making prefabricated cement blocks, prefer to make large blocks, which is the easiest means of fulfilling a plan in terms of tons, resulting in a shortage of small blocks necessary for completing portions of the buildings under construction. But if the same is calculated in roubles they were made unnecessarily costlier. The humorous journal Krokodil once pictured, in a cartoon, a factory which fulfilled its entire month's output programme for nails by the manufacture of one gaint nail, hanging from an overhead crane the whole length of the workshop. As mentioned above when output was calculated in rouble, costly inputs were used to make it costlier. For many years the production of inexpensive cloths was inhibited by the reluctance of manufacturers to utilize the cheaper cloths. To avoid this when the plan was given in linear meters they were made with narrower width. Targets given in completed machines

always resulted in shortage of spare parts because it does not 'pay' the firm to produce spare parts. Some restaurants avoided cheap dishes, as the plan was in terms of gross turn over. The soviet economist Aboltin reported that the Stalingrad construction trust wasted metal because, for one of its projects the plan was expressed in terms of metal used. When transport organizations are given plans in ton kilometers they ignore optimal transportation schemes. Because geological surveying units receive plans in linear meters of drilling they undertake work they know to be useless.(1)

As it was easier to fulfill and overfulfill an easier plan than the difficult one, it was customary for the managers not to reveal their capacity and also try to get a lower target. A wise director by experience learnt that even if he could achieve 125% of the target he need only fulfill 105% so that his target in the coming year is not enhanced. This is not peculiar to socialist system; even under capitalist system sales-

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1. Alec Nove, "Some problems of 'success indicators' in soviet industry" ECONOMICA 1958 wherein he coined a new phrase 'success indicator problem'

men or managers rewarded only on calendar basis resort to the same practice and try to postpone extra sales or production for the next possible period. Under socialist system this often resulted in hoarding labour and other inputs to make their target easier. To counter this planning authorities used a 'lie index' and fix targets accordingly. The planning authorities used to fix the targets higher than the revealed capacity to get over the problem. Another problem connected with this was an influential manager always used to get away with easy target then in that case planning was subjective and not scientific. Whether the plans were 'tight' or 'slack' resulted in considerable waste. 'Planning from the achieved level' resulted in a situation in which the enterprise was interested not in efficient allocation of resources, in the production of goods with which the enterprise was familiar.

In the sphere of risk-taking and innovation, socialist enterprises offer a paradoxical picture : on one side there are impressive statistics published from time to time about the number of new ideas put forward. In addition commercial secrecy does not exist, so that new methods or new models devised in one enterprise are available for the use of all enterprises, and effective new ideas are widely publicized on a nation wide scale. At the same time we have in abundance criticisms of stick-in-the-mud directors who refuse to adopt new methods and continue to produce

obsolete designs. One can trace three reasons for this. Firstly, managers are concentrating on fulfilling the current output plan. Many new ideas involve a halt for retooling or making other relevant changes, and it is very difficult to do this without adversely affecting the production figures of the current period. While there is no assured benefit for any innovation, the managers always run the risk of being penalized for non fulfilling the present target. Secondly, financing such investments are difficult. Until recently there was practically no source for financing such expenditures. Even money was available specific authorization was required resulting in waiting interviews etc., If higher authorities approved the project, on the grounds that the output or costs would benefit by the proposed change, they were apt to amend the plans and target accordingly, so that there would be little or no gain to the initiators in the event of success, to balance possible loss of bonuses and reputation. Thirdly, the snag concerns the impact of innovation on the 'success indicators' of the enterprise, and, linked with it, the failure to reward, or indeed even to recognize risk taking. If the proposed innovation fits in to output and / or cost reduction indicators, then it would be favourably considered otherwise not. And also one should not forget rigid fixed prices. Since the price is fixed and any quality improvement increases cost the managers are not interested in any quality improvement, even though there is a marginal increase in the quality.

Here again we should not overlook similar problems in a capitalistic society. Commercial secrecy, buying up of inventions in order to freeze them, trade union resistance to new methods, sheer conservatism supported by a price ring and high import duties are the usual features that come in the way of innovation(1)

As we pointed out earlier, planning was often subjective in that success depended more on getting easy norms and an easy plan than on managerial and technical efficiency. The lagging enterprises are often 'aided' by the 'switching' of their assignments in order to create the impression that all is well with the branch administration of the given economic council. This practice was widely followed by the ministries and, unfortunately, it has not been abandoned by the economic councils. Three days before the end of the first quarter of 1958, the Iaroslavi peat workers received from the economic council a 'corrected' plan which had been enlarged. As a result, an advanced enterprise was turned overnight into a 'lagging' enterprise. The same economic council

1. Alec Nove THE SOVIET ECONOMY Second Edition New York: Praeger publishers and George Allen & Unwin Ltd., 1969 P185

'rounded off' the plan of construction of an oil refinery four times in the first quarter in order to present favourable figure with respect to fulfilment - 103%. A number of machine building plants were suddenly converted from lagging into advanced enterprises a day before the month ended. The state planning committee of the Ukraine made so many changes in the plans of the Kharkov economic council throughout 1958 that the latter was repeatedly forced to change the production programs of the enterprises. This produced a lack of coordination in the material supply service, non fulfillment of the output assortment plan and of course an abundance of correspondance.(1)

Because of the peculiarity of the cost accounting system enterprises tended to enlarge fixed capital without considering the prospective return. Extra fixed capital was useful because it costs nothing and facilitated increases in output and cost reductions. State farms used to send application for new tractors eventhough they had many unused tractors. Examples of various problems mentioned above in very large numbers, drawing on material published not only in the U.S.S.R. but also Hungary,

1. E.G.Liberman, "Economic Levers for fulfilling the Plan for Soviet Industry", KOMMUNIST, 1959, No.1.

Poland and Czechoslovakia , where a similar institutional structure involved similar problems. (1)

U.S.S.R. and Eastern Europe found themselves with a complex economy with many thousands of industrial enterprises connected by extremely intricate interrelations, with a tremendous assortment of products with a large cadre of skilled managers, scientists, technicians and workers, with increasing demands for quality consumer goods, and in the main with a relatively sophisticated level of technology. Under these circumstances, the old methods of highly centralized economic management proved to be quite inadequate. The rate of growth of G.N.P. continued to be high, but began to decline. The volume of production in relation to fixed assets actually did decline (around 1958-60). Enormous numbers of construction projects were begun and were left unfinished for many years at a time. The application of new technology fell behind international standards in many areas, and unwanted consumer goods began to pile up in warehouses because they failed to meet increasing consumer demand for quality products.

1. See for detailed analysis Janos Kornai, OVER CENTRALIZATION IN ECONOMIC ADMINISTRATION Oxford, O.U.P. 1959. Atec Nove, 'Some Problems in 'Success indicators in Soviet Industry' ECONOMICA Jan. 1958, PP 1- 20

Table AAnnual Rates of Growth of Selected Macro Economic Indices
(Percentages)

U.S.S.R.	1951-55	1956-60	1961-64
National Income	11.4	9.2	6.4
Industrial Production	13.2	10.4	8.6
Industrial Fixed Capital	11.3	11.2	10.9

Incremental Capital Output Ratios

Country	1950-55	1955-60	1960-65
U.S.S.R.	1.77	2.53	3.83
Bulgaria	1.83	1.92	3.89
Czechoslovakia	2.61	3.14	14.28
G.D.R.	1.28	2.70	6.02
Hungary	4.04	2.84	3.65
Poland	2.75	3.68	4.62

Source: U.N. Economic Bulletin for Europe XVII Nov. 1, 1966.

More objectively, the reforms became inevitable mainly due to fall in the annual growth rates and increase in the capital output ratio. Between the period 1960-65 not only the average annual rate of increase in national income fell considerably, with an increase in the incremental capital-output ratio.

Table A will show clearly the trend of these rates.

Moreover, as the economy becomes more and more complex, the existing methods and persons employed find it more and more difficult to cope. There were many problems associated with this: Collecting the necessary data; aggregation and disaggregation by commodities, enterprises and time units; doing the necessary calculations in the time available; and coordinating the administrators. It is because the planners are simply unable to solve these problems that enterprises receive inconsistent plans long after the beginning of the 'planned' period, only to have them altered subsequently. According to one estimate the soviet economy is now 1600 times more complex than it was in 1928, but the techniques of planning are essentially the same. Ghishkov has stated that at the present rate of development, by 1980 the entire adult population of the U.S.S.R. will be engaged in planning! (1)

1. Michael Ellman, ECONOMIC REFORM IN THE SOVIET UNION, London: P.E.P. Broadsheet 509 April, 1969, P. 288.

The foregoing arguments should not be construed as implying that the economies of these countries were functioning in a totally inefficient manner. . . In spite of all these problems they were functioning better than many of the capitalistic countries. The reforms were enunciated mainly with the purpose of establishing stable high growth rates compatible with a developed socialistic economy.

Following Prof. Selucky (1) we may trace six reasons that favour market type reform. The first reason is economic. In order to achieve a goal oriented national economy to function smoothly, a self regulating mechanism capable of keeping the constantly recurring and interrelated economic processes within its proper limits is necessary. The function of this self regulator or internal mechanism can not be supplanted. A natural self regulating mechanism of economy is the market; the plan is an external regulator. The plan has been built in to the system *ex post facto* and therefore is not automatic. Plan can be effective only when they do not replace the self regulating mechanism but supplement it where it has failed. The market as an internal regulator and the plan as an external regulator of economy are mutually complementary.

1. Radoslav Selucky, ECONOMIC REFORMS IN EASTERN EUROPE - POLITICAL BACKGROUND AND ECONOMIC SIGNIFICANCE , New York: Praeger Publishers, 1972, PP 43-51.

The market is a source of data for making up the plan, a criterion of its fulfillment, a corrective of its aims and means; the plan provides the self regulating mechanism with its goal, its meaning, and its content. Without a plan, market functions around profit principle and is unable to prevent inequalities or ensure full employment. Without a market the plan is deprived of objective data (Prices and demand), and is unable to ensure an equi-quant exchange of various economic activities or to keep the individual, group, and social interests in balance. Plan and market are not substitutes. They complement each other to ensure smooth, undisturbed proportioned, dynamic and socially well planned functioning of economic systems.

Sociologically, the diversity of human interests is related to the social division of labour. Socialism could only abolish private ownership of the means of production but not the social division of labour whether in its technical, social or natural meaning. The difference between mental and physical labour, natural differences like age, sex and territorial location are bound to exist which is a source of conflict. The market mechanism not only enables competition among individuals and groups but also regulates them, while the centralized system knows only to suppress the conflict administratively. The market system makes it feasible for the interest of society to emerge as a sum total of conflicting, partial interests.

Technologically too market system creates a conducive atmosphere. Under market system, producers are naturally and materially interested in innovations; this means that a dynamic development of productive forces are built in, while the absence of market system deprives automatic technological progress and deprives the economy of the main source of growth.

Politically, the market system paves the way for dictatorship of the proletariat and peasantry. Under centralized system this class is reduced to play a subdued role of fulfilling the predistined functions. With decentralization self management, the workers can as producers and consumers become the real ruling class.

Humanistically, under authentic Marxism, the final aim of socialism is an affirmative development of the individual and his creative self fulfillment. A pre requisite for this is individual's participation in the creation of his ~~social system~~, in the creation of policies, in political decision making, and in shaping of future forms of society. While the centralized system excludes rank and file of the community, market system presupposes his participation.

Philosophically, the centralized system proceeds from determinism, from the theory of a 'single model of socialism'.

The soviet type of socialism has been made absolute and declared identical with socialism. Thus it is a closed system, where society has no choice or alternative. Acceptance of a highly centralized system deadens human thought, critical faculties, rationality and creative activity, leads to conformity, mediocrity, and apologetic submission to status quo. The market system under overall socialism encourages human thinking, critical faculties and rationality, leads to dialogue, to a creative upsurge, to searching, and to changes. The deterministic centralized system is a product of doctrinaire Marxism, while democratic socialism based on market economy is a product of humanistic Marxism.

To sum up as against the advantages of centralized planning mentioned earlier, the following major features were responsible for search for reforms: Wasteful methods of freezing capital, ill conceived and dispersed construction projects; accumulation of idle equipment; under utilization of capacity; excessive labour turnover; and lack of stimuli for assimilating technical progress. In addition, there were severe fluctuations in output, accumulation of huge stocks of unwanted consumer goods, dominance of seller over buyer, rationing and uncertainty of delivery, and a cumbersome supply system. Moreover, there was hoarding of materials by industrial producers and excessive factor inputs and use of resources in less productive employment. Finally, the system was rigid, accompanied by inertia and lack of initiative and a proliferation of the

bureaucratic apparatus. The planning system was a legacy of the period of extensive development which was unsuitable to meet the challenge of intensive growth. (1)

1. G.R.Feiwe1, THE QUEST FOR ECONOMIC EFFICIENCY: ISSUES, CONTROVERSIES AND REFORMS , New York: Praeger Publishers, 1967,

P 5.

Section B

Theory of Economic Reforms: Pre Liberman Era

The post Stalinist era is marked by the search for meaningful value categories. prices, profit, money and economic calculations became important subjects of discussion. It is obvious what profit means in a capitalistic economy. Under socialism however, profit is a form of product for society, contributed by labour free of exploitation, and distributed so as to ensure expanded reproduction and the well-being of the population. Socialist profit with its method of formation, division, utilization and calculation is a sharp antithesis to capitalist profit. The argument is that whereas increase of profit, irrespective of the means, is the supreme end of the capitalist, under socialism it is only "one of the subordinate elements in the entire system of the economic categories of socialism", used to the extent to which it facilitates achievement of the ultimate end of socialist production: the fullest satisfaction of the population needs. The latter aim is the criterion which determines the bounds for using profit.

Profit under socialism has two distinct roles to play both at micro and macro levels. Following Lange a hierarchical structure can be envisaged. At the pinnacle of the structure appears the national economic plan which may be called as the first order end. The logic of the planning process requires that the goals of the

lower order (firm & enterprises) be subjected to the aim of the plan. The enterprises serve only as a medium for implementing and achieving the plan's goal. The two ends need not necessarily be the same as long as the enterprises' goal induces it to achieve the over-all goal of the plan. "By laying down the conditions under which the maximization of profit takes place, the plan at the same time determines the result of the activity of such enterprises. This is also a way of indirectly subordinating the activity of an enterprise to the end of the social economic plan." (1) Thus in this structure means serving the ultimate goal of the plan are designated as second order ends, means serving second order ends (eg. maximization of present income) are designated as third order ends, followed by possible fourth order (like maximization of present consumption). In this regard, whether or not profit, or its rate, could be best used in realizing the ultimate end is a question posed by the soviet profit-oriented school.

If we analyze how to use economic levers to implement

1. Oscar Lange, POLITICAL ECONOMY, Part I Translated from Polish
New York: Pergamon Press, 1963. PP 179-80

the plan mainly by economic means, as distinct from directives then profit would serve "as a stimulus to the completion of the planned targets and as a test of how far the economic principle is observed". (1) Such a use of profit is criticized by many who condemn it for leading to automatic regulation of the economy, negating the advantages of the central planning. Some soviet economists have discussed use of profit for the best implementation of the centralised plan. It can serve then for best allocation of resources which have not been centrally channelled to specific uses. It is also admitted that profit is one of the criteria for investment in production of substitutable inputs and outputs, within a given branch and even among branches of industry. It is recognized that efforts to increase profit may stimulate improvement of organization and production techniques cause more rational utilization of resources, and increase productivity.

In the de-stalinsation period the role of profit as a performance criterion was some-what elevated and enterprises' use

(1) Oscar Lange, Op cit., P 178.

of profits was enlarged. Nevertheless, it did not occupy a cardinal position. Profit as performance criterion was assigned a crucial role by Prof. Z. Atlas as early as 1949. He distinguished between formal and genuine profitability. He stressed that the existing methods were deficient in terms of price and cost calculations. He pointed out that the degree of utilization of fixed and working capital is only insignificantly reflected in the calculation of profit. If enterprises' profit is linked with productive capital, it will dissuade firms acquiring superfluous equipment and supplies. The rate of profit will be computed by having profit in the numerator and fixed and working capital in the denominator. In this computation should the actual rate exceed the planned, the enterprise would benefit from a higher incentive fund. The actual rate of profit attained will be higher with a larger output sold, a lower cost per unit, a faster rate of working capital turn over, and a higher rate of utilization of fixed assets, subject to the condition that there is a certain amount of profit per unit of output. Though he admits certain short-comings in the price system, he claims that his scheme can be implemented without essentially reconstructing the price system.

During 1930s concepts akin to opportunity cost and marginalism were developed among soviet engineers. The engineers realized

that the output target could generally be met by employing productive processes of various capital intensity where, lower subsequent operating costs could be achieved by greater initial capital outlay. As it was soon observed the minimizing of operating costs could not be rationally selected as a desideratum since the reduction was achieved mainly at the cost of high capital-intensity, diverting capital from other uses where its productivity may have been higher and the economy of operating costs greater than in its sub-optimal applications. In solving the problem of choice of capital in late 1920s normally a six per cent interest rate was applied. About 1931 a tendency emerged to exclude interest from the selection of variants with few important exceptions. This encouraged capital-intensive variants which was void of any economic criteria and limits in applying technical knowledge and disregarded any alternative choice of investment. The test of the profitability of an enterprise as a whole was not invoked.

As the inclusion of interest in operating costs fell into disrepute, the project makers shied away from it. Other devices were employed with out naming interest explicitly. (1) From the mid 1930s generally expressions such as 'co-efficient' or 'norm' was in vogue when the inverse of the co-efficient

1. G.R.Feiwel, op cit., pp 163-173.

of relative effectiveness (CRE) became popular discussion under the name of 'period of recoupment'. For two alternative technological variants, producing the same stream of output with instantaneous single capital expenditures of k_1 and k_2 for the two variants respectively and uniform annual operating costs, including depreciation on capital assets, but excluding a charge for capital C_1 and C_2 respectively, and where $k_2 > k_1$ and $C_2 > C_1$, $CRE = \frac{C_1}{k_2} - \frac{C_2}{k_1}$

Thus CRE stands for the annual economy of operating costs resulting from each monetary unit of the incremental investment expenditure of the more capital-intensive variant, given the existing value parameters. The inverse of CRE the period of recoupment, refers to the span of time during which the incremental investment from a more capital-intensive variant is reimbursed by the annual economy of operating costs. This includes depreciation charges while western version of the same 'pay-off period' does not include the same.

The more capital - intensive project will be chosen if the CRE is larger than the standard predetermined norm (N) which typically should be the marginal rate of substitution between capital and current production inputs valued at scarcity prices. It is obvious a project will be chosen if the CRE is greater than N. The conditions for comparing the effectiveness of two variants could be shown by relating

$$C^2 + NK^2 \begin{matrix} \geq \\ < \end{matrix} C_1 + NK_2$$

The more capital intensive variant will be chosen if the computed period of recoupment (t) is shorter than predetermined frame of reference (T) and the less capital intensive one if t is longer than T . The efficiency tests could be restated as a guiding rule, subject to whatever constraints are imposed, to separate the technological variants of the project to be implemented from those to be implemented from those to be rejected for the project variant that would minimize the current annual operating costs, embrace depreciation charges and the scarcity of capital i.e., $C + N + K = \text{Minimum}$

In the opinion of Novozhilov, however, "All indicators of effectiveness which are in use are imperfect; they take insufficient account of either outlay or return or usually of both. Yet in order to make economic decisions or to choose between alternative plans (or profits) it is necessary to know the relationship between the overall economic effect and all the economic outlays involved for each of the variants being compared." (1)

1. Novozhilov, V.V. in Nemchinov (ed.) THE USE OF MATHEMATICS IN ECONOMICS translated from Russian, Edinbrgh: Oliver & Boyd, 1964, p 45.

Although one could see a number of attempts made by engineers to justify the use of interest during 1930s, it was not until 1940s that a more elaborate model was worked out by A. Lure. His views were similar to those of Gottl-ottlibienfeld (1923) who approached the problem in terms of cost savings derived from the application of incremental investments. Lure's imputation of a capital charge was to safeguard the economy from the losses ensuing therefrom - in terms of the larger economy of operating expenses that could have been achieved in alternative, more productive employment, had the resources not been confined to the project in question. Moreover, Lure advocated the determination of the equilibrium charge for capital, the norm of relative effectiveness by equating the demand for investments with the exogeneously determined fixed investment fund for the economy. Such a norm must be uniform throughout the economy, resulting in the allocation of investments in such a way that the marginal productivity of all projects would be uniform in alternative employments and there would be no opportunity to reduce costs, *ceteris paribus*, by re-allocating resources among alternative uses.

In the mid 1940s Academician Strumilin, contrary to Novozhilov, did not develop nor advocate a single choice criterion for guiding project makers, but, rather, listed a number of investment

criteria that could be applied in choosing the capital intensity of projects. His main objection was use of any criterion with prices deviating from their values. His contribution was the stress on the impact of the time dimensions of production and the necessity of conducting calculations of increase of anticipated labour productivity.

The most virulent attacks on the practice of imputing capital charges and its proponents was waged by P.Mstislavsky. The criticism was mainly directed against Lure, Novozhilov and Strumilin. The irony of it all was that his own proposals are founded on the substitution of capital and labour and his solution is essentially similar to Lure's.

In 1954 a summary authoritative statement left 'sore' questions unresolved, it upheld the commensurability of operating costs and capital expenditures. In 1956 however temporary instructions for calculating investment efficiency were issued, followed in 1958 by a conference in which the main paper was in support of capital charges. In 1960, by mutual accord between the scientific research institute of Gosplan and the institute of Economics of the U.S.S.R. Academy of Sciences, definite instructions for evaluating investment effectiveness were drawn up. Since 1961, the institute of Economics of the U.S.S.R. Academy of Sciences is publishing number of papers intended to elucidate some further aspects of problem.

Section C

Liberian¹ Controversy:

Though the ball of controversy was already rolling, a definite change in the momentum was given by Liberman. His ideas put forward in 1948 were almost unnoticed. In the fifties three important articles² gave concrete shape to this type of thinking. He became famous by his 1962 article³. But then he was not without

1. Evsei. G. Liberman began questioning the prevailing conception of centralised planning after world war II. At a meeting of economists in Moscow in 1948, he proposed the use of profit as a means of gauging enterprise efficiency. The proposal went unnoticed, but Liberman persisted in collecting data and in developing his ideas. He presented his doctoral thesis on the subject in 1956. His papers appeared in *Veprosy Ekonomiki* and *Kommunist* in 1955 and 1956, and he expounded his position at conferences and in survey reports to the soviet government. He gained prominence in 1962 when his article "Plan Profits and Bonuses" appeared in *Pravda*, stimulating the public discussion which took place that year. The discussion resumed in 1964 and led to the economic reforms adopted the following year.

2. Liberman, E. G., "Cost Accounting and Material Encouragement of Industrial Personnel", *VEPROSY EKONOMIKI*, 1955, No. 6.

-----, "Planning Industrial Production and Material stimuli for its Development", *KOMMUNIST*, 1959, No. 10.

-----, "Economic Levers for Fulfilling the Plan for soviet Industry", *KOMMUNIST*, 1959, No. 11.

critics. The important critics include L. Gatovski¹, A. Zverev² I. Kasitskii³, B. Sukharevskii⁴, K. Plotnikov⁵, L. Al'ter⁶. Among the chief supporters Academician Nemichinov's⁷ support influenced the whole way of thinking in the 1960s and paved the way for reforms.

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1. L. Gatovski, "The role of profit in a socialist economy", KOMMUNIST, 1962, No. 18.
 2. A. Zverev, "Against over simplification in solving complex problems", VEPROSY EKONOMIKI, 1962, No. 11.
 3. I. Kasitskii, "The main question: Criteria for premiums and indices planned for enterprises" VEPROSY EKONOMIKI, 1962, No. 11.
 4. B. Sukharevskii, "On improving the forms and methods of material incentives", VEPROSY EKONOMIKI, 1962, No. 11.
 5. K. Plotnikov, "E.G. Liberman Right and Wrong", VEPROSY EKONOMIKI, 1962, No. 11.
 6. L. Al'ter, "Incentives must be linked with the long-term planning of an enterprise", VEPROSY EKONOMIKI, 1962, No. 11.
 7. Head of the Council on Scientific principles of Planning of the U.S.S.R. Academy of Sciences. See his article "Socialist Economic Management and Production Planning" KOMMUNIST, 1964, No. 5.

The party programme adopted by 22nd congress of the C.P.S.U declared, "The economic independence and the rights of the local organs and enterprises will continue to expand within the framework of the single national economic plan. Plans and recommendations made at lower levels, beginning with enterprises, must play an increasing role in planning.....The entire system of planning and assessing the work of central and local organizations, enterprises and collective farms must stimulate their interest in higher plan targets and in the maximum dissemination of advanced production experience". We already pointed out a number of problems connected with compromising the centralisation and decentralisation under a single scheme. The way in which soviet industries and agriculture developed under centralised programme to begin with and how they developed various ingenious methods we pointed out earlier.

Lieberman in one of his earlier articles¹ declared that these shortcomings in economic management should be eliminated not by making planning more complicated, more detailed and more centralized, but by developing economic initiative and independence of enterprises. The plan is a centralized foundation which ensures the necessary rates and proportions in the development of production.

1. Lieberman. E. G., "Cost accounting and Material Encouragement of Industrial Personnel", VEPROSY EKNOMIKI, 1955, No. 6.

Cost accounting must serve as a means for finding the best ways of fulfilling centralized directives on the basis of the active participation of the enterprise staff in the introduction of new equipment and new production processes. Enterprises must be given broader initiative. They must not be bound by petty tutelage and bureaucratic methods of planning from the center. But, on the other-hand, the work of enterprises must be kept under strict control, and tendencies toward narrow departmentalism must be suppressed. This problem can be solved by the proper use of the principle of material incentive. It should really reflect a combination of the personal and public interests, guarantee the observance of state interests and, at the same time, simplify control of the observance of state interest without leading to bureaucratic methods of managements.

He laid down the principles of intra plant cost accounting as follows: (a) Bonuses for shop personnel must depend on, and be paid out of savings derived from cost reduction. (b) Progress outlay norms should be kept stable for the shops for not less than a year. (c) The simplicity and quality of planning are determined by the adequate preparation of norms. With well worked out norms, there is no need to elaborate production - cost plans or complicated production estimates for the shops. It is enough that the shop knows the norms for material expenditures and indirect expenses. (d) The process of determining the results of the shops operation

should be, in addition, a process of determining the production costs for the entire plant.

This of course is not substituting centralized planning but leading to precise and simpler planning. It has the advantage of not weakening the planning but strengthening it. From a scientific point of view this represents a higher level.

In improving planning procedures, it is first of all necessary to find a simple, generalized qualitative norm of expenditures on production. If this qualitative norm is accepted, it will be sufficient to plan for enterprises from the center only one index profitability, instead of several indices of production costs. Then the profitability target would be the basic factor, while the technology of production, norms of output and of expenditure of materials, and, hence, the cost of individual articles, would be derivative factors. They should be established by the enterprise itself in its plan, and in such a manner as to attain the state targets for the volume of output as well as the qualitative norms for labour productivity and profitability. "Such a system would improve the performance of enterprises. It would also relieve the planning bodies of unnecessary and at times even harmful detailing of calculations and would elevate planning to a higher qualitative plane". (1)

1. E.G. Liberman, "Planning Industrial Production and Material Stimuli for its development", KOMMUNIST, 1956, No. 10

Profitability depends on (a) On the share of total wages and salaries in production costs (b) On economical management i.e., on the average workers' wages in the total wage fund: (c) On average workers' wages, or rather on their converse magnitude and (d) on the productivity of labour. Thus profitability can be represented as the product of a number of co-efficients (or factors) and the equation becomes an identity.

$$P = \frac{OWP}{C} = \frac{WF}{C} \times \frac{WW}{WF} \times \frac{NW}{WW} \times \frac{OWP}{NW}$$

Where

P = Profitability

OWP = Output in wholesale prices

C = Cost of production

WW = Workers' wage

WF = Total wage fund

Nw = Number of workers

Among the various co-efficients, the share of wages and salaries in production costs is fairly stable for similar enterprises. Another factor, the share of workers' wages in the total wage fund shows how economical the management is. The higher this share the less, relatively is spent on remunerating the technical, engineering and office staff, and the higher consequently, is the profitability of the enterprise. It is quite possible from this to envisage long-term targets for raising the co-efficient of economical management by drawing on the experience of the advanced factories of the given

group - and that irrespective of output assortment changes. Similarly, the third factor should be determined on the basis of general economic considerations and with approximately equal rates for a wide range of similar enterprises. This helps to achieve equal pay for equal work. The fourth and important factor is the labour productivity. This must grow faster than average wages, for otherwise society will not be able to create that part of the national income which is necessary for expanded reproduction and for meeting social needs. Hence it is considered a decisive factor of profitability.

From this it will be clear that long term or long operating norms of profitability can be determined with sufficient accuracy on the basis of typical characteristics of enterprises by branches of industry. These long term norms give an enterprise a clear perspective and make it strive for economy, for genuine cost accounting. It will no longer fear that a reduction in production costs this year will evoke a revision of its qualitative target in the plan for next year. From the economic point of view it is important to know not only what goods are produced, but also the objective conditions in which they are produced: the amount of equipment per unit of labour, the structure of the production assets, and, hence, the stable structure of expenditures on production. Where these conditions are equal, society has the right to demand of enterprises of the same type the same degree of effectiveness. This is one of the possible ways of consolidated, simple,

and yet scientifically substantiated planning of qualitative indices of production. Here of course the usefulness of detailed planning is not denied. But as pointed out such calculations cannot be taken as a point of departure in planning, what can be taken as a basis is a generalized economic target, a directive expressing law-governed development. And it is the business of the enterprise to substantiate the fulfillment of such a directive by whatever calculations and detailed specifications are necessary for its internal purposes, for its technical, production and financial plans.

In the opinion of Liberman a guarantee of conscientiousness in "planning from below" can be created on the basis of application of the "share-in-the-income" principle; The more values an enterprise has created for society, the larger the sum that must be channeled in to its financial incentive fund, regardless of whether these values have been produced within the scope of the plan or over and above it.

According to Liberman¹, the 'sharing' principle is realized in the form of a planned long term standard of profitability of production. Indeed, besides the volume of output in physical terms, only one additional assignment must be handed down to enterprises, viz., that of 'operating at maximum efficiency'. Firstly,

1. E. G. Liberman, "Planning production and standards of long term operation", VEPROSY EKNOMIKI, 1962, No. 8.

efficient operation increases the profitability of production, especially if it is measured as the per cent profit on production assets (fixed and circulating). Hence, the index of profitability of an enterprise must be handed down as the second basic assignment of the enterprise. This index should make enterprises unconditionally interested in improving all production indices both in the process of elaborating the plan and in the course of its fulfillment. This may be done by drawing up for uniform groups of enterprises within each branch of industry a standard scale of deductions from profits put at the disposal of an enterprise depending upon its level of profitability. There is no need to hand down any other indices to enterprises. Liberman illustrates the idea by evolving a scale of financial rewards for branches of the machine building industry which is presented below:

As shown in the table higher the profitability (in % of assets), the greater is the amount of financial reward. As profitability rises from 5% to 60% the maximum size of the financial reward fund of an enterprise increases more than 2.5 times.

However, incentives based on profits must meet two requirements: A. Norms should be constructed in such a way that the size of the incentive funds corresponds to the effectiveness

Scale of financial rewards for enterprises depending upon level of profitability ¹

Financial Reward	P R O F I T A B I L I T Y						
	Up to 5	5.1-10.0	10.1-20	20.1-30	30.1-45	45.1-60	60.1-above
In % of funds	--	2.1	3.0	3.9	4.4	4.9	5.3
Additional (in % of Profits exceeding the lower limit of the interval)	42.0	18.0	9.0	5.0	3.3	2.7	2.0

1. The total sum set aside for financial rewards may be increased or decreased by the following amounts depending upon the output of new (non-comparable) products; decreased by 3.5% when the share of new output amounts to from 50.1 to 70% and increased by 25% when it amounts to 70.1% and higher.

of production and the amount of labour inputs. B. The increase in effectiveness (profitability) should always ensure an increase in the size of the reward per employed person, but in such a way that the share of the society rises rather than declines in the process.

There is no objection to the proposition A above. Regarding B also there is no doubt as the effectiveness of social production increases, the average size of the reward per employed person (or per rouble of wages) should increase. But objections are sometimes raised that the share of the part of profit realised by society out of the overall profit should increase. It is motivated by the belief that such a demand is incompatible with the condition of increasing incentives for each rouble of wages. This is no problem. Because, in the opinion of Liberman¹, in accordance with the demands of the economic laws of socialism, the share of profit realized by society should increase. Growth of labour productivity should surpass the increase in wages. But ultimately the growth of profit expresses the effect of increased labour productivity. Hence, the rate of profit growth should also surpass the growth rate for incentive funds, whose resources are used to reward

1. E.G. Liberman, ECONOMIC METHODS AND THE EFFECTIVENESS OF PRODUCTION, translated from Russian: New York: International Arts and Science press, 1971, pp 140-144.

working people responsible for higher net income under specific social conditions.

In its general form, the scale is a tabular expression of such a function.

$$Y = b \log (x - c)$$

Y = Profit in per cent of wage fund. (Incentive norm)

x = the criterion or the factor for which the incentive is offered.

b and c are parameters determined empirically for a given branch or group of enterprises on the basis of economic analysis. The following table as given by Liberman clearly summarizes the discussion above.

Groups	Calculated (net) profit in % of wage fund	Amount paid in to budget in % of total net profit	Amount left to enterprise in % of total net profit	Amount of profit received by enterprise in % of wagefund
1	Under 120	84	16	16
2	From 120 to 140	85	15	18
3	From 140 to 160	86	14	19.6
4	From 160 to 180	87	13	20.8
5	180 and above	88	12	21.6

As shown above when profit increases the reward for profit also increases. If the net profit is 100% of the wage fund, the

enterprises' reward amounts to 16% of the wage fund, but if profit increases 1.8 times and equals 180% of the wage fund the enterprise's reward increases only 1.3 times and amounts to 21.6% of the wage fund. Thus with an increase in profitability and incentives per rouble of wages, the share of the enterprise in overall profits declines while the share of the budget increases. From the above discussion we may deduce a principle: what is profitable for society should be profitable for every enterprise.

To summarize, the entire discussion above, to develop a system of planning and assessing the work of enterprises so that they will be vitally interested in the highest possible plan targets in introducing new machinery and improving the quality of output, in a word, in the highest efficiency of production, a simple but substantiated solution is necessary. This can be achieved in the opinion of Liberman by presenting the enterprises with plans only with respect to the volume of output and the assortment and dates of deliveries. This must be done in such a way that suppliers and consumers come in to direct contacts as far as possible.(1)

1. Liberman, E. G. "Plan Profits and Bonuses", PRAVDA, Sept., 9, 1962

All the other indices should be communicated only to the economic councils; there is no need to distribute them among the enterprises. On the basis of the targets for volume and assortment of output, the enterprises themselves should work out a complete plan that covers, among other things, labour productivity, quantity of work force, wages, costs of production, accumulations, capital investments, and new machinery.

How to overcome the present difficulties? This can be achieved if the enterprises have a maximum interest, both moral and material, in making full use of their reserves not only in the process of the fulfillment of plans, but also during the drafting stage. For this purpose it is necessary to work out and approve long term plan norms of profitability for every branch of production. It would be most expedient to approve these norms centrally, in the form of scales determining the size of bonuses to enterprise staffs in dependence on the attained level of profitability. This ensures an even more rapid growth of social wealth and at the same time, insures against inordinately high deductions in favour of the enterprise. There is no danger for budget revenues on the contrary there is a possibility of substantial increase. The principle envisages that the enterprises will get bonuses on the basis of their share of participation in the income created: the greater the profitability in the plan,

which is compiled by the enterprise itself, the greater will be the bonus. This means that it will be unprofitable for the enterprise to work out plans below its capacity.

With given prices, the enterprise will have to strive for the fullest possible employment of capacities and equipment. Moreover, the enterprise striving for maximum cost reduction, will not artificially overstate the norms for the consumption of materials, fuel, tool, and power. Finally, the enterprises will strive to raise their labour productivity to the maximum. Thus the system will achieve the dictum 'what is profitable for society should be profitable for every enterprise'.

Section D

The Critics

As mentioned earlier in the early 1960s the Liberman proposals met with a number of criticisms. L. Gatovsky writing in 1962 agrees with the role of profit in a socialist economy, but he views it differently. According to him, "The effort to raise profitability exerts a great stimulating effect on an enterprise. Its essence lies in systematic improvement of the organization of production, increasing the technical facilities per worker and labour productivity and in economies and rational utilization of production resources". (1) He proceeds to assert that profit is not the sole performance criterion. Another radical difference is that he refers to the use of the absolute amount of profit rather than rate. He asserts, ".....how wrong is the position of the economists who claim that the average rate of profit in the national economy should be the single standard of efficiency of production, serving as the basis for allocating resources Under capitalism, the spontaneous movement of capital inevitably gives rise to the tendency toward an average rate of profit. For us, however, this is an unsuitable scheme, which runs counter to the essence of the socialist economy. Some economists correctly wishing to elevate the role of profit in our economy, wrongly regard the growth of profitability as some kind of automatic

1. Gatovski. L., "The role of profit in a socialist economy",
KOMMUNIST, 1962, No. 18.

regulator which supposedly is capable, by it self, of directing the operation of an enterprise into the channel required by society. But experience constantly demonstrates that the level of profitability can in no way serve for us as a single absolute criterion of the success of an enterprise and replace the other value indices of production not to mention indices in physical terms". He also argues that centralized fixing of prices is not compatible with the profitability criterion as high or low prices are bound to distort the allocation of resources as the former directly affects the profit and further expansion. He is not inclined towards dispensing with major obligatory assignments such as accumulation, investments, wage fund, and number of employees.

B. Sukhrevskii¹ approaches the problem from a different angle, while agreeing with the point that profitability will make workers of an enterprise will themselves to seek and find internal reserves. This will make it possible to relieve the enterprises of petty patronage and will ensure their economic rights and independence. But he disagrees when he feels that profitability standard will not make it possible to limit the

1. Sukharevskii. B., "On improving the forms and methods of material incentive", VEPROSY EKNOMIKI, 1962, No. 11.

plan indices for the enterprises to be stipulated by the economic councils to 'quantity assortment targets' alone. The root of the mistake of this proposal, according to him, lies in the fact that it ignores the unity of physical and value relations in social reproduction, and confuses the conditions of reproduction of a single enterprise with those for the national economy as a whole. It may be possible to think in terms of labour saving, increase in wages reinvestment and so on for a single enterprise. But when we consider the national economy as a whole, the possibility of providing every enterprise with the required means of production and consumer goods. But the the profit regulator does not provide such a guarantee even if the quantity assortment targets are drawn up for every enterprise. This criticism can be easily answered. Under Liberman proposal the production of goods and services in the right quantity and quality is assured through linkage effects, while piling up of unwanted goods will cause only consumption and production distortion.

In turn Sukhrevskii suggests three criteria for evaluating an enterprise's work. a. Plan: Fulfillment and over fulfillment of the plan for the corresponding index. .
b. Dynamics: The expansion of output, the increase in labour productivity the reduction in production costs, the increase

in profit, in short, the degree of improvement shown by an enterprise in the given index. c. Level: With respect to the production assets at the disposal of the enterprise and in comparison with the achievements of other enterprises.

Zverev¹ severely criticises Liberman proposals though there is not much weight in his arguments. The whole proposal seems to him 'dubious, insufficiently thought out and inconsistent'. In his opinion, some republic, regional and plant executives leads to the display parochial tendencies, resulting in appropriations of investments, disruptions of economic balance and disorganization and weakening of the planned basis of the economy. The ending of capital investment planning by the state planning committee and the economic councils and the transfer of these negative tendencies and in no way improve the utilization of resources for capital investments and the observance of balance in the development of the economy. In his opinion, "it is impossible to replace the role and power of state planning by establishing an average profitability rate for all enterprises".

1. Zverev. A., " Against over'simplification in solving complex problems", VEPROSY EKNOMIKI, 1962, No. 11.

The criticism of Kasitsky¹ is based on a possible technical stagnation. According to the proposals the enterprises would be interested in a reduction of current and fixed assets. Kasitsky feels that with respect to fixed assets this would lead to technological stagnation: in their drive for a higher index the enterprises would stop improving their machinery and would reduce investment in fixed assets. He also points out that arbitrary price would lead to arbitrary profit which is not an indicator of efficiency.

Plotnikov² expressed his doubts in considering profit as the only index. An enterprise's work should be assessed with the help of a set of indices, both in value and physical terms. Moreover, he also expresses his anxiety over instability and according to him it is impermissible to have production plans changed several times a year. It would be better to improve the deficiencies of the existing scheme than introducing a new one. He is in favour of training for managerial personnel in the U.S.S.R.

1. Kasitskii.I., "The main question: criteria for premiums and indices planned for enterprises", VEPROSY EKNOMIKI, 1962, No.11.

2. Plotnikov.K., "E.G.Liberman Right and Wrong", VEPROSY EKNOMIKI, 1962, No.11.

Al'ter favouring centralized planning, he questions Liberman proposals thus: "If centralized planning is brought down only to the economic council level, and the enterprises are permitted to plan these indices themselves, then what is the point of planning at all levels down to the economic council? with an artificial gap between planning for the national economy and for the enterprise, the economy will be running idle". He further suggests that a system of continuous planning must be set up so as to have an annual plan, target figures for the following year, and a long term plan, within this long term plan, there can be a bonus scale of a long term nature, which would be substantiated by this plan but not necessarily based on profitability. In some cases the bonus scale may be based on profitability, in other cases on economies per rouble of marketable output, etc., It is essential that these scales be of a long term nature and substantiated by the state long term plan. All this must be part and parcel of the system of long term planning. This will create the possibility of organically combining the unified planning of the national economy with a system of methods of economic incentives.

Fedorovich² advocates reconstruction of the reward

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1. Al'ter. L. "Incentives Must be Linked with the Long-Term Planning of an Enterprise", VEPROSY EKNOMIKI, 1962, No.11.
 2. Fedorovich. M., PRAVDA, Sept., 3, 1962.

system to depend on quality of individual performance. He is for a departmentalization of premium criteria. His contention is that Liberman unnecessarily introduces an index that is even more arbitrarily made than costs of production. He criticizes profitability as the only indicator of efficiency with arbitrary prices. The problem is whether with fallacious prices, profitability, cost reduction, or any other value basis should constitute the core of the incentive system.

Liberman's scheme provides management with a large leeway for economic maneuverability, but the enterprises will simultaneously be constrained by compulsory plan assignments. M.Bor argues that the reconciliation of the latter with meaningful economic maneuverability is inconsistent as one precludes the other. Bor interprets Liberman's proposals that the enterprise's cardinal task is to produce a given volume and composition of output. Consequently, the reward system should be geared to production of given assortments, the volume of output etc., and not profitability and concludes that Liberman has not chosen a proper performance criterion.

The other major criticisms may be summarized as follows: Liberman is inconsistent and vague about the dismantlement of the centralized supply system. Supply difficulties may not be eliminated

and a seller's market will prevail. Given the existing value parameters, it is doubtful whether the planner will permit, or not drastically interfere with, substitution of inputs—even if such substitution should enhance enterprise's profitability.

The feasibility of grouping enterprises according to similarities of technical and natural conditions for working out the numerous profitability norms was questioned because of sharp variations in conditions.¹

Lieberman proposals did not specify accumulation as a plan assignment. It was argued that accumulation must be ascertained in advance in order to assure the necessary flow of revenue to the state budget.

These criticisms arose especially during the early 1960s and evinced their anxiety over decentralization of planning. By 1965 when Lieberman Proposals attained refined form and gained public status they all subsided. Moreover, most of these criticisms were answered by Lieberman himself in his later writings.

1. Vesselkov. F., PRAVDA, September 16, 1962, p 3.

Support for Liberman's proposals came from Academician Nemchinov¹. In fact he went much further in many respects than Liberman. He declared categorically that, no superior agency can have as good a knowledge of internal resources and conditions as the enterprise itself. Under the centralized system, therefore, it is especially important to observe the necessary measure of centralization, so as to be able always to ensure adequate scope for local planning and initiative. No increase in the number of indices can ensure rational economic interrelations between the centre and the localities, between the central planning bodies and the enterprises. Under his frame work, the cost accounting system of planning aimed at combining the procedure of national economic planning with the contractual system of cost accounting and the system of material incentives, consists of the following structure:

a) The enterprises submit to the planning agencies of economic councils variants of plan to expand their production capacities, specifying operating and capital outlays. Proceeding from the national economic plan and these variant plan programmes, the planning agencies distribute among economic organizations and enterprises the plan order, formalized in the shape of a contract indicating the price and other terms of delivery.

1. Nemchinov, V. S. "Socialist Economic Management and Production Planning", KOMMUNIST, 1964, No. 5.

b) The enterprises calculate not only the production cost, but also the full factory cost, which is equivalent to the present factory production cost plus compulsory charges on fixed and circulating assets, calculated on the basis of legislatively fixed long term norms. The results of economic activity are defined as the difference between the planned price and the full factory cost. A positive difference characterises additional profit, a negative difference - outstanding profit. The actual profit is defined as the sum total of compulsory charges on fixed and circulating assets, plus additional profit or minus outstanding profit. Compulsory contributions to the enterprise funds are made from the actual profit in accordance with long term norms. Under certain conditions, contributions to enterprises are envisaged also from savings in production costs and the wage fund.

c) The planned wholesale prices are fixed at the level of average branch cost. Agricultural prices and enterprises are cushioned by a special insurance fund in the event of fluctuations due to unfavourable conditions such as bad weather etc. A special system of plan calculations operates to exercise control over the correspondence of prices to the level of the socially necessary outlays of labour. The current centralized procedure for drawing up price lists is

substantially simplified and decentralized.

d) Instead of the system of physical funds regulating the use of material resources, there comes into operation a ramified system of special purpose public cost funds, which regulates the entire process of expanded reproduction both on the national economic and enterprise level. This fund not only covers special cost funds of material resources (fuel and power, raw materials, spare parts and depreciation funds) but also the labour remuneration premium, material incentives, public consumption, and other funds. The replenishments and expenditure of this entire system of special purpose public funds are regulated legislatively on the basis of long term norms.

e) With the aim of radically improving the procedure and technique of planning and managing social production, it is intended to establish an automated system for carrying out mass economic planning and optimal engineering technical calculations required for the adoption of substantiated economic and planning decisions by the central and local agencies.

The cost accounting system undoubtedly has immense advantage over the existing system and also conforms to the principles of democratic centralism. It will help eliminate bureaucratic

methods in planning and in managing the economy.

The entire discussion came to an end with the official policy declaration in 1965 by Premier A. N. Kosygin. The following important statements will make the purpose of reforms very clear¹

"..it is necessary to amass tremendous accumulations for capital investments and at the same time, to secure a considerable increase in the material well-being of the people. This poses most sharply the problem of expanding the means which secure the growth of resources.

This moves to the forefront, as the main problem, raising the efficiency of socialist production as much as possible, saving live and materialised labour, and considerably and steadily increasing returns from capital investments and fixed assets.

Of great importance, in this connection is intensification of the struggle against all forms of poor management, squandering, and unproductive spending. We have considerable over staffing and unnecessary expenditures, the price, required to obtain results, and to the efficiency of labour of not only each enterprise but of each individual worker as well.

The higher the national income, the more means can be allocated for the development of production and for raising the well being of the people. That is why we must achieve a constant increase in income from each rouble invested in fixed assets.

The fact that fixed assets are not yet utilised

1. Kosygin. A. N., "On improving industrial management perfecting planning, and enhancing incentives in Industrial production" IZVESTIA, September 28, 1965.

adequately in our country compels us to make tremendous investments in creating new fixed assets. This cannot but affect the distribution of the national income and the magnitude of the share which is allocated for popular consumption.

The presidium of the CPSU central committee and the council of Ministers of the U.S.S.R. are of the opinion that in tackling the problems of further developing industry and raising the people's living standards, the greatest attention should be focused on improving the methods and forms of industrial management, planning and stimuli in industry are no longer in conformity with modern technical - economic conditions and the present level of the productive forces.

The economic initiative and rights of enterprises are too narrow and their area of responsibility is insufficient. The cost accounting system is in many ways a formality. The existing system of material encouragement to industrial personnel does little to interest them in improving the over all results of the work their enterprises and often operates in contradiction to the interests of the national economy as a whole.

Great flexibility and efficiency are needed in production management and planning under present conditions. It is extremely important to take in to account the changing economic situation, and to do so in a timely fashion, as well as to maneuver resources, to skillfully correlate - not only from the top, but also from below - production with the increased needs and demands of the population, to rapidly introduce scientific and engineering achievements in to production, and to find the best solutions for economic problems in the concrete conditions of each enterprise.

The main aim of the measures proposed is to bring the planning system and methods of economic management in to conformity with the tasks of communist construction, to develop further the most important aspects and advantages of the socialist mode of production, and thus to secure a more rapid movement of our economy along the road to communism".

Section E

Reform proposals in the COMECON countries:

By no means was the quest for efficiency restricted to the U.S.S.R. only. We can trace discussions of a similar nature in all the East European countries. In Czechoslovakia, the retardation of growth and economic performance in the 1960s and in particular calamitous results of 1963 prompted Czechoslovak economists to take a hard look at economic realities. Though criticisms had been voiced in the late 1950s it lacked the fervor of their Polish and Hungarian counterparts. This may be due to three factors. 1. Living standards in Czechoslovakia were considerably higher than in other East European countries. 2. There was little turmoil and dissatisfaction at the grassroots. 3. The fraternity of economists in Czechoslovakia was weaker than that of its neighbours.

Perhaps the Czechoslovak reform movement of the 1960s had more élan vital than that of other east european countries because the need came relatively late - at a time when economic performance joined forces to push through radical proposals. Also by 1963, a new generation of economists had come of age. They slowly became aware of the ferment in economic thought taking place around them. The first articles on mathematical economics appeared during the period 1958 - 59, but until 1963 the science of planometrics had not made noticeable inroads. Probably it was felt that planometrics could not offer immediate solutions to pressing problems and that

their further refinement would dealy changes by another decade or so. Perhaps it was also due to lack of mathematical sophistication. In general, Czechoslovak economists were not attracted to push - button economics but found far more appeal in the possibilities of recusciating the market mechanism.¹

While the Czechoslovak economists acknowledged some of the exogenous factors, such as severe drought, an excetionally severe winter in 1963, deteriorating relations with Chinese and other tensions on the international scene, they realized that these were by no means the only causes for the failure of the economy.

In 1963, Radoslav Selucky took up the call for reforming the planning system. He stressed that the traditional model was not the 'categorical imperative' for a socialist economy. He leaned toward the decentralization advocated by the Polish economist Wlodzimierz Brus and toward borrowing of such concepts like 'profit motive' market mechanism etc.,²

1. Ota Sik., POLITIKA EKONOMIE, No. 1. p. 24.

2. Radoslav Selucky, KULTURNI ZIVOT, August 10, 1963.

Ota Sik, the Director of the Institute of Economics of the Czechoslovak Academy of Sciences and member of the C.C. who previously had dealt with the problem of divergence of interests between the individual and the state and had emphasized the need for harmonizing these interests in a rationally operating economy was able to soften the radicalism of Selucky's, yet emerged with proposals very much akin to his. ¹ At the Dec., 1963 meeting of the CC, Sik argued that Czechoslovakia had already depleted its manpower resources and did not enjoy the U.S.S.R.'s relative self sufficiency. It could no longer afford to model itself on the U.S.S.R. and must solve its problems boldly and differently by blending the plan and market.

On October 17, 1964 Rude Pravo published the 'Draft principles of a system for improving the economy's planned management', whose outstanding architect was Ota Sik. Instead of approving the document at its December meeting the C C passed it to its economic commission, approved the document in principle but referred to the need for further elaboration of some of its concepts. The C C finally approved by the end of January 1965.

1. Ota Sik, PLAN AND MARKET UNDER SOCIALISM, translated from Czech., New York: International Arts and Sciences Press, 1967.

In Czechoslovakia, intellectual discussion is quite absent unlike the U.S.S.R. because of political factions. The same of course led to later crisis in 1969 when these proposals were abrogated suddenly. Economic liberalization were stretched too far and more than what political conditions would permit. In fact knowingly or accidentally political liberalization also was pushed alongside when the country was not mature enough for them otherwise. It is not very difficult to judge from the fact that Hungary could successfully implement more or less similar reforms at the same time with out any intervention by any foreign power.

In Poland, the discussion on economic reforms can be traced back to 1957. Oscar Lange gave a lecture in Warsaw entitled "On some problems of the Polish road to socialism". This can be considered not only as an authentic interpretation of the Polish economic reforms but also as an authentic expression of the state of Marxist theory at that time.¹

Lange advocated that though the end is same viz., socialism, means to achieve it need not necessarily be the same. Differences may exist in some areas like management of economy, planning, forms of organization of the national economy and so on.

1. Radoslav Selucky, ECONOMIC REFORMS IN EASTERN EUROPE-POLITICAL BACKGROUND AND ECONOMIC SIGNIFICANCE, op. cit., pp. 72-73.

For Poland he wanted to build socialism on a broader basis including petty bourgeoisie, small businessmen and craftsmen. This was narrowed down when the soviet model was introduced. The rationale of introducing a war type economy according to him was cold war, shortages of managers and lack of experience etc., However he wrote, "It is clear of course, that the methods of war-time economy which replaced economic incentives by administrative decisions and by moral political slogans which may be necessary and useful in a certain period and cannot be considered as lasting methods of the management of national economy. This is why we are gradually abandoning such methods. Distortions stem from the fact that the methods remained in use longer than necessary. As a result, the bureaucratic, centralistic apparatus became to an extent, an autonomous force within the state apparatus. Thus the dictatorship of the proletariat was gradually replaced by the dictatorship of the bureaucratic - administrative apparatus".¹

Lange also felt that the farmers form a weak link in socialist element. Though peasantry was in favour of socialist production relations in industry, it preferred small, private production in the village. His prescription for Polish economy was that it

1. Oscar Lange, ABOUT SOME PROBLEMS CONCERNING POLISH WAY TO SOCIALISM
Warsaw: Polonia, 1957, pp 13-14.

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should aim at a synthesis of centralist planning of the national economy and a broad decentralization of management. Secondly, management of the economy should be based on worker self management within the framework of central planning and management of the entire economy. The model would lie between Yugoslavia and the U.S.S.R.

According to Lange, the planning authority would continue to decide the relative proportions of main branches like between agriculture and industry, between consumption and production and so on. They would also determine the aggregate wage fund, aggregate fund of consumer and services, accumulation and consumption. Here we must note that Lange does not speak about market mechanism unlike other later writers. Here we should recollect his article 'On the theory of Socialism', he resolved that the problem of rational allocation of production factors may be solved even with out a real market within the means of production¹. On the whole his ideas to day appear to be rather moderate but they were considered as revolutionary and even heretical in 1957.

There is no doubt that Poland had been theoritically ready for a reform of the centralized economic system earlier

1. Oscar Lange, "On the economic theory of Socialism", THE REVIEW OF ECONOMIC STUDIES IV 1936 - 37

than any other COMECON country. Even prior to world war II Lange and Michal Kalecki belonged among the world's outstanding economists.

Brus who significantly influenced Hungarian and Czech economic thinking in the 1960s, had proposed that the market be taken into consideration in planning and that enterprises should have the right to decide on the volume and structure of their production as early as 1955. In 1956, he suggested that the material interest of enterprises and individual workers be tied to the profits they created.¹ In 1957, Brus and Kalecki proposed that enterprises be awarded bonuses for any increase in profits. Thus the main theme of Liberman's ideas had been formulated earlier in Poland and in a much more consistent manner. Moreover, there was a free discussion in Poland. Kurowski who is criticized in Poland for his views even to day, suggested as early as 1956 that the central plan play the role of a mere co-ordinator of production and that proportions be determined by a market mechanism. Wakar conceded that socialist economy need not be bound by central planning. Although the last two ideas were rejected in the Polish discussion of 1956, they certainly contributed to the willingness of even the advocates of a regulated market to admit that administrative interventions should be an exception rather than the rule of central planning.

1. Brus, THE LAW OF VALUE AND PROBLEMS OF ECONOMIC INCENTIVES, Warsaw: PWN 1956, p 128.

CHAPTER III

ECONOMIC REFORMS IN PERSPECTIVE

"In the Socialist economies methods of direct controls have hitherto been used, rather than any market mechanism, and there is deep-rooted objection to concepts, such as rent and marginal cost, drawn from the apologetics of capitalism. It is only just beginning to be realised that a price system based on supply and demand, though a bad master, may be an useful servant."

--Joan Robinson--

Section A

Introduction

The economic discussion conducted in the Soviet Union from 1962 or even earlier to 1965 theoretically substantiated and the experiments carried out at some factories corroborated the practical advisability of measures improving forms and methods of socialist planning and economic stimulation of enterprises, measures providing greater personal incentives for the working people. The results of the experiments and the economic discussion were summed up by the central committee of the soviet communist party at its plenary meeting September, 1965 and reforms were carried out subsequently. The following new elements appeared in soviet economic policy.

1. The scientific level of planning was raised.
2. An optimum combination of centralised planning with wide economic initiative of enterprises on the basis of complete Khozraschot was ensured.
3. Greater economic incentives were provided for; as the efficiency of production rose, the amount of funds left at the disposal of an enterprise for developing production and rewarding personnel was also increased.
4. The role and importance of profit in assessing the economic activity of enterprises were enhanced.

5. Wages of workers were made dependent not only on the results of the activities of the entire personnel.
6. Economic relations between enterprises were based on direct contracts and the principle of mutual material responsibility.

Though the main features remained the same and reforms in the U.S.S.R. waved the green signal for major reforms in Eastern European countries, neither the year 1965 marks the beginning of economic reforms nor were implemented in a similar manner. This obviously resulted in varied degrees of liberalization taking into consideration the political feasibility and economic requirements. In fact at the 20th party congress in 1956, the soviet leadership conceded the possibility of 'different paths to socialism'. Now as a direct result of different approaches to economic reforms by these countries, they can be considered as a huge economic laboratory where different principles are being tested and various better solutions are evolved according to their conditions and experiences.

Disregarding pre 1950 period, earliest reforms can be traced in Yugoslavia (1950-52) then in Hungary (1953-54) Czechoslovakia (1953-54) and the G.D.R. (1954-55). Among all these countries only in Yugoslavia decentralization took place mainly in the form of discontinuation of annual plans, restoration

of price mechanism (partially), worker's self management and decollectivization of land etc.,

The next wave of reforms occurred during 1956-60. Yugoslavia made further progress in decentralization of planning, management and financing of investment(1958). Though ambitious plans were drawn up by economists in Poland and Hungary, as the political and economical atmosphere was not ripe enough and only few proposals were put through. Poland implemented legalization of workers' council in 1956, formation of industrial associations to participate in economic administration and management, and de-collectivization of land. Decentralization of economic administration to a certain extent was achieved in the U.S.S.R. (1957). Some decentralization of planning and price fixing was introduced in Hungary(1957-59).

But these early reforms in the 1950s, with the exception of Yugoslavia did not alter much the centralized planning system of any of these socialist countries of Eastern Europe. But reforms that were implemented closely following soviet proposals to begin with did alter the system to a great extent that Hungarian economist Varga observed, " ...the reforms have not been aimed at tinkering with the old system. The sine quo non of further rapid development in the long run is a comprehensive overhaul of the previous system, going far beyond

merely removing its obvious failings".¹

According to Zielinski, "All countries realized that it is necessary to abandon direct, administrative planning and move to broader use of so called 'economic tools' in their management mechanism. Whether these tools should be based primarily on the use of market mechanism, or be of the state parametric type has not however been decided uniformly by all Eastern Europe. We are inclined to think moreover, that if the market or the state parametric model finally prevails, it will not exclusively be due its economic merits or demerits, but equally important will be its political and social implications. It is however, a hypothesis for which we do not have fully valid scientific proof."²

Though all countries of our study were having similar degree of centralized planning before 1965 because of their different levels of economic development and political environment, causes for and consequences of economic reforms caused certain amount of diversity. Regarding causes of economic

1. Varga. G., in Z.Lewandowicz and M.Misiak (ed.) ECONOMIC REFORMS IN SOCIALIST COUNTRIES, Warsaw: PWE, 1967, p 336.

2. Zielinski. J. G., "Economic Reforms in Eastern Europe" ECONOMICS OF PLANNING, Vol. 9, No. 3. 1969, p 292.

reforms, in Yugoslavia, it was the expulsion from cominform in 1948. (whether it is the cause or consequence is a debatable point). In most other countries, Czechoslovakia, the G.D.R., Hungary, Poland and U.S.S.R. the reforms were adopted because of the ineptitude and the waste of the old system became unbearable.

In Bulgaria and Romania though the extensive sources of growth did not show any appreciable inefficiency of the old system, the reforms were adopted in anticipation of what is going to come, a lesson learnt from the experiences of the other countries. In fact these countries, thanks to the experiences of other countries the reforms were more systematic and far reaching.

In Bulgaria, the G.D.R., Romania and in Yugoslavia (1950-52) the initiative came largely from above while in other countries there was a good deal of pressure from below. Especially in Poland, U.S.S.R. and Bulgaria considerable hesitance was shown and actual reforms introduced only after conducting practical experiments extending over one to three years. Widespread theoretical discussions preceded and prepared the ground for reforms.

Regarding implementation of reforms, in the G.D.R. the reforms had been most carefully prepared and carried out with precision in three stages. In Bulgaria, Czechoslovakia, Hungary and Yugoslavia the reforms of the 1960s were put into practice in one sweep. The reforms were effectively and smoothly implemented in Yugoslavia and Hungary where as in Czechoslovakia and Poland because of political divisions there were many obstructions.

Thus decentralization is most radical in Yugoslavia, followed by Hungary and Czechoslovakia, but least in Romania, the U.S.S.R. and the G.D.R. But again, the levels of decentralization in various spheres like price determination, Banking system, administration of wage funds, conduct of foreign trade, workers' participation in management varied to a great extent.

While making a comparative study of these countries we must bear in mind that the U.S.S.R., the G.D.R., Czechoslovakia, and Hungary are the more developed of the socialist countries as reflected in national and per capita incomes. These countries are considered fairly advanced while the other countries of our study are in a developing stage comparatively. This is brought out clearly in the following Table.

Per capita Indices of National Income of six East European countries¹

Year	G.D.R.	Czech.	Hungary	Poland	Bulgaria	Romania
1955	100	97	60	61	36	35
1964	100	101	68	63	59	50
1970	100	90	64	56	31	37

Amount of Per capita income in U.S.\$ at 1970 Market prices						U.S.S.R.	
	2930	2230	1600	1400	760	930	1790

The following summary of reforms² will give a bird's eye view of the major reforms adopted by these countries:

Bulgaria:

- 1964 Capital charges introduced
- 1967 Reform of Producers' prices
- 1968 Decentralization of planning and management:
- 1968-69 Banking and credit reforms

1. Source: First two lines, Zielinski, J.G., Economics and Politics of Economic Reforms in Eastern Europe, ECONOMICS OF PLANNING, Vol. 9, No. 3, 1969, p. 290. Lines 3 and 4 TRENDS IN DEVELOPING COUNTRIES, World Bank, 1973, Table 1.4

2. Wilczynski, J., SOCIALIST ECONOMIC DEVELOPMENT AND REFORMS, New York: Praeger Publishers, 1972, pp. 50-51.

Czechoslovakia

- 1965 Independent associations to play greater role
- 1967 Decentralization of planning and management flexible price system; strengthening of economic levers
- 1968 Second stage of price reforms
- 1969 Banking and credit reform
- G.D.R.
- 1961 State National Economic Council replaced independent ministries
- 1963 greater role to be played by independent associations
- 1965 S.N.E.C. abolished; increased self financing of enterprises
- 1968 Banking and credit reform; strengthening of financial levers and controls
- 1969-70 Reform of industrial prices

Hungary

- 1957 Some decentralization of planning and price setting; profit sharing introduced
- 1959 price mark ups to promote technical progress
- 1963 Some decentralization of Industry.
- 1965 Increase in agricultural prices
- 1966 Substantial decentralization of planning and management
- 1968 Flexible price system; extension of material incentives in agriculture

Poland

- 1956 Workers' council legalized
- 1957 decollectivization
- 1960 Major revision of wholesale price
- 1963 Some decentralization in Industry
- 1966 Strengthening of financial levers.
- 1967 Reform of factory prices
- 1969 - 70 Banking and credit reform
- 1971 Reform of producers' prices

Romania

- 1963 Major revision of wholesale prices
- 1967 Branch associations set up
- 1968 - 69 Some decentralization in industry and foreign trade;
strengthening of economic levers and financial controls;
diversification of banking
- 1970 - 71 Reform of Producers' prices

U.S.S.R.

- 1957 Most industrial ministries replaced by regional economic councils
- 1959 Greater centralization of banking
- 1961 Domestic revaluation of the rouble
- 1963 Savings banks taken over by the State Bank
- 1965 Official acceptance of the profit criterion

- Greater independence of enterprises and farms;
Regional economic councils replaced by centralized
economic ministries
- 1967 Reform of producers' prices; extension of commercial
accounting in agriculture
- 1969 - 70 Rationalization of land use; increased commercialization
of collective farming
- Yugoslavia
- 1958 Further decentralization of planning, management
and financing
- 1960 Greater role of tariffs
- 1961 Devaluation of Dinar
- 1964 - 65 Banking reform
- 1967 Anti dumping duties introduced

As a direct consequence of these reforms each country is evolving its own socialist path. There are no extremities of centralism or free market but a peaceful co-existence of central planning aided by market mechanism. In essence it represents 'the dialectical unity of plan and market'. The deputy chairman of Czechoslovak state planning commission declared, " We cannot operate with a plan which eliminates the market just the same as we cannot operate with a market in the absence of a plan, nor can the market be regarded only as an instrument for putting

the plan into effect. The market represents an objective economic category which constitutes an object for the recognition and function of the plan."¹

Though Liberman disapproves with the term 'market socialism', the system in force in Yugoslavia since 1965 is often described by that term. Under this set-up there is maximum extent of the social ownership of the means of production and minimum degree of central planning are combined with a virtually freely operating market mechanism and workers' self management. A similar liberalized scheme has been advocated by many economists like G.Petrov, Ota sik, F.Behrens, P.Erdos, W.Brus, G.S.Lisichkin. In fact, V.Bakaric of Yugoslavia and E.Lobi of Czechoslovakia have urged the adoption of market socialism without planning.

However, it should be noted here that these measures of decentralization should not be taken as an evidence of return to capitalism. As mentioned earlier, means and ends should not be confused. Many elements like profit, interest in these countries have different meaning. Both socialist and capitalist countries today agree that the market is not the best mechanism to shape structural developments, new production capacities and progress in science and technology in accordance with long-run social preferences. At the same time one should not fail to note

1. Kohontek. M., "The problem of plan and market', PLANNED ECONOMY, Prague, 9 - 1967, p. 17.

the practical difficulties of combining plan and market. In the opinion of Ota Sik, " It is not difficult to link the plan and the market in a theoretical abstraction and demonstrate the necessity of their unity under socialism. It is much more difficult to work out concrete forms of their interaction under specific social economic conditions".¹ It is now a point of common observation that all countries (capitalist) public expenditure and thereby place of government in the working of the economy has come to stay. But the socialist countries with sophisticated planning techniques may work well in combining market and plan and may prove to be more successful than capitalist countries have been in combating the vagaries and inequities of the market through government control.

1. Ota Sik, PLAN AND MARKET UNDER SOCIALISM, op.cit., p142

Section B

Planning and Management

The old system of planning and management was known for the following features: a) Centralisation of decision making; b) hierarchical nature of economic relations; c) directive nature of planning and management; d) physical balancing. The new system aimed at streamlining in several ways of adopting to the needs of intensive growth. The new plans are constructed from 'below' (counter planning) where branch associations and enterprises participate in determining the structure of production according to demand and their own capacities. There is also introduction of a new feature called 'horizontal planning' where enterprises enter into contracts with others directly, resulting in more industrial co-operation. In Czechoslovakia, Hungary and Yugoslavia annual plans are dropped in favour of long term planning. In Yugoslavia, compulsory targets have been dropped altogether. In other countries such targets have been reduced to around 100 compared to several thousands under the old system. There is also considerable reduction in the number of directive indicators.

There is also an orientation of plan towards favouring consumer goods sector. It is called 'flexible planning' under which changes in production plan are allowed and the enter-

prises are entitled for a compensation if the changes come from 'above' or errors committed in the original plan.

Another important change can be noticed in what is known as 'structural planning'. Traditionally plans are worked out by the relevant economic ministries with the participation of the branch associations and enterprises concerned. This has resulted in narrow interests in several ways impeding technological progress. Under this new scheme planning will not concern with individual branches but with selected broad goals or problems like modernization, specialization, industrial cooperation, applied research and innovations. It no more attempts merely in extrapolation of existing situations but attempts to anticipate the desired structure and direction of development in the future. It is more aimed at assimilation of new technology by providing plans based on economic prognoses to promote the continuity of technical progress.

U.S.S.R.

As pointed out earlier, 1965 reform in the U.S.S.R. was preceded by wide discussions and experimentation unlike earlier reforms. These reforms consisted essentially of the abolition of the regional economic councils (sovarkhozy) and in a way return to the old system of union and union-republic industrial ministries as supervisory authorities for enterprises by industries. In addition a certain territorial decentralization was introduced into the

material and technical supply system. Enterprises coming under an industrial branch ministry (Union or Union-republic) are split up among a certain number of sub branches, each of which is directed by a central office (glavk) forming an integral part of the ministry. The ministries and glavki should no longer concern themselves with the current management of the enterprises under their supervision. They are to co-ordinate plans and investments, to stimulate technical progress, and to ensure the financing of the enterprises and their supplies of man power, raw material and equipment.

1965 reforms did not change the operating conditions of the unions of enterprises called 'soviet firms'. Since 1970 certain interest was shown in this type of industrial concentration. These unions operate on Khosraschet principle.

After trying various methods in 1973 it was decided to follow a pattern similar to the G.D.R. From 1975 relations between supervising ministries and the enterprises are conducted through combinats, which in some branches are grouped in unions. The glavki will be abolished and the ministries will no longer concern themselves with the current management of enterprises. Combinats and unions will work on the Khosraschet principle and will enjoy wide autonomy.

Bulgaria

Reforms in Bulgaria were introduced in stages. When theoretically accepted in 1963 these principles were experimented with few enterprises. Convinced of success in these enterprises the new system approved in 1966 and came into operation from 1st Jan. 1969. This was a liberal scheme but the same was revised in 1970 which reinforced centralized planning. Again since 1972 there is a tendency to further liberalize and further decentralization is expected.

The organization of production is based on the distinction between simple production units or 'enterprises' and complex one which is a concentration and integration of simple ones as 'economic unions'. Major production is carried through unions which come directly under the council of ministers. Enterprises are not large in number and they are subordinate to the competent industrial ministry.

In 1971, new unions around 65 in number were formed out of some 120 unions which existed since 1963. These new groups besides exercising quasi monopoly, are responsible for all down-the line activities including marketing. These unions since 1971 enjoy legal autonomy and are responsible for executing the plan for all their subdivisions. The union divides the overall production plan among various enterprises, fixes their norms and indices, meets their needs for capital and raw material,

markets their output and so forth. Enterprises that form a part of the union like a branch of a big company enjoying monopolistic production. Their work is elevated on the basis of satisfaction of production targets fixed for them, quantity and structure of production, targets for increase in the technical level of production and utilization of production capacity.

The unions receive directly from the council of ministers the compulsory indicators for the establishment of their plans. The micro economic character of the plan is limited to about 120 essential products. This may vary from one plan to another at the discretion of the authorities. All other indicators such as gross output, the proportion of total output intended for sale, the assortment of products, total profit, improved labour productivity are merely 'statistical indicators' used in drawing up the national plan. Enterprises and unions based on these, establish their production plans and freely negotiate buying and selling contracts among themselves. The plans of the unions and enterprises are used as a basis for establishing the national plan.

Czechoslovakia

The principles of 'new mechanism' were voted at the beginning of 1965. They were further modified by increasing autonomy of the enterprise and greater use of the market mechanism. The party was divided on the issue of decentralization vs recentralization since April 1969. The salient features of the 1965 reform are that central planning should be confined to the basic macro economic magnitudes like distribution of the national income, pattern of consumption etc. Leading role was played by five year plans, divided into annual plans and accompanied by special plans like foreign exchange, regional plans, industries Union plans etc., Unions were free to draw their own plans within the frame work of over all plan. Under the federal constitution there are four centres of economic decision.

a) The federal authorities consisting of three ministries and seven committees. Since 1971 economic policy and planning for the whole country and foreign trade have become the responsibility of the federal authorities. b) The 'republican' authorities which up to 1971, included most of the individual ministries and committees. Since 1971 federal government is responsible for the greater part of the activities and 'republican' plans have become subordinate to federal plan. c) The trusts and 'concerns'; 102 large production economic units were created to work under the principle of 'Khozraschet' integrating the productive commercial, and research activities of member

d) enterprises: which were intended to enjoy high degree autonomy, but whose prerogatives have been considerably diminished since 1970. Since then the power of the trusts and concerns has been greatly strengthened.

German Democratic Republic

Centralized economy has had a long tradition in Germany. Though the soviet system introduced in 1929-30 and the Nazi system introduced after 1933 substantively differed from each other by differing forms of ownership, by an entirely different social base, and by differing ideologies, some of their principles were identical. Central management of economic processes according to political considerations, a rationing system, frozen or stable prices, and similar administrative procedures in allocating both capital and manpower were some of the common principles. Nevertheless, they differed in their purpose. In Germany, it was preparation for war while in Soviet Union it was socialist industrialization.

Because there were no socialist revolutions in East Germany, the social quality of labour and production relations changed only to a minor degree. Similarly, the basic principles of the Nazi centralized system were taken over; when the German Democratic Republic was formed many rational elements of the Nazi command system were not eliminated but merely supplemented by and combined with ideological elements of the soviet centralized

system. East German population does not consider the centralized economic system as something alien or imposed from the outside but as a system which fits the country's economy further helps it to function more satisfactorily. An important part, in this respect, is played by the excellent German organisational skills and the high level of administrative efficiency, a particularly important factor in an administrative system.

The German system differed from other centralized systems in many respects. Though its industry was nationalized it was able to take advantage of the entrepreneurial skills of the middle petty bourgeoisie; as late as 1968 the share of the private sector in the gross industrial output was 12.9%. Though the market mechanism and rationing continued till 1960s, tens of thousands of small business helped to overcome the imbalance between supply and demand. The skills and capacity of middle class farmers were utilised by appointing them as heads and leading officials of collective farms. G.D.R. perhaps is the only socialist economy where middle class potentialities were utilised or continues to be utilised.

Nevertheless, it could not escape a decline of economic efficiency in the late 1950s and early 1960s. Although shortage of labour, a favourable industrial structure, the highly developed skills of the population, the pragmatic economic policy, and the relatively high level of technology should

all have encouraged intensive economic growth, the capital-output ratio grew extremely quickly and confirmed that a decline of the investment effectiveness and of over all capital efficiency was taking place.

The reforms were tried from 1963 onward in four unions of enterprises which were created in 1958. The details of the new economic system (NoS) were worked out between 1964 and 1967. At the 7th congress of the United socialist party in April 1967, it was decided to bring all the reforms listed above between 1964 and 1967, into gradual application under the name of 'economic socialist system' (OSS) which replaced NoS.

The main emphasis is on the 'perspective plans' for 15 to 20 years based on various factors like forecasts of technical progress and economic and social evolution. The 'planning codes' for a shorter period like 5 to 7 years define the ways and means of achieving the targets of the perspective plan while seeking to maximize national income in that period. The resulting tasks are listed to the ministries, unions and enterprises responsible for carrying them out. Though annual plans are designed as sub-division of the medium - term plan, they are used for revising it.

Regarding the procedure for drawing up a short or medium term plan, it starts with a general economic conception drawn up by the planning commission which outlines the main components of national income and investments for the planning period. The planning commission then distributes the tasks among ministries, which distribute them among state owned enterprises (VVBs) which finally distribute the assignments for enterprises. The enterprises then work out the preliminary variants of their plans, which go back through the administrative channels and are used as a basis for drawing up the plans of enterprises, unions and ministries. The difference between U.S.S.R. and G.D.R. is that this system applies only to products granted absolute priority (about 80). For all other products, centralised planning is limited to defining basic indicators, the most important of which are the profit plan and the 'new technique' plan.

The compulsory indicators for Associations of state owned enterprises and enterprises are the value and quantity of output of the main groups of priority articles and the products of raw materials whose balances form part of the central plan, the main foreign trade targets, the wage funds, the price trends of the main group of products, and the long term state norms - payments for capital goods, levies on profit, rate of depreciation, and payment to bonus fund. There are

also many other statistical indicators, which are in principle not compulsory indicators but are also imposed upon enterprises. As in Romania and Bulgaria the decentralization of decisions is mainly to the benefit of VVBs and combinants. But this decentralization does not affect essential products, the planning of which remains concentrated at the center.

Hungary

The first modifications were made as early as 1957. To begin with the number of compulsory indicators were reduced and a workers' material stimulation fund was introduced in enterprises, based on profits earned. Associated with this, capital charges were introduced in 1964. The central offices of the ministries for administration of enterprises were replaced by unions of enterprises in 1963.

The new scheme was implemented by 1968. This was an integrated and complete system embodying the whole of the country's activity and fundamentally different from soviet model. (with the exception of few products amounting to 10% of the whole out put). Active planning is confined to aggregates like national income, industrial output, consumption, capital investment and foreign trade. With the

exception of a few compulsory products the national plan whether five year or one year lays down no imperatives for economic units, which are free to take their decisions in an economic context influenced by such instruments of the plan as credit policy, the regulation of foreign trade, and price policy. The central authorities however allocate the products that must be compulsorily produced.

The economic administration is at two levels. At central authority level there are the National planning commission, the National Committee for Technical Progress the Ministry of Labour, the Ministry of finance and eight industrial ministries. Their main objective and function is to lay down the general guidelines for development and supervise the coordination of all economic activities.

The enterprises and the unions of enterprises form the lower level. The association of enterprises no way limits the rights of the enterprise; it merely acts within the powers delegated to it by its member enterprises. The 'trusts' however limit the rights of the enterprises, which operates as the independent economic units with legal personality and their own funds.

Poland

Among the countries studied here Poland was the first country to attempt significant reforms of the centralized system. However, the recommendations drawn up by the council under the chairmanship of Oscar Lange were never put in to effect. The 4th congress of the Polish United Workers Party in 1964 and plenum of the central committee of the party in 1965 laid down the 'new principles' of planning and management'. The central committee of the workers party in 1969 and 1970 added few supplementary provisions.

The main objectives were:

- a) To enhance the role of decentralized bodies such as regional authorities and the industrial unions.
- b) To lay stress on long term planning and to introduce plans with a number of variants so as to increase the initiative of enterprises and other economic organizations in working out the central plan.
- c) To rationalize price fixing process and to make the system of incentives within the enterprise more efficient.
- d) To decentralize the major part of the capital investment decisions and to replace the budget financing of capital investments by bank loans.
- e) To enhance the role of workers organizations in planning on the principle 'planning from below'.

In practice however there were economic and political problems. These events led the team under Gierek, who had replaced Gomulka to

initiate certain reforms of the system which emphasized more the production of consumer goods and allied changes. The new model drawn up by a special commission of the state and party was published in 1972. It was designed to enhance the role of centralized planning and simultaneously develop the autonomous activity of economic units and social groups.

Under this scheme, the planning commission and the technical ministries will no longer be concerned with questions of day-to-day management. Their role will be to draw up long term plans and five year plans and supervise their execution. The current management of the economy, including questions of investment and technical progress, will be ensured in the context of the plan, by the major economic organizations which will operate on commercial principles. The long-term plan is to define a certain number of programmes concerning groups of problems like housing, standard of living pattern of production etc.,

The fiveyear plans will embody specific sections of these programmes to ensure that they are carried out during the planning period. They will define the capital expenditure necessary for this purpose and will fix the ceiling for capital expenditure previously left to the discretion of the major economic organizations, but centrally financed. Capital expenditure financed from these organizations' own resources will be entirely free. But the major part is to be financed by bank credit.

Annual plans are to be much less detailed and their main function will be to ensure the short-run equilibrium of the economy and to guide current government policy. The number of binding directives were cut down and are to be replaced by economic instruments like fiscal, credit and price policy.

These reforms very closely resemble the G.D.R. reform but less liberal than the Hungarian reforms, where the unions are left to the free choice of enterprises.

Romania

Though partial changes were made as early as 1965 basic reforms were introduced only by 1967.

The micro economic and administrative character of planning is preserved, but the number of compulsory indicators transmitted to the enterprise is reduced from 13 to 7. Though in many respects the reform goes no further than the soviet reform, regarding decentralization of decision-making, it is ahead of the U.S.S.R. industrial 'centrals' have been set up, combining either enterprises in the same branch or units in different branches which contribute to the manufacture of the same finished product. These centrals fall into two categories: those consisting of enterprises with a high degree of autonomy and those with a structure similar to that of a large enterprise, the subordinate bodies having a limited degree

of autonomy. By 1971 nearly 70% of all centrals were of the second type. A decree of March 1973 reduced the role of enterprises to purely technical functions. All economic decisions are now concentrated at the level of the central. These centrals operate on the principle of autonomous accounting, have their own plan and are provided with the necessary financial and material resources. Taking over part of the functions of the industrial ministries and of the technical and material supply agencies, their task is to ensure the better organization and more efficient specialization of production and co-operation among the different enterprises whose activity they direct. They are responsible for the technical and material supplies of their enterprises and for coordination relations between suppliers and customers. They supervise the execution of the plan by enterprises, provide them with technical and scientific assistance - for which purpose they have their own research institutes and design offices - help to finance their capital investments, and sell their products on the home and foreign markets.

Certain decentralization has also been achieved in the matter of capital investments and their financing. The state budget finances only the construction of new enterprises and major extensions to existing enterprises. For the purposes of minor but urgent investments, the enterprises have their own funds financed by levies on their profits.

Efforts are being made for continuity of planned action by breaking down five-year plans into annual plans and by economic unit. In drawing up the plan, the main stress is now laid on proposals by enterprises and centrals. But these enterprises and centrals follow the general directives issued by the party and the state. But the number of such directives are small. It is centrals who mainly add supplementary indicators which are compulsory for the enterprises. Once the plan is drawn up the centrals and enterprises freely conclude between themselves the contract needed to execute it. Thus while reserving the essential macro decisions to the supreme authorities the reform effects, at the same time, a certain decentralization at branch level by shifting the power of micro decision from the industrial ministries to centrals, and a very strong concentration at the lower level of enterprises, most of which disappear completely as autonomus economic units.

Yugoslavia

Strictly speaking Yugoslavia is not to be compared with the countries listed above since it differs so much in its economic organization. The system has undergone very many changes and it is, today a type by itself. Nevertheless, we can summarize the whole system by studying some of the salient features which are as follows: worker's self management; central planning limited to macro economic magnitudes; a market resulting in principle, from the free play of supply and demand, subject, however to the possibility of state

intervention in the form of general regulations and classical measures of economic policy.

Worker's self management:

The management of enterprises, which are owned by the state, is in the hands of workers' councils, elected by the workers for a term of two years. Workers' council in turn elects a management committee and a manager, who is nominated by the people's committee of the commune. The manager takes all day-to-day management decisions and represents the enterprise in its relations with state agencies and its legal relations. He engages and dismisses the workers who have a right to appeal to the management committee. Decisions like distribution and allocation of profits, must be approved by the workers' council and in exceptional cases by the whole personnel. Any dispute between the workers' council and the manager is arbitrated by the commune.

Workers' self management to day no longer covers the whole of the Yugoslav economy. This is mainly because of the growth of private enterprise which are multiplying, disguising themselves where necessary in the fictitious form of self-managed enterprises. Moreover, the 1967 provisions throwing the Yugoslav market open to foregin investors imply a compromise between the interests of foreign capitalists and the power of the workers' council. Finally the prodominance of technicians is hard to reconcile with the equalitarian spirit of the councils. The proportion of workers

in the workers' council is steadily decreasing. The number of strikes, on the contrary is increasing. The new Yugoslav constitution provides for a further strengthening and further expansion of self-management principles, while at the same time limiting the prerogatives of business management.

Planning:

Four stages can be traced in the evolution of the Yugoslav planning: the system of rates; the profit sharing system; income sharing and the 1965 & 67 reforms. The system of rates (1951 - 54) which followed the earlier centralized system was limited to the following spheres: fixing the growth rate of the national economy; distribution of the national income between consumption and capital formation; the distribution of the accumulations of enterprises between the federal states, the republics, the communes and the enterprise; determining the investments to be state financed; and allocating resources among republics. The link between the plan and the activity of enterprises was ensured by the following mechanism; the plan fixed the maximum utilization of production capacity in each branch; it determined the minimum wage funds corresponding to the utilization of that capacity; it fixed the rate of accumulation and the rate of social funds, that is the division between investment and consumption. Subject to these reservations the enterprise was free to decide its output, suppliers,

customers, employment and dismissal of workers and price. It was in the interests of the enterprise to maximize its profits by matching output to demand. But centralization under this model was marked by the concentration of the banking system. In 1952, the National Bank absorbed the commune and republic banks and the State Investment Bank was the only source of credit.

The profit sharing system (1954 - 57) marked substantial progress towards greater decentralization. The autonomy of the enterprise was increased not only in the field of day to day management (wages) but also, though partially, in that of capital investment. Furthermore, the obligation to pay interest on the fixed capital employed should normally induce in the absence of inflation not to launch out into ill considered capital investments. The multitude of institutions like federation republic, communes, banks and enterprises, which decide the use of investment marked the centralized aspect of the system.

Under Income sharing system, the wage system was completely abolished. The personal income of workers depends on the income of the enterprise after paying taxes, duties on situation rents, annual depreciation, and interest on the means of production, normally at the rate of six per cent.

The income of the enterprise is divided into two parts.

One is social funds for consumption and capital investment. The other part which is the balance, is for the enterprise for distribution in the form of personal incomes to the workers and for the constitution of the enterprises own funds. This distribution is made by workers' council subject to ensuring the minimum personal income guaranteed by law and of making the statutory provision for the reserve fund when the income attains the level specified by law. Accompanying this there were few reforms aiming at decentralization of the Banking system.

The new constitution adopted in 1963, lays stress on reinforcing the role of the market and on greater decentralization both of political power and of economic system.

The Economic Council is the central authority in economic matters consisting of 120 deputies of the federal parliament. There are similar councils at republic, district and commune level. Regarding modified planning procedure, two drafts plans are considered simultaneously, one drawn up by the federal planning institute and the other by the economic associations in each branch. The ensuing discussion is designed to lead to a consolidated version which after approval by parliament, becomes the national plan. The function of this plan is purely informative. It includes no imperative stipulations. It is confined to an analysis of the trends resulting from technical progress and social and economic

progress and to bringing out the needs of the nation. To attain the general targets of the plan, the state makes use purely of traditional policies such as credit and finance policy, fiscal policy customs policy, and foreign trade quotas and price policy.

The state intervenes in the distribution of incomes among the republics through the medium of a fund for under-developed regions financed from part of the federation's tax revenue. The state also has a centralized investment fund that it uses mainly to finance infra-structure investments. But these now represent a smaller fraction of total investment resources. 15.7% in 1966 compared to 61.7% in 1961. All other investments are decided and financed by the enterprises and the banks.

Section C

Mathematical methods and optimal planning:

Mathematical methods involve marginal analysis and valuation of all factors of production, and as such were considered anti-Marxian and hence anti social. Yet a number of economists carried on work on Linear programming and optimization models in research institutes privately. When the official attitude changed by 1959 a number of articles and original works were published.¹ It is now agreed that Linear programming was first developed at the university of Leningrad in 1939 by Kantorovich.

The whole system of planning and management is now revolutionized with the use of computers and advanced mathematical methods. They make possible the application of sophisticated statistical technique in variant thinking, optimal calculations and equilibrium analysis beyond the old fashioned empirically

1. Kantorovich. L.V. THE BEST USE OF ECONOMIC RESOURCES

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Kornai. J. MATHEMATICAL PLANNING OF STRUCTURAL DECISIONS,
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developed method of physical balances. Computers and mathematical techniques are used to collect, transmit and process a variety of data. They are employed not only in planning but also in mechanization and automation, in economic administration, transport, banking and warehousing. What is important in this mathematization and computerization drive is not so much the saving of immediate costs, but the placing of the economy on a higher and solid basis of efficiency.

In all these countries the state planning commissions have been equipped with computers, and computer centres have been established and are being developed to serve selected enterprises industries and regions. Given sufficient time an integrated computer net work may embrace not only the entire economy but all member countries of COMECON.¹ According to one socialist economist, "it may be reasonably expected that the changeover from mechanized to automated production will be realized in its completeness only under socialist conditions".²

1. Wilczynski. J. SOCIALIST ECONOMIC DEVELOPMENT AND REFORMS
op cit., p.71.

2. Miszewski. B., "Economic progress in an industrial economy"
Warsaw, PWE 1968, p.59.

Optimal Planning:

A striking feature of soviet economic discussion in recent years has been the development of the conception of 'optimal planning'¹. Optimal planning can be regarded as the application of the techniques and approach of operations research to the national economy as a whole. Many soviet specialists are of the opinion that a necessary condition for optimal planning is the social ownership of the means of production. On the technical level, the orthodox soviet - marxist view is that there is bound to be a conflict between the interests of the national economy as a whole and that of independent private firms. On the social level the means of production inevitably leads to social conflicts which greatly hinder or render impossible, national economic planning.

Many of those who advocate optimal planning regard it as hierarchical process, the first step in which is the elaboration of long-term tendencies in technology, consumption, national resources and population. The next stage is the elaboration of a national economic perspective plan which concerns itself with the main propositions of the economy, identifies the chief bottlenecks, and provides a framework for the perspective plans, using

1. See for a detailed analysis, Michael Ellman, "Optimal Planning", SOVIET STUDIES, July 1968.

where applicable, optimising techniques, which deal with such things as the location of enterprises, the capacity of enterprises and the best use of deficit materials for which there are substitutes.

Soviet economist Novozhilov has clearly explained that optimal planning is a system which incorporates elements both of planning and of the market. Planning is necessary to make structural changes in the economy, to determine its basic proportions, and to fix the parameters which regulate the behaviour of lower level units. The market mechanism is necessary because of the non-deterministic nature of economic activity and because the huge number of possible plans would overwhelm any central planning apparatus.

Optimal planning differ from the old system in the following principles: It recognizes the useful role the market price mechanism can play increasing the efficiency of resource allocation; It recognizes the desirability of devolution of decision making; the theorists of optimal planning emphasise that the object of production is the satisfaction of the needs of people, national economic planning should base itself on these needs.

Optimal planning also involves two fundamental departures from traditional Marxian economics. It necessitates the evaluation of the non labour factors of production; it resorts to marginal

analysis, that is, the determination of the marginal rate of substitution of inputs and of outputs. The optimal plan provides the ultimate basis for the derivation of the optimal prices of the factors of production. Kantorovich calls them 'objectively determined values'.¹

The first practical optimization attempts were made in the U.S.S.R. in the early 1960s and other countries like the G.D.R., Hungary, Poland and Czechoslovakia soon followed suit. So far it has been applied only to determine the optimum composition and distribution of production in selected branches of the economy, mostly on a regional basis and in those industries where possibilities for the substitution of inputs are limited and fairly constant technical co-efficients of production prevail. A good deal of work has been done on the optimization of the 1971-75 five year plans.

1. Kantorovich.L.V., op cit., pp 5-12

Section D

Management of enterprises:

As observed earlier, the earning and application of profits provide a unique link combining the interests of the state, the enterprise and individual worker. Profit can be used in different forms as criterion of enterprise performance. There are two approaches in calculating profit: the rate and the absolute amount. The absolute amount is the difference between the total cost and receipts. A distinction is also made between the gross and net profit. The difference being represented by state deductions like capital charges, differential payments for the advantages not created by the enterprise and in some countries payroll tax (Hungary), and where repayable loans are obtained from the state budget (U.S.S.R.) interest on such loans. The percentage ratio of profits to the prime cost is known as 'rentability' and the percentage ratio of profits to fixed and variable assets is generally described as 'profitability' or the 'profit rate'.

All the three concepts, profit, rentability and profitability have been used in the countries of this study but their exact calculation has differed from country to country.

U.S.S.R.

The major change in the U.S.S.R. regarding extension of autonomy to enterprises can be noticed by the revision of compulsory indicators used before. Their number has been reduced and the

stress is now on the economic efficiency of enterprise.

The most important indicator is the 'output sold' instead of the old indicator 'gross value of output' in the assessment of enterprise performance. Output sold represents the output actually paid for by the customer. Coupled with this the customer has the right to withhold payment in case of dispute regarding quality.

The problem of enterprises switching over production to dear products from cheap products is ensured by another indicator called "main assortment of goods". That is the quantity in physical units of the most important products which are to be produced compulsorily.

The third indicator 'wage fund' represents the simplification of old four compulsory indicators: labour productivity; size of work force, average wages and wage fund. Now the enterprise must maximize efficiency by selecting its workers in such a way as to obtain the best productive result with the funds placed at its disposal, funds that it must try to reduce to the strict minimum in order to increase its profit and maximize the individual bonuses of its workers.

The incentives allotted to the enterprise and workers are now directly linked to the amount of profit and the level of profitability, which constitutes the fourth indicator. Major portion of the profit is credited into a special fund called 'production development fund'. Depreciation and other receipts from the sale of plant unused or no longer required is also credited in this fund. This fund is mainly used to finance capital investments and working capital. This of course is a major move towards the self financing system. The remaining portion is credited into two other funds, 'worker's material stimulation fund' which is used to finance individual Bonuses and 'socio cultural development and housing fund' which is also used for the benefit of workers but in a collective way. These three incentive funds mentioned above are calculated in such a way as to compel the enterprise to declare its potential production resources as accurately as possible.

In the case of an enterprise that has achieved 100% of the planned output sold target, the percentage V of the book profit paid to the material stimulation fund and the percentage V' paid to the socio cultural fund are given by the following equations¹

$$V = \frac{ra + pb}{100} \cdot s \quad \text{and}$$

$$V' = \frac{ra' + pb'}{100} \cdot s$$

1. See for a detailed analysis on Planning and Management, Marczewski, Jan, CRISIS IN SOCIALIST PLANNING: EASTERN EUROPE AND THE U.S.S.R., New York: Praeger Publishers, 1974.

Where,

r (expressed as a percentage) is the book profitability
 i.e., the ratio between profit less priority deductions
 (interest on capital, fixed payments designed to
 compensate situation rents, interest on bank loans)
 and the average annual value of fixed assets and
 working capital

p (expressed as a percentage) is the inverse in output sold.

a is the standard rate of levy in favour of the material
 stimulation fund applicable to the wage fund per unit
 variation in output sold (or gross profit)

b is the standard rate of levy in favour of the material
 fund applicable to the wage fund per unit variation
 in output sold (or gross profit)

a' is the standard rate of levy in favour of the socio-
 cultural fund applicable to the wage fund per unit
 variation in the book profit;

b' is the standard rate of levy in favour of the socio-
 cultural fund applicable to the wage fund per unit
 variation in output sold (or gross profit)

s is the wage fund.

If the plant target is exceeded or not attained a levy in respect of the excess is reduced by 30 per cent. As a result, enterprises are forced to calculate their capacity and sales possibility accurately in order to attain maximum benefits.

The above mentioned scheme for calculation of incentives did not result in increase in labour productivity because it is calculated on the basis of wages fund. In order to overcome the same a regulation of September 30, 1968, provides that in the event of the average increase in wages exceeding the growth in labour productivity, the corresponding proportion of the material stimulation fund must be placed to reserve for use in the following year to encourage a further growth in labour productivity.

The production development fund is financed from the following sources: a levy of 30 to 50 per cent on the enterprise's provisions for depreciation; the proceeds of the sale of unwanted plants and machinery; a levy on the book profit according to the formula.

$$V'' = \frac{r a'' + p b''}{100} \cdot k$$

Where

a'' is the standard applicable to the productive capital per unit variation in book profitability

b'' is the standard applicable to the productive capital per unit variation in output sold.

k is the productive capital

r expressed as percentage is the book profitability as

r (expressed as percentage) is the book profitability
as expressed above
p (expressed as per centage) is the increase in output sold.

The fifth indicator is the payments into and from the budget. Payments into the budget consist of : changes for the use of fixed assets and working capital; fixed payments levied on the excess profits earned by enterprises working under exceptionally favourable conditions; the return to the treasury of the balance of profit remaining after all these payments and the levies in favour of the enterprise's three incentive funds.

An important charge is the interest charge levied for the use of capital which reduced unnecessary expansion of capital. The interest rate is six percent and varies from industry to industry and even between firms within industry. Grants from the budget are likely to disappear. They are now used to finance centralized capital investment and working capital and off set the losses of certain enterprises. With increased role of banks they are likely to be taken over by them by means of a loan with varying maturity and interest rates according to the purpose.

The seventh indicator sets the timetable for bringing into operation the productive capacities created by the centralized capital investment schemes.

The eighth indicator defines the main assignments for introducing new techniques, comprehensive mechanization and automation.

The ninth indicator concerns deliveries of raw materials, products, and equipment to be allocated to the enterprise by the central system for material and technical supplies.

The new experiment started in 1964 in two clothing enterprises and was extended to some 400 in 1965. In October, 1968, it included some 4000 enterprises producing consumer goods. Since then it is extended to many branches.

Bulgaria:

The funds of the union or independent enterprises are similar to the soviet reform. The wage fund is in two parts: Material stimulation; additional incentive fund. The first designed to finance basic pay and bonuses, is fixed for a period of years as a proportion of output. The second is composed of a levy of 3 per cent of the material stimulation fund, part of the extra profit earned by exceeding the planned targets, and a proportional levy on increased profit and profitability. Like other COMECON countries, the basic wage rates are fixed by the government. In 1973 the sectoral wage differences were abolished and nature of work done alone is the criterion of wage level.

Substantial capital investments especially of infrastructure nature are still financed by budget. The greater part

of capital investment is financed by unions and independent enterprises out of their own funds and bank loans subjected to a ceiling. Nevertheless, the unions and enterprises are free within the limits of their disposable funds to carry out modernization, reconstruction or to meet the needs of current production. '

Czechoslovakia

Under 1965 reform, the enterprise was free to choose the concern or trust it wanted to join and the concern or trust had to conform to the indications given by its member concerns. Since 1969, the power of VHJs has been greatly strengthened. The old quantitative indicators of success were replaced by a comprehensive indicator viz., gross revenue, equal to net value added before taxation. This was considered at the production stage and not at realization stage as in the soviet reform. It included the value of unfinished production and of unsold finished products and operated as an incentive to enterprises to maintain a high level of inventories, which did in fact increase substantially, thus leading to inflationary pressure. In 1971 gross revenue was replaced by profit.

Enterprises paid to the state 6 per cent interest on the replacement value of fixed capital assets, 2 to 6 per cent on the value of working capital 18 per cent tax on gross revenue after deduction of interest paid, a stabilization tax equal to 1 per cent increase in the work fund for each 1 per cent increase in the work force, plus 30 per cent of the average increase in wages compared with the previous year. Though aimed at discouraging

enterprises to reduce work force and wages, these measures proved to be insufficient and other steps had been taken.

After these payments and tax, the balance of the gross revenue is shared among the enterprise and workers. Workers had three types of earnings: a fixed wage determined centrally; a bonus on the worker's individual performance; share in the profits of the enterprise. According to the new plans, 25 per cent of total capital investment should have been self-financed. However, enterprises could not carry out any major capital investment project without the prior authorization of the central authorities like ministries or government. The self financing of enterprises was supplemented by bank credits, which was around 60 per cent. The state was to finance directly through subsidies or budget grants only those capital investments of national importance which was around 15 per cent of all capital investments.

G.D.R.

The 'Associations of state owned enterprises' (VVB s) and combinants enjoy complete accounting autonomy. They have their own funds: a profit fund, a depreciation fund, a reserve fund, a technical development fund. They are independent of the ministries and enjoy considerable powers over their member enterprises.

The efficiency of the enterprise is now gauged by its net profit, after paying state dues on fixed and working capital

allotted to it. About one third of the net profit is levied by the state. The rest goes to two funds: enterprise's resources fund (about 80%) and the bonus fund.

In spite of the existence of the resources fund the enterprise has very little freedom in the matter of capital expenditure. Its freedom extends only to small-scale capital expenditure projects, known as rationalization fund. All other capital investment projects require prior approval of the VVB or the central authorities. The enterprise cannot obtain a bank credit for capital expenditure except on the twofold condition of having its own capital investment plan. The enterprise pays an interest of 3.5 to 4.0 per cent out of its resources fund for these loans.

Hungary:

Hungarian enterprises in a way are highly concentrated. Major output is produced by a few hundred enterprises. With the exception of compulsory products enterprises have free choice of their customers and suppliers. Their profits are split among three funds: a reserve fund, a material stimulation fund and a development fund. The percentage of profit paid to the reserve fund is proportional to the amount of fixed capital and the wage fund. Payments to the material stimulation fund are proportional to the amount of fixed and working capital. Enterprises are encouraged to save labour, since the increase of the wage fund lessens their

possibilities of capital investment. They are also constrained to save capital since excessive capital investment reduces the material stimulation fund.

The enterprises pay to the state a graduated tax of 20 to 85 per cent on the material stimulation fund and a proportional tax of 60 percent on the development fund. Regarding capital investment there are two categories: centralized investments financed by budget which is declining. It fell from 80 per cent to 46 per cent in 1970; The decentralized investments financed by the enterprises and have become predominant. In the matter of decentralized investments, state intervention is confined to fixing the limits and conditions of bank loans. In many cases they benefit from budget support also. This is especially so in agriculture and in industries to cope with the distortions between production and retail prices or home and foreign prices.

Poland:

As pointed out earlier, the binding directives are now reduced and replaced by economic instruments. The performance of enterprises is measured by profit and net value added of output sold. Though wage fixing remains in the hands of the party and the government, the amount of wage fund left at the disposal of the major economic organizations varies in proportion to the increase in the value added of their output sold. Any increase in the fund

is freely utilized to expand its work force or to increase wages or bonuses. The balance of profit, unlike the soviet system is retained by enterprise to augment its development fund.

Yugoslavia:

Enterprises enjoy maximum freedom in Yugoslavia. The state does not interfere unless there is a breach of law. Enterprises have free choice to decide its output, and customers (including foreign) suppliers and bears full consequences of these decisions, including bankruptcy. Prior to 1965 these enterprises were to pay a number of charges, which were heavy and retarding their development. The 1965 reforms reduced them. These charges which were spent on non-productive spheres are now utilized for the development of the enterprises themselves. The remuneration and other material incentives are decided by the enterprise themselves and shortages made good obtaining loans from the banks which are again based on the performance of the individual enterprises. Enterprises may also issue bonds and seek foreign capital up to 49 per cent of the capital of the enterprise.

Section E

Labour productivity

The above reforms regarding material incentives will show clearly that in the past it was not possible to evolve the 'new communist man' devoid of the crude acquisitive instinct but imbued with a natural altruistic desire to give society as much as he could and claim no more than he was legitimately entitled to. Most workers in spite of all transition were not unlike those in capitalist countries. The irresistible trend towards 'consumerism' forced the planners to yield towards satisfying the needs of the present. Besides evolving the bonus and other material incentive schemes, it was shown by socialist market research that consumer goods such as cars, Radio and T.V. sets, refrigerators, washing machines, etc., have the strongest and most lasting incentive effect on work and saving.¹ So, steps have been taken to establish or expand these consumer goods industries.

In the actual working of the bonus schemes evolved by these reforms, one can notice many difficulties. In some countries such as the U.S.S.R., for example, the working of rentability or profitability is too complicated and beyond the comprehension of an ordinary worker. Moreover, multiplicity of methods pursued

1. Wilczynski. J., SOCIALIST ECONOMIC DEVELOPMENT AND REFORMS, op. cit., p 113.

for distribution coupled with the complications in working out incentives, weakens the spur of incentives.¹ Because of the fluctuations in the market and hence profit, the incentive part of the earnings is also subject to fluctuations. In a few countries like Bulgaria, Czechoslovakia, Hungary and Yugoslavia, standard pay also partly depends on enterprise performance. This in effect has made the workers to assume greater risk while their capitalist counterparts share only profit and not risk. Thus it has become necessary for the enterprises to have 'risk reserve funds'. These material incentives do not necessarily ensure maximum efficiency on the macro economic scale. This is mainly because of absence of free prices. As long as price irrationalities remain, enterprise profit does not reliably reflect macro economic gain. Thus labour may be induced to engage in sub optimal production because it may paradoxically lead to maximum enterprise profit.

Under extensive approach it was the aim to create maximum employment. As the socialist state was responsible to provide every one with employment, any addition to total production was socially gainful, the aim was to push employment to the maximum level possible. This possibly yielded several benefits like rapid growth of production enabling a mighty investment leap forward and incorporating hundreds of thousands of people into production process at a higher occupational levels. Nevertheless, this policy

1. Artemov. J., "The distribution and utilization of the material incentives fund", VEPROSY EKONOMIKI, 5/ 1969, pp 29-39.

was not conducive to the growth of labour productivity as it led to over-full employment and a high labour turnover, and it weakened labour discipline and conscientious application to work.

With an emphasis on labour productivity optimum employment is left to market forces in countries like Yugoslavia where now the unemployment rate is around 8 per cent. Other socialist countries aim at providing employment to 98 per cent which allows a frictional unemployment of 2 per cent. Since reforms to avoid excess labour demand and labour indiscipline in countries like Bulgaria, Czechoslovakia and Hungary a payroll tax has been introduced. A few economists considered it is essential to keep a small pool of unemployment as a means of improving discipline and productivity. Many repudiated this view and an Hungarian economist declared, "under socialist conditions the free flow of labour necessary for economic growth, structural changes and the equilibrium of employment must not only depend upon a reserve army of unemployed. Planned economy offers us other means and methods for this purpose."¹

Even optimum employment is not without any benefit. In these countries with in a short period of 20 years from 1950 the

1. Timar.J., "The level of employment and its equilibrium in socialism", ACTA OECONOMICA, Budapest, Vol.4 No. 2, 1969,p 173. Emphasis in original.

Agricultural working population declined from 50 to 30 per cent. Manpower and employment offices have been opened to re-distribute agricultural population to more suitable vocations. There is also active co-operation among these countries to promote mobility of labour within COMECON region.

From the intensive growth point of view, as pointed out earlier, the following changes are likely to result in increased

labour productivity: a greater independence of enterprises; the acceptance of profit as the main criterion; making enterprise profit the criterion for bonuses and in some case the standard pay; a greater differentiation of standard pay rates according to skills and productivity; introduction of special profit mark-ups to spur enterprises and their personnel to technological progress. In some countries index of labour productivity is one of the bases for the determination of wages fund.

Section F

Prices:

Prices before reforms were fixed on the basis of Marxian philosophy. Thus they were based only on the cost of live and materialized labour. It excluded rent, interest, utility and scarcity, fluctuations in demand and supply. Price fixing was carried out by the state planning commission and the process was mainly guided by desired distribution of income. There was a two-tier price system ; wholesale and retail. Wholesale price was determined beforehand and excluded rent and capital charges. They also remained stable over long periods. Retail prices did not have any connection with the whole sale price and often same product was assigned different prices depending on the type of good, its use, and the class of user. Retail prices differed from producer's price by turnover taxes or subsidies. In short, the whole pricing system was so complicated that there were 100,000 centrally fixed prices for clothing and insignificant items such as fish hooks had 107 different prices. But it would be a hasty generalization to conclude that the price structures were irrational. They were not arbitrary and were logical within the context of the objectives adopted. In spite of all these complicated pricing systems, the soviet economy produced well over 10 million different types of goods.¹

1. Fedorenko. N. "Prices and optimal planning", KOMMUNIST, Moscow: 8/ 1966. p. 93.

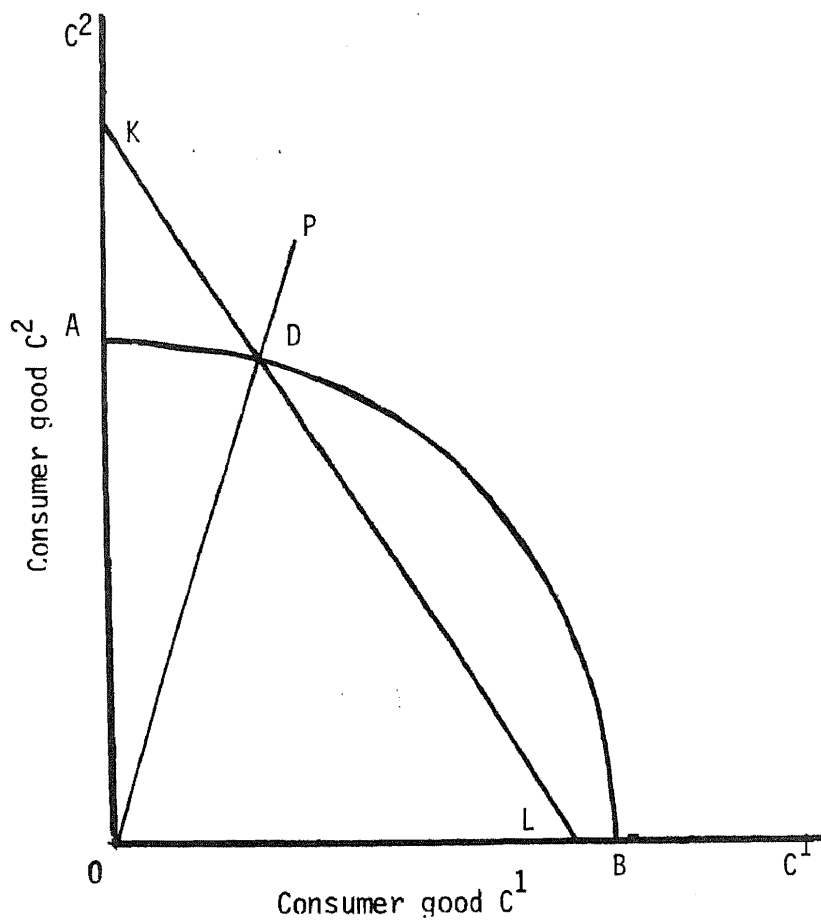


Figure. 1.

It can also be shown theoretically how such administered prices can be superior to market guided prices.¹ In an economy with imperative planning of the soviet type, where planners avoid both surpluses and shortages of consumer goods, there could be a strong tendency towards an efficient allocation of resources from the consumer's point of view, in the production of consumer goods. It is worth elaborating on this point in order to put the actual soviet adjustment mechanisms and their constraints into perspective. The accompanying figure shows consumer goods production and disposal in an economy with two consumer goods C^1 and C^2 in physical units that can be produced in a given period ranging from OA of C^2 and none of C^1 and OB of C^1 and none of C^2 . This can be envisaged as a list of short term possibilities in any planning period, with the rates of defence and other government spending and of gross investment already specified, and the level of capacity in C^1 and C^2 production fixed for the period in question but output of C^1 and C^2 capable of adjustment within the planning period by reallocation of materials, labour and other current inputs between the two industries.

1. Philip Hanson, THE CONSUMER IN THE SOVIET ECONOMY, London: Macmillan and Co. Ltd., 1968, pp 168-170.

In the choice of combination of C^1 and C^2 for the period, the planners do not exercise complete 'sovereignty' since they are assumed to be prepared to make output adjustments in order to avoid surpluses and queues, in the light of the actual composition of consumer demand. It may however, be assumed that the initiative in fixing output plans rests with the central planners even if they are guided by their past experience of consumer's demand. They may decide to aim for the maximum attainable output in which C^1 and C^2 are in the proportions indicated by the slope of OP , the planners assortment ray. This leads if production is efficient in a technical and organisational sense, to targets for C^1 and C^2 which correspond to point D on AB .

Since the planners are concerned to clear the market they will try to set prices and consumers' disposable incomes in such a way that this will be achieved. Consumers are provided with a budget line that passes through D . It may not be tangential to AB i.e., relative market prices may not correspond to relative production costs. Let us consider a budget line whose slope does differ from that of AB at D . It is possible that the consumers' preferred position along the production possibility line is in fact at D , but there is no particular reason for this to be so, since the plan in the short run need not aim at maximizing consumer's welfare. Even if it is, the provision of budget line KL will not lead to an equilibrium at D . If the consumers' preferred point on AB is at K , their preferred point on KL must be between

K and D i.e., they will demand more C^2 and less C^1 than have been made available. However, the consumers' preferred position along the budget line may be at D. In this case there will be an equilibrium which is satisfactory from the planner's point of view but not optimal from that of the consumer: there is a clash between consumers' and planners' choices. In other cases this may not occur. If it turns out that the preferred position on KL is say between D and L, there will be queues for C^1 and unsold stocks of C^2 . This is not the state of affairs to which officials and managers will be indifferent, and some attempt will probably be made to improve things. In other words, in situations like this the planners' assortment ray of consumers' goods must be altered.

If adjustment is made to a point between D and L on the budget line, (D and K is out of the question) the market price be cleared but production will not be optimal by the planners' own criteria; it will be below the production possibility line. In other words, where D is not the preferred point along the budget line, the situation does not appear to be stable. One solution would be to alter the relative prices of C^1 and C^2 until the budget line is tangential to the production possibility curve AB. If the consumers' preferred position on AB is at the point of tangency, the situation is optimal from the consumers' point of view: If it is not, production may be adjusted until the market is cleared, when the consumers' position will become optimal.

An alternative solution is to alter KL until preferred point on it is at D. Retail price ratios are then different from marginal cost ratios must be assumed to prevail in any economy where differential ratios of indirect tax exist. In principle, there would be no difference between this sort of 'adjusted' planned system and any actual market system. The argument can be extended to more than two products.

In fact, the planned system can be superior because price can be equated to average cost if needed. Full capacity production can be easily achieved irrespective of prices, whereas the same is not possible under market system.

It is now accepted in order to relieve the planning authorities the burden of constantly adjusting the prices, the following conditions must be satisfied:¹

Prices must be either determined in free competitive markets where consumers' sovereignty prevails or derived computationally from the optimal plan.

The contribution of all inputs to production must be accepted as cost and reflected accordingly in prices.

¹Wilczynski J., SOCIALIST ECONOMIC DEVELOPMENT AND REFORMS,
op cit., p 78.

Prices must be based on the costs of marginal enterprises in the industry producing a particular article.

There ought to be a closer correspondence between retail and producers' prices. If they must differ the rates of turnover taxes should be reasonably uniform, at least for broad classes of products.

Prices must be fairly flexible to indicate the supply and demand as reflected in conventional markets or in computationally simulated 'shadow markets'.

Domestic prices of internationally traded products must be linked to those prevailing in world markets.

Mostly in accordance with the above principles the East European countries have adopted price reforms. The salient features are as follows.¹

As the basic principle governing price formation, the Marxian concept of 'production price' as distinct from 'value price' has been adopted. This full cost price includes the capital charge but excluded ground rent. This would reflect value more closely than before and has resulted in economizing the use of capital. Steps have also been taken to include differential rent in prices.

1. Wilczynski. J. SOCIALIST ECONOMIC DEVELOPMENT AND REFORMS,
op cit., pp 79 - 82.

Producers' prices have been increased resulting in increased profitability and considerable reduction in 'planned deficits'. Since the price reforms the average gross profitability in industry has been as follows: In Yugoslavia 10%, in Bulgaria 13%, in the G.D.R. 15%, and in the U.S.S.R. 15%, in Hungary net profitability 8%, in Czechoslovakia (gross) 6 percent.

The opposition to marginalism, at least on the production side, has weakened, and such concepts as the marginal rate of substitution, marginal cost, marginal land, marginal enterprise have been generally accepted as economic realities. Fixing of producers' prices were partly guided by production costs in such marginal enterprises.

There is an increasing inclination on the part of the authorities to revise prices where they are centrally fixed, more frequently according to changes in cost and demand. Even in the G.D.R., noted for its rigid price structure has enunciated what is known as 'dynamic price policy' to promote technical progress and desired structural changes in the society. Flexible price policies are also adopted by Bulgaria, Czechoslovakia, Hungary and Yugoslavia.

The difference between retail and producers' prices has been considerably narrowed. Turnover taxes and subsidies

have been drastically reduced and share in enterprise's profit has become the source of state revenue. Yugoslavia and Czechoslovakia have departed most in this sphere.

There has been considerable decentralization of price determination - most in Yugoslavia, Hungary, Czechoslovakia and Bulgaria and least in the G.D.R. and Romania.

U.S.S.R.

The formula (1967) adopted for price revision is based, as we pointed out earlier, on the principle of "the production price". This consists of total cost plus a profit margin of the order of 15% for the average firm. The formula is as follows:

$$\text{Price} = C + \alpha S + \beta k + D$$

C is the unit production cost, including depreciation but disregarding interest on invested capital and social contributions;

α is the rate of social contributions in relation to the wage fund S

β is the rate of profitability of fixed assets and working capital K

D is the differential income embracing the rents of particularly favoured enterprises and turnover tax if any.

In most branches D is nil, since the price is calculated so as to leave no rent to the average firm and the turnover tax is levied at the marketing stage. This price formulation constitutes an immense step forward compared to pre-reform years.

Bulgaria (1968 - 69)

Three categories of prices are distinguished: the prices of basic capital and consumer goods that are fixed by state; the prices of products that are the subject of free contracts between enterprises for which the state confines itself to fixing maximum and minimum limits; and the prices of products sold on the market, which are fixed by contract system between producers and distributors according to the law of supply and demand.

In fixing prices the authorities now take account of the production costs, the degree of capital-intensity in the different industries, differential rents, and the volume of demand, for some products the world market price is also taken into account. Some unions have been given the right to negotiate directly with foreign countries.

Czechoslovakia 1967 - 68

The whole sale prices were arrived at by a complicated computerized procedure. These prices were split into three categories.

The prices of capital goods produced in the country, raw materials and energy, representing about 16% of output, could not

be varied without the agreement of the State Committee on Finance, Prices and Wages.

The prices of less important articles, which were very numerous but whose total value amounted to only 4% of output became entirely free. All other prices representing about 80% of output were to be 'limited'. Their average growth rate was the subject of a contract between the enterprise and the state committee. So long as it respected the average rise specified in the contract, the enterprise was free to fix the price of particular articles. The committee could impose a minimum output on enterprises enjoying a de facto monopoly of the production of an article in considerable demand. The retail prices of consumer goods remained temporarily untouched, but they had to be brought progressively into the same category as the wholesale prices of the same goods.

G.D.R. (1964 - 66; 1969 - 70)

There are four categories of prices: fixed prices for goods and services of strategic importance . Ceiling prices for less important goods and services; directed prices determined by the enterprise with the approval of the authorities for spare parts, accessories etc., ; and contract prices negotiated by the parties on the conclusion of delivery contracts between enterprises.

The Council of Ministers and Prices department plan and establish the price level by groups of products (about 37% of the volume of production) the ministries also fix the prices

for approximately another 37% of this production; and the VVBs and enterprises determine the other prices. The reform made no change on retail prices. Unlike other countries it disregarded world prices.

Hungary (1968)

Prices fall into four categories:

1. Fixed prices, determined by the state in the light of production costs and world prices. These prices cover about 12% of the total output.
2. Ceiling prices, fixed by the state.
3. Prices fluctuating between two limits set by the state, and,
4. Free prices, which in 1971 represented 51% of the output of the consumer goods.

Poland (1967 & 71)

There are several categories of prices: The price of basic consumer products fixed by the government; The price of certain products designated by the government, for which the price commission will fix an absolute ceiling; the price of other products designated by the government, freely negotiated between producers and their customers; the price of products exchanged between enterprises and establishments of major economic organization fixed by that organization without any outside intervention; Export and import prices calculated with the aid of foreign exchange multipliers, fixed by the government; the price of all other

products determined by the free play of supply and demand.

Romania:

In principle, prices are still fixed by the authorities. But wholesale prices must now be determined on the principle of production costs and for some products with due regard to world market prices. Furthermore, certain prices may be fixed by industrial centrals within limits set by the council of Ministers and the supreme coordinating bodies. The retail prices of the main products are fixed in the national plan, which lays down criteria on which they may be varied by the economic organizations. In some cases the state indicates the maximum price level and the compulsory quantities of cheap goods that must be produced and sold in the light of consumer interests and the real wages of workers.

Yugoslavia:

The enterprises are free to fix their prices. But the state reserved the right of control over the general level of prices. In fact the powerful inflationary drive which followed the application of the reform and the devaluation of Dinar compelled the federal state temporarily to freeze all prices.

In fact, the arguments for the determination of prices in accordance with market demand are stronger in the case of a socialist economy than a capitalist economy. Under capitalism the distribution of purchasing power amongst families depends largely

on the distribution which is justified neither on economic nor on ethical grounds. Thus prices may be a desirable instrument of correcting the maldistribution of national income.

Above discussion will show in socialist countries how prices are administered to keep the real income of the people stable without losing its effective role in resource allocation. Most of the western writers speak of 'irrationalities' of socialist prices. In the writer's opinion, no country in the world today follows strictly rational price in its economic meaning. There are excise duties and sales taxes levied. Different states and provinces follow their own pattern of taxation. Even in countries like U.S. and Canada price ceiling is in vogue. Wage controls have come to stay in these countries. But these affect only the poorer sections of the community. With the existence of inequalities of income and wealth, poorer sections of the community will have to bear the burden of government's (irrational?) controls. Whereas in socialist countries, with the absence of such great inequalities of income and wealth, controlled prices favouring consumer necessities will always insulate the majority from such hardships which are currently experienced by the poor in the capitalist countries. It ill behoves the pot to call the kettle black.

Section G

Banking and Finance

From the ideological point of view money has no place under communism. However, money was retained under socialism but its role was limited to passive recording and accounting. Nevertheless, in the labour market, the distribution of predetermined mass of consumer goods and in the private sector money played an active role within a strictly planned framework. Thus Banks did not play the usual role they play under the capitalist system. The main function of the banking system was to administer the distribution of finance for the purposes predetermined in detail in the economic plan.

Since the reforms, with more decentralization monetary and banking policy assumed a more important place. The banking system has been changed in three respects: the structure, the principles governing the functioning of banks and relation between banks and enterprises. Banking reforms have been carried out in the following countries: Bulgaria (1967, 69), Czechoslovakia (1969), the G.D.R. (1968) Poland (1969-70), Romania (1968), the U.S.S.R. (1959, 1963) and Yugoslavia.

The structural changes have assumed two forms:- diversification and centralization. In Yugoslavia, Czechoslovakia, the G.D.R. and Bulgaria the number of separate banks catering for different needs has increased. In Yugoslavia, the three old specialized federal banks, the six republic banks, and the two banks of the autonomous regions

were converted into investment banks controlled and financed by the economic organizations (enterprises, unions) and the governments concerned. The old commune banks were converted into commercial banks or investment banks. Any group of economic or sociopolitical organizations may create a bank, provided they can put up enough money. Banks, like any other enterprise may issue bonds and borrow abroad. They may compete with each other throughout the country. For each bank recourse to the National Bank is subject to a ceiling proportional to its sighted commitments, subject to the minimum reserve ratio fixed by the National Bank.

In Czechoslovakia, up to 1969, central banking functions were centralized and concentrated in one bank. In 1969, seven new banks were set up: two banks to share in some central banking responsibilities, two general purpose banks, a bank for financing non productive and new centralized investments and two savings banks. New banks have been set up in Bulgaria; the Maritime Commercial Bank (1968), the Bank for Agriculture and Commerce (1969) and the Bank for Industry. In the G.D.R., the Bank for Industry and Commerce (1968) and in Romania, the Agricultural Bank (1968) and the Romanian Bank of foreign trade. (1968)

There is greater centralization of the banking institutions along with decentralizations of other institutions, primarily to compensate for the dispersion of finance at the enterprise level

and to prevent intentional and unintentional misuse of cash and credit. Relaxation of price controls, increasing role of material incentives and the closer links established with foreign markets are offering new problems which demand efficient monetary management and balance of payment equilibrium which in turn enhanced the role of central banks. Regarding other banks, they are no longer administrative offices of the ministries of finance merely enforcing financial plans, but have become active promoters of efficient investment, production and trade. The role of savings banks have been considerably extended. Now their main areas include to provide credits for peasant farming private plots, small workshops, private and cooperative housing and for the hire-purchase of consumer durables. This function of consumer credit is more used for adjustment of demand and supply of consumer goods.¹

There are three main sources of finance for investment purposes: budgetary grants, enterprises' own accumulated funds and bank credits. Before reforms budgetary grants played an important role, amounting to two thirds of the total investments. Since reforms, bank loans play an important role. Though budgetary interest free grants have been reduced considerably they mainly finance the following

1. Wilczynski. J., SOCIALIST ECONOMIC DEVELOPMENT AND REFORMS ,
op cit., p. 155

areas:¹

- a) The establishment of new enterprises.
- b) Projects which are too large for the financial resources of ordinary enterprises and branch associations.
- c) Undertakings which have long gestation period.
- d) Schemes which are of decisive significance in changing the structure of the economy in desired directions.
- e) Industries incurring planned losses or earning very low profits.
- f) Entities which are not on commercial accounting.

Normally these grants are not repayable and interest free. In some cases repayment and interest rates are specified. This practice however is likely to be extended further.

Now enterprises develop their own funds as a result of reforms. They can retain larger portion of depreciation allowances, dispose of unwanted capital earn interest on their deposits. In many countries like Yugoslavia, Czechoslovakia, the G.D.R. and Poland self financing of enterprises plays an important role.

1. Wilczynski. J., SOCIALIST ECONOMIC DEVELOPMENT AND REFORMS,
op. cit., p . 159.

In addition to above sources following occasional sources are also used:

In countries like Czechoslovakia, the G.D.R., Hungary, Poland and Yugoslavia there are companies where initial capital provided by other enterprises. In Yugoslavia they may be provided by individuals even provided they work in the enterprise concerned. Raising capital by means of debentures exist in Yugoslavia. Credits are also made available by richer or developed countries to other COMECON countries for medium (5 years) or long (upto 15 years) periods. A few joint ventures with western capital (not exceeding 49% of the total investment) is also coming up in recent years.

As an outlook for future self financing of all banks will play a greater role if things either continue as it is or further decentralization takes place. In the writers opinion it is too early to say whether further decentralization would take place. Regarding other sources of finance they are as it is not very significant but can assume greater proportion if further decentralization is attempted.

Section H

Structural Changes:

When the socialist revolution took place in the U.S.S.R. it was predominantly an agricultural country. Even in the fifties the socialist countries of the present study were predominantly agricultural with the exception of Czechoslovakia where 39% of the population were engaged in agriculture. As pointed out earlier the centralized economic system was able to transfer majority of its population to the industrial sector. This is true with all the socialist countries except ofcourse U.S.S.R. where the contribution of agriculture to NMP is fairly stable. This was primarilly because of its responsibility towards other COMECON members who depend on U.S.S.R. for their raw material.

While during the pre reform period structural changes were merely confined to major branches of the economy (and are likely to continue for some more years) the post reform period is marked by intra branch developments. This is known as ' structural policy'. It consists chiefly in the development of those products and technologies which exert a revolutionizing effect on the methods of production, and which decisively shape structure of production upto world standards.¹

1. Teuben. L., 'Planning of structural developments of the economy', East Berlin: THE ECONOMY, May 8, 1968 p. 3.

The introduction of new methods and technologies and of new types of products inevitably leads to changes in the structure of production the emergence of new branches of industry and the acceleration of the rates of growth of some industries and a decline in others.¹ The emphasis is now on development of research specialization in production, industrial cooperation, standardization and, above all, on the improvement of quality and efficiency. Implementation of this policy is done mostly by the use of financial instruments such as quality mark-ups, interest rates, depreciation rates, taxes and subsidies. Nevertheless, in countries like the G.D.R., Poland and Romania direct intervention is still in vogue in addition to above methods.

In the sphere of improvement of quality and efficiency the role of enterprise integration is very important. In many industries aiming at rationalization require large capital outlays. If production is carried on in large enterprises, society can benefit from the economies of scale, deriving from a better utilization of expensive capital equipment, management talent and expert advice, and a greater specialization. Larger entities are in a better position to undertake research and engage in innovation.² Integration in the opinion of few

1. Kheinman. S., 'Scientific and Technical Revolution and Structural changes in the Soviet Economy', KOMMUNIST, 14/ 1969 p 64.

2. Wilczynski. J., SOCIALIST ECONOMIC DEVELOPMENT AND REFORMS ,
op cit., p 199.

writers, even in these countries may result in monopoly elements along with evils attached to it. In the writer's opinion it is not possible because with several indicators, output restriction is not possible. Price though flexible is till under careful scrutiny of the planners who can take effective action immediately. Similarly, the fear of turning out poor quality product is also taken care of by reserving the right of consumers withholding payments in case of doubtful quality.

Section I

Changes in Agriculture

As pointed out earlier, by 1960, 40 per cent of the working population were engaged in agriculture. Though it has come down to 25 per cent now it is still behind advanced capitalist countries. By 1973 agricultural income constituted 22 per cent in Bulgaria, 11 per cent in Czechoslovakia and the G.D.R., 19 per cent in Poland 22 per cent in Romania, 20 per cent in U.S.S.R. and 19 per cent in Yugoslavia. In any standard the East European countries are more agricultural compared to some developed countries. This is the major cause for fluctuations in the rates of growth. Naturally these countries were more concerned about agriculture and economic reforms in this sphere started much earlier. But major reforms were mainly aimed to improve planning and management. Old methods were replaced by economic instruments like prices, taxes, subsidies and credit. The reforms also increased the autonomy of the farms and harness private material interests with the planners' objectives and induce greater efficiency.

Increased prices of agricultural products, the relaxation of restrictions on private farming, the extension of some social services to farmers and the lightened burden of taxation have all raised agricultural income substantially. At the same time the authorities realize that, in the interest of intensive economic growth, it is highly desirable to continue transfers of rural labour

to the more efficient branches of the economy. Even by present pricing agriculture is still less efficient than most other productive branches. On the whole larger proportions of investments are now allowed in agriculture, and the consequent improvements and the mechanizations tend to release more than in the past.

Under the new scheme compulsory deliveries to the state at artificially low prices have been abolished and the contract system has been adopted, whereby price incentives play a key role in stimulating production and deliveries. Not only the level of agricultural prices have been raised but also prices of industrial goods have been brought down to increase the real income of the rural people. There has also been liberalization of credits available to socialized entities and private farms and personal holders.¹ The role of financial incentives in agriculture has come to be known as the 'commercialization and industrialization of agriculture'. Now not only they are free to sell their products directly and also can engage in non agricultural activities like industrial production using their agricultural raw materials and even to run local workshops and restaurants. It is described as 'agro industrial symbiosis' or the 'highest forms of agro industrial integration', whereby the Marxist ideal of equalization between town and countryside will be realized.

1. Wilczynski. J., SOCIALIST ECONOMIC DEVELOPMENT AND REFORMS,
op. cit., pp 203 - 206.

Now there is an increased cooperation among COMECON countries in the agricultural sphere. The Permanent Commission for Agriculture prepared a five year plan for 1971-75, designed to promote a systematic rationalization and intensification of agriculture in the member countries. It provides for joint planning and prognoses, the coordination of scientific and technical research, further improvement in the strains of crops and the breeds of animals and extended specialization and cooperation in the production of artificial fertilizers.

In spite of all out efforts, agriculture has been one of the weak spots of all these countries. A perusal of the average annual rates of growth of NMP by kind of activity will show that though the period 1965-70 shows improvement over the period 1960-65 the achievements are not so spectacular as in other fields. Here the efforts of Hungary, Poland, Bulgaria, Romania, the G.D.R. and Yugoslavia are worth noting. During the period 1970-73 these countries have done well in agriculture. But in Czechoslovakia and U.S.S.R. the rates are declining. As an outlook for future in the sphere of agriculture further liberalization and free market is necessary to achieve stable growth.

Section J

Evaluation of Economic Reforms

It is very difficult to evaluate the economic reforms in all these countries. Extent of reforms vary in these countries. The reforms have not come to a final stage. They have begun and the economy and society have to adjust. This will lead to new reforms of decentralization or recentralization depending upon the reactions of the individual countries. It is incorrect to say that all these countries have achieved same amount of centralization or decentralization. However, we may compare the first half of the sixties when major reforms were adopted with the second half.

Rate of growth of national income is usually adopted (with all its defects) as point of comparison. From table B we observe that of eight countries five experienced accelerated rates of growth, whereas three experienced the reverse. Secondly, in the second half of the 1960s the range in the growth rates of national income was smaller than in the first half. That is, the growth rates evened out to a certain extent, while the highest rate of growth of national income in five countries was larger than slowing down in the remaining three. In a general way we may conclude that an acceleration of the rate of growth took place in the second half of the sixties. Obviously the problem is whether and to what extent this occurred because of reforms.

The next indicator is the rate of industrial growth. Acceleration of the rate of industrial growth took place in only three countries Czechoslovakia, Yugoslavia and the G.D.R. In the remaining there was either a fall or stagnation in the rate of growth. The range was greater in the first half compared to the second. There is also not always a correlation between annual rate of growth and annual rate of growth of industrial growth. This proves firstly, the economic reforms did not have a great effect on the growth rate of industrial production and secondly, the national income was greatly influenced by the agricultural production.

One of the important indicators to be used in judging the character of planning is the steadiness of the rate of growth. Table C gives the largest differences in annual rate of growth and annual rate of industrial production growth rate. The basic goal of planned economic development is the securing of a relatively steady rate of growth. This is primarily because a part of the national wealth remains unutilized and the rate of growth fluctuates. In none of the socialist countries examined, was there a steady rate of growth in the five year periods examined, not in the sense of no change from year but an extreme deviation of no more than two points during the five year period. ¹

1. Kleeer, J., "Economic Reforms in the Socialist Countries in the Sixties", Eastern European Economics, Winter 1974-75, p.21

Table B

Country	Average Annual Rate of Growth of National Income		Average Annual Rate of Growth of Industrial Production	
	1961 - 65	1966 - 70	1961 - 65	1966 - 70
Bulgaria	6.7	8.7	11.7	10.8
Czechoslovakia	1.9	7.3	5.2	6.2
G.D.R.	3.4	5.2	5.9	6.3
Hungary	4.5	7.0	7.5	6.0
Poland	6.2	6.0	13.8	11.8
Romania	9.1	7.8	8.5	8.3
U.S.S.R.	6.5	8.1	8.6	8.5
Yugoslavia	7.6	6.0	5.9	8.6

Table C

Country	Largest differences in the Annual Rates of Growth		Largest differences in the Annual Rates of Growth of Industrial Production	
	1960 - 65	1966 - 70	1960 - 65	1966 - 70
Bulgaria	7	4	5	4
Czechoslovakia	9	5	10	3
G.D.R.	3	4	2	1
Hungary	5	4	5	6
Poland	6	6	5	2
Romania	8	3	3	3
U.S.S.R.	3	3	3	3
Yugoslavia	9	8	9	12

Source: Ibid., pp. 19-20

From Table C it is apparent that the extreme deviations were smaller in the second half of the 1960s than in the first half, but they were still large, especially in Poland and Yugoslavia and that the remaining countries they were never less than three percentage points. While looking at the industrial production one could clearly say that fluctuations in the rate of growth of income was due to agricultural fluctuations and hence growth process could not have been too efficient. One may conclude from this that changes in the system of administration probably contributed to diminution of the ranges in the growth rate although, with the exception of G.D.R. these ranges are nowhere eliminated.¹

One of the basic criteria for evaluating the efficiency of development is its cost. These costs are conceived in two ways. On the one hand, they are the ratio of the increase in investment expenditures to the increase in national income: On the other hand, the ratio of the increase in investment expenditures to the material production to the increase in national income. Both aspects are basic, above all because - with respect to the first - at a certain level of economic development, the degree of development of infrastructure has essential importance for the growth rate of national

1. Ibid., p. 21.

Table D

Increase in investment per 1% of increase of National Income

Country	1961 - 65	1966 - 70
Bulgaria	1.18	1.42
Czechoslovakia	1.15	1.05
G.D.R.	1.48	1.88
Hungary	1.05	1.54
Poland	1.13	1.40
Romania	1.24	1.40
U.S.S.R.	0.97	0.91
Yugoslavia	0.91	----

Table E

Increase in Investment in Material Production per 1% increase in National Income

Bulgaria	1.3	1.5
Czechoslovakia	1.35	1.15
G.D.R.	2.0	1.8
Hungary	1.2	1.4
Poland	1.4	1.6
Romania	1.5	1.5
U.S.S.R.	1.1	0.9
Yugoslavia	0.91	1.4

Table F

Ratio of Average Rate of Growth of Investment to Average Rate of Growth of Industrial Production

Bulgaria	1.5	1.1
Czechoslovakia	0.9	1.0
G.D.R.	1.5	1.2
Hungary	0.8	1.1
Poland	0.9	1.2
Romania	1.0	1.0
U.S.S.R.	0.8	0.6
Yugoslavia	0.5	1.8

Source: Ibid., pp. 22 - 27

income.

We may conclude from the Tables D & E that a) In the socialist countries the capital intensity coefficient is in general very high, higher than in the developed countries especially in the second half of the 1960s. b) Analysis of the incremental capital intensity co-efficient tells us nothing about the level of economic development or the direction of economic expansion.

We should look at this problem again in the context of industry itself. Let us compare investment expenditures and net output. Analysis of Table F does not essentially modify the previous considerations. The most favourable co-efficients appear in the first half of the 1960s in Bulgaria, the G.D.R., and the U.S.S.R., the worst in Czechoslovakia. It does not appear possible to make an evaluation of the cost of development so as to be able to determine unambiguously the effect of the economic reforms on that phenomenon. The behaviour of the co-efficient of incremental capital intensity is divergent and does not fall within any series that we might press into particular solutions of the model.

Increase in production is almost always the result of an increase in employment and of labour productivity. It is essential whether we have to do with extensive or intensive growth or a mixture of both.

In the first half of the 1960s there was intensive industrial growth in the G.D.R. In the second half in the G.D.R., Czechoslovakia and Yugoslavia. If in the two countries there were objective premises

for this in Yugoslavia it was the result of economic reforms. The only deterioration of the proportions in Hungary in connection with both with the 1968 economic reforms and with the shortening of the work week. On the one hand, the improvement of the proportions in Czechoslovakia was unconnected with the reforms, because the proportions increased in the second half of 1968. It appears to be impossible to interpret unambiguously the effects of the economic reforms on intensive growth.¹

Table G²

Proportion of increase in employment and increase in Labour Productivity in the Increase of Industrial Production (in %)

Country	Employment		Labour Productivity	
	1960 - 65	1966 - 70	1960 - 66	1966 - 70
Bulgaria	40	34	60	66
Czechoslovakia	34	15	66	85
G.D.R.	7	12	93	88
Hungary	37	60	63	40
Poland	40	41	60	59
Romania	44	35	56	65
U.S.S.R.	45	33	55	67
Yugoslavia	40	41	60	84

1. Ibid., pp. 26-27

2. Ibid., p 27.

Problems of economic reforms:

The economic reforms though designed to remove certain problems, have caused a few problems in return. On the economic front we have the following:¹ a) The reforms so far adopted have been far too limited to eliminate the problems of the old system. For example, enterprises have continued to receive impossible plans long after the beginning of the 'planning' period which are followed by numerous alterations to them. Enterprises are still finding that it pays to agree to plans that are lower than the maximum possible. Enterprises are still reluctant to innovate because of the temporary adverse effects of innovation on their indices. b) Now that industry is once more organised in ministries, the old phenomenon of 'ministerialism' (each ministry to look after its own affairs regardless of its effects on national economy) is re-appearing. c) Abolition of Sovanarkhozy (Regional Councils) will probably result in a lack of attention to regional planning. d) The rules governing the formulation of enterprises have given rise to various problems. e) In most industries the rate of interest which enterprises have to pay to the state on their fixed assets has set at 6% in some at 3% and in some there is no charge at all. How to determine these rates, whether they should be differentiated by industries and whether capital should

1. Ellman, M., ECONOMIC REFORM IN THE SOVIET UNION, London: P.E.P. 1969, pp. 305-322.

be reckoned at historic or depreciated values, are controversial issues. f) Some industries earn profit because of some natural advantage unconnected with labour. If nothing is done those who work there will get a payment which they do not deserve. If on the other-hand if the whole of the differential rent is taken by state on grounds of equity, then enterprises will have no incentive for efficiency. g) The material technical supply is posing problems. Goods often arrive late resulting idling of other factors and sometimes when they arrive they are often of unsatisfactory quality. The supply organizations are still materially interested in supplying the more expensive goods. Many measures have been taken towards solving these problems. h) The stress on profit and the increase in the autonomy of enterprises and replacement of supply system by inter enterprise trade has increased the importance of price system. The half hearted attempt to restore competitive prices has its own strength and weaknesses. i) Another issue is the extent of enterprise autonomy in the field of investment. The problem is, even when enterprises have the money to undertake decentralized investment, this is often impossible as the necessary investment goods are available only to those with the appropriate allocative forms. j) It is believed that the present generation of enterprises' management does not have the training and experience necessary to operate the system in which enterprises have more autonomy than formerly. k) The reform is largely concerned with increasing the autonomy of the individual enterprise. Many existing

enterprises are not suitable as independent individual economic units, and there has been an extensive process of horizontal and vertical integration of small enterprises into larger combines and firms.

From the social point of view there are a couple of problems: In the post reform period the problem of wage differentials would be further aggravated. Reforms have created an incentive for enterprises to economise the use of labour. A feature of economic reforms in Yugoslavia has been the emergence of large scale unemployment and large scale emigration of workers in search of employment. In Czechoslovakia, the period Jan-Aug 1968 there was much discussion of the need to close uneconomic enterprises. In the U.S.S.R. also it is not uncommon to shut down a firm which is unable to cover their costs. This would unleash a Pandora's box of social and political problems.

Problems and Promises:

The following intensive sources of growth will enhance the pace of development of the socialist countries compared with the pre reform period.¹ A more efficient use of labour is likely to result. Shortages and hoarding of man power will be less prevalent which together with a greater possibility of dismissal, should

1. Wilczynski, J., SOCIALIST ECONOMIC DEVELOPMENT AND REFORMS,
op. cit., pp. 322-40

contribute to a greater productivity of labour than in the past.

The same logic applies to capital also. A greater effectiveness in the use of capital is likely to result. Capital charges, higher interest charges flexibly applied depreciation allowances and the increased practice of self financing will discourage extravagant demands for fixed capital, the concealment of idle capacity and unwarranted extensions of the construction periods of investment projects. The discontinuation of quantitative targets and the system of incentives based on them will encourage a greater economy in the use of raw material and components.

More economical patterns of utilization of land is likely to result. The implicit or explicit application of differential rent will provide a restraining effect on the taking over of land for non-agricultural purposes. It should also contribute to the distribution of different grades of land to their most effective uses.

Prices are more likely to be related to scarcity than to the redistributive or rigid centralized planning needs of the state. An extension of the operation of the market mechanism or optimal planning or perhaps both at the same time will be enlisted in evolving such prices. A greater capacity for technological progress is likely to result. This will be aided by more initiative allowed to enterprises and research establishments and by the special research and innovation mark ups on costs. This system will be more conducive to structural

changes in favour of the technologically most progressive industries.

Progress in international trade is likely to continue growing at a faster rate than national income. Gain from trade should be enhanced by closer links between domestic and foreign markets and by the multilateral payments.¹

Waste on macro economic scale, consequent upon the mis-allocation of resources and recurring bottlenecks common in the past should be reduced in the future owing to the elimination of directive centralized planning based on incomplete and biased information. The substantial decentralization of management, the wider operation of the market mechanism, the improved system of incentives and the strengthening of cost accounting should all prevent some errors from being committed and administrative machinery is likely to minimize the errors and losses in case where they do occur.²

While looking at the promises one should not lose sight of the problems we cited earlier. The discipline and concentrated drive for growth under centralized systems is lost now and working of centralized system with free enterprises may bring new problems to be effectively solved. Enterprises in fact have tended to produce the most profitable items at the exclusion of less profitable items, however, indispensable they might be to the economy.

1. Wilczynski, J., op. cit., pp. 323- 24.

2. Ibid., p. 325.

The freer operation of the market mechanism appears to be generating or accentuating economic fluctuations¹. Since the reforms of 1952, Yugoslavia has experienced at least four recessions (in 1956, 1962, 1965 and 1967) Similarly, Hungary also experienced fluctuations. As pointed out earlier, unemployment is no more an exclusive feature of capitalism. It is not unlikely that the liberalization produced by the reforms may lead to an increasing criticism of the communist parties. There is little doubt that the official policies will be directed first of all at the preservation of the party power, even if it is conflict with economic efficiency. If social or political disorder ensues, economic growth will suffer the more.

There are other factors also not directly associated with reforms which might inhibit growth. A declining rate of population, declining rates of increase in employment, reduction in the hours of work, lagging agriculture, raw material deficits and difficulties which are likely to be experienced. It is probable that the socialist economic system will continue to be improved and more reforms will follow in the future. As greater insight is gained in to the operation of the new system, more effective measures will be evolved to cope with new problems.

1. Garubuzov, V., "Economic Reforms and Financial Matters",
KOMMUNIST , 3/1968, p. 45.

It is not unlikely that the socialist countries may evolve a system by which the growth rates may be maintained for a longer period. According to some economists, 'the languishing growth curve' will not apply to socialist planned economies. It is claimed that the socialist state is in a position to control the major proportions in the economy, and moreover it can increasingly activate intensive sources of growth.¹ According to Pervushin that a long run annual rate of 10 - 12% is feasible.² Though one may be reluctant to agree with 10-12% growth rate unhesitatingly, we may conclude the rate would be higher than the capitalist countries.

Since 1970, there is a tendency of recentralization in most of the countries of this study. This however, need not be interpreted as failure or there is a tendency towards reverting to the old system. So far reforms have taken place in a zig zag manner and this being attributed to economic and political reasons. Recentralization since 1970 in few countries have resulted owing to economic reasons and there is no evidence to attribute them to political reasons. Here we may observe that countries like the U.S.S.R., the G.D.R. did not attempt a greater degree of decentralization to begin with and enjoyed a more stable growth rates compared to other countries.

1. Gorbunov, E., "The Efficiency of Accumulation and Growth in Socialist Countries", NEW PATHS, Warsaw: 1/1968, pp. 85-93

2. Pervushin, S. P., "Production and Consumption at a New Stage", PROBLEMS OF ECONOMICS, Jan., Feb., Mar., 1967, p.11

These attempts towards recentralization can then be interpreted as correctional and not reversal. Many writers have expressed their prediction towards a 'convergence'. In the writer's opinion, these reforms cannot be taken as convergence as the two systems differ so much in their basic composition like private ownership, inequalities of income and wealth, laws of inheritance and so on. Decentralization therefore, is not a signal for further dilution of socialist principle. Decentralization will take place in areas where economically necessary and where will improve further socialist principles. Nevertheless, after certain amount of decentralization a process of recentralization for further consolidation is likely to take place as a means to achieve stable higher levels of rates of growth. In this regard decentralization like many other inputs is effective only for a while. Simple laws of diminishing returns may operate in this sphere also, necessitating curtailment of decentralization after pushing it to the maximum extent possible economically. It is too much to expect 'decentralization' to work wonders. Economic growth in these countries like any other country depends on its natural resources. Absolute decentralization cannot achieve effective utilization of these resources from the long run point of view. Centralized planning will prove a better tool for achieving such an objective. Moreover, like many other countries as the economy matures and enters higher stages of production the rates of growth are likely to come down. In this also centralized planning will help to lower the phase of deceleration and achieve stable long run growth rates. As pointed out earlier, the experiences of the U.S.S.R. and the G.D.R.

though considered to be conservatives as far as the reforms are concerned were able to achieve more stability than other countries. Thus we can predict in future the zig zag pattern of decentralization and recentralization will take place making effective use of plan and market aiming at a harmony between these two to ensure stable economic growth.

We know from our experience that it is not always desirable for all social choices to be decided by market. Socialist experience also shows that it is undesirable for all social choices to be decided administratively. Rational strategy lies somewhere in the middle. If the economic goal is rapid growth, regional planning, and equality (economic and other opportunities) the major requirement is the political will. This has been successfully demonstrated by the experiences of these socialist countries. The same experience has also shown that it is not wise to neglect the pleasures and desires of the people alive today and focussing everything on the 'glorious aim'. Socialist experiences show that it is possible to have a society in which the means of production are owned by the state and there is no income from property. It has also shown that this is not a sufficient condition for an egalitarian distribution of income and power. Liberalism has always stressed the importance of limiting the power of the state. Socialism on the otherhand has stressed the desirability of using the state to reform society. The correct path is to utilise the advantages of both. "The efficient attainment of the objectives of

economic policy requires," in the words of Ellman, "a combination of administrative decision making and the use of the market mechanism the proportions in which the two methods are needed varying from objective to objective and economy to economy".¹

Many writers project a picture of these countries when they write about the reforms that their economic conditions were chaotic and hence the reforms*. They also conclude that these countries have adopted capitalist strategy and moving towards the same as capitalism is the only answer for all their problems. A Russian anecdote cited by Ellman² shows that we may have to search in some other globe for an ideal country.

* There are several indicators of a country's advancement and economic development. The present writer is not aware of any work linking sports and economic development. Nevertheless, sports can to a greater extent show a country's economic achievement since this requires better health, physical facilities, encouragement for individual efforts and so on. If sports can be accepted as one of the many indicators of economic advancement, it can be easily shown how these East European countries are as good as their capitalist counterparts if not better (in fact they are the best). The results of the recent Olympics at Montreal will clearly show how uniformly all these East European countries occupy a reasonably good position.

1. Ellman, M., ECONOMIC REFORM IN THE SOVIET UNION, op. cit., pp. 359-60
2. Ibid., p. 321.

Besides all these indicators, what is more important is what the people of the concerned countries feel. If the people are satisfied with their system then there is no point in others telling them what is best for them. Unfortunately there is no reliable indicator on this. But one can always estimate it by incidence of crime, rates of suicide, attitude towards work, society and other people and so on. Then the conclusion is obvious. The past, present happenings and future evolution of these socialist countries is a matter for people of these countries to decide, and a subject on which the opinions of foreigners are of little value. Nevertheless, outsiders are more concerned with the general lessons that can be gleaned from the socialist experience for rational decision making.

Conclusion:

To summarize the present author draws the following conclusions:

With reference to the countries of the present study:

- a) The reforms were not the outcome of chaotic economic conditions prevailed but adjustment of the economy towards present economic, social and political requirements of the society instead of aiming at long term 'Glorious Aims'.
- b) The reforms adopted do not point out any convergence towards planned capitalism as assumed by many writers.

- c) The reforms adopted so far have helped these economies satisfactorily.
- d) The future reforms are likely to avoid the pitfalls created by decentralization, than attempting further decentralization.
- e) Recent decentralization is not the direct outcome of any political strife but only represents the adjustment procedure pointed out in (d) above. (with the exception of Poland)
- f) Future reforms will also follow a zig zag pattern as in the past.
- g) The reforms will be aimed at stabilization of growth rate at a stable higher (compared to their counterparts in west europe) rate. Centralization will help to achieve the same. (in some areas).

In general:

- a) These socialist countries have shown developing countries that backwardness is not inevitable.
- b) They have also shown how plan and market can and should be combined for satisfying the present and the future, individual and social needs of the society.¹

The present writer is in agreement with the view that, 'it is not a correct deduction from the principles of economics that things are what they are and they could not be anything different. The economic, social and political institutions that we see around us were made by man for the benefit of some men. Those features of them that we like we can keep, those features of them that we dislike we can change'.

Table H Net Material Product by Use and Activity

Year & Country	Net Material Product	Personal Consumption	Net Fixed Capital Formation	Agriculture	Industries
<u>Bulgaria</u>					
Million Leva					
1960	4488.8	64	14	32	46
1961	4715.8	67	15	32	46
1962	5158.2	67	14	33	44
1963	5675.8	67	17	33	45
1964	6203.7	64	20	34	45
1965	6635.6	64	15	33	45
1966	7273.9	62	16	35	45
1967	7853.0	63	21	31	45
1968	8556.0	65	19	26	46
1969	9349.8	62	22	25	49
1970	10527.4	63	19	23	50
1971	10411.4	..	13	24	49
1972	11241.7	..	16	23	51
1973	12147.5	..	..	22	51
<u>Czechoslovakia</u>					
1000 Million Korunas					
1960	161.9	66	11	16	63
1961	170.9	64	12	14	65
1962	174.1	65	10	12	67
1963	171.4	68	9	14	67
1964	168.1	71	12	14	64
1965	172.3	72	9	13	65
1966	195.5	67	11	14	63
1967	233.0	59	13	13	61
1968	257.0	60	13	13	60
1969	292.6	59	13	12	59
1970	311.1	57	16	11	61
1971	325.4	57	17	12	61
1972	342.7	56	17	11	61
1973	357.7	57	19	11	62
<u>G.D.R.</u>					
1000 Million DDR Marks					
1960	...	74	15	17	58
1961	...	75	15	14	61
1962	...	73	14	14	62
1963	...	74	14	14	62
1964	...	73	15	14	62
1965	...	72	15	14	62
1966	...	70	16	14	62
1967	...	70	17	15	62
1968	...	71	19	14	62
1969	...	69	21	12	63
1970	...	67	20	12	63
1971	...	67	19	11	64
1972	...	68	19	12	63
1973	...	67	19	11	64

Contd.

Table H (Contd.)

HUNGARY

1000 Million
Forints

1960	142.0	68	17	23	59
1961	148.9	65	15	21	62
1962	156.7	64	15	21	64
1963	165.1	64	17	21	63
1964	173.5	65	17	22	65
1965	170.5	68	13	21	60
1966	189.7	66	15	23	58
1967	207.5	65	14	21	58
1968	224.7	64	15	21	44
1969	253.1	60	20	21	42
1970	272.4	61	20	18	43
1971	294.3	60	20	18	41
1972	319.4	59	21	17	42
1973	354.0	58	21	19	42

Poland

1000 Million
Zlotys

1960	375.6	68	17	26	47
1961	410.7	66	17	27	48
1962	426.1	68	19	23	50
1963	460.1	66	17	23	49
1964	497.0	65	17	22	50
1965	531.3	64	18	23	51
1966	567.2	64	18	22	51
1967	605.6	64	18	21	49
1968	668.8	62	20	21	49
1969	696.1	63	20	17	51
1970	749.2	62	19	17	55
1971	855.0	59	22	19	51
1972	947.8	58	25	19	50
1973	1062.5	58	28	19	51

Romania

Million LEI

1960	...	..	..	33	44
1961	...	..	..	33	45
1962	...	..	..	29	49
1963	...	..	..	30	47
1964	...	..	..	30	48
1965	...	..	..	29	49
1966	...	..	..	31	49
1967	...	..	..	29	52
1968	...	..	..	26	54
1969	...	..	..	24	57
1970	...	..	..	19	58
1971	...	..	..	22	57
1972	...	..	..	22	57

Table H (Contd.)

U.S.S.R.

1000 Million Roubles

1960	145.0	65	17	20	52
1961	152.9	63	17	21	52
1962	164.6	64	17	22	52
1963	168.8	65	17	21	54
1964	181.3	64	16	22	54
1965	193.5	65	14	23	52
1966	207.4	64	14	24	50
1967	225.5	64	14	22	51
1968	244.1	64	14	22	52
1969	261.9	63	15	19	54
1970	289.9	61	18	22	51
1971	305.0	62	18	21	51
1972	313.6	63	18	19	52
1973	337.2	62	18	20	51

Yugoslavia

1000 Million New Dinars

1960	28.9	51	33	26	49
1961	33.7	51	35	25	47
1962	37.7	51	35	26	46
1963	45.8	50	34	25	45
1964	61.0	47	33	25	44
1965	79.5	50	27	25	42
1966	99.0	51	27	26	38
1967	103.7	54	29	24	37
1968	112.0	55	31	21	38
1969	132.0	54	31	21	37
1970	157.2	54	33	19	38
1971	204.5	53	32	18	38
1972	245.4	56	30	17	39
1973	306.4	55	28	19	39

Source: U.N. Year Book of National Income Accounts 1974
U.N., 1975, pp. 57-59 & 92-95.

Table I Average Annual Rates of Growth of Gross Domestic Product at Constant Prices
By Type of Expenditure (in Per Cent)

Region and Country	Period	Gross Domestic Product Total Per Capita	Private Final Consumption Expenditure	Gross Fixed Capital Formation
Market Economies	1960-65	5.2	5.0	6.7
	1965-70	5.0	4.7	6.0
	1970-73	5.3	5.2	6.8
Developed Market Economies	1960-65	5.3	5.2	7.0
	1965-70	4.8	4.5	5.7
	1970-73	5.1	5.2	6.7
Developing Market Economies	1960-65	4.9	4.0	5.0
	1965-70	5.9	5.5	8.4
	1970-73	6.0	5.2	8.0
Europe	1960-65	5.0	5.0	7.1
	1965-70	4.8	4.5	5.4
	1970-73	4.4	4.7	4.4
E.E.C.	1960-65	4.8	4.9	6.8
	1965-70	4.8	4.4	5.6
	1970-73	4.2	4.6	3.8
European Free Trade Association	1960-65	5.1	4.7	6.7
	1965-70	4.3	4.2	3.5
	1970-73	4.3	4.2	6.0

Source: U.N. Year Book of National Income Accounts 1974,
U.N., 1975, pp. 98-127

Table J

Average Annual Rates of Growth of Gross Domestic Product at Constant Prices
By Type of Expenditure and Kind of Activity
(in Per Cent)

Country	Period	N.M.P		Consumption of the Population	Net Fixed Capital Formation	Agriculture	Industrial Activity
		A	B				
Bulgaria	1960-65	7.0	6.1	6.8	12.4	2.9	9.1
	1965-70	8.6	7.8	7.2	16.1	-2.5	12.9
	1970-73	7.6	7.0	...	....	1.9	8.8
Czechoslovakia	1960-65	1.2	0.5	2.9	1.1	-4.2	3.1
	1965-70	6.9	6.4	6.0	4.3	6.3	6.0
	1970-73	5.1	4.5	5.1	8.2	2.7	4.7
G.D.R.	1960-65	3.5	3.8	2.0	3.4	1.5	4.6
	1965-70	5.2	5.2	4.5	12.7	1.0	5.8
	1970-73	5.3	5.5	5.4	2.7	3.2	5.5
Hungary	1960-65	4.5	4.2	3.7	7.2	0.7	6.7
	1965-70	6.8	6.4	5.8	13.5	1.2	7.0
	1970-73	6.3	6.0	4.6	5.2	6.2	7.1
Poland	1960-65	6.0	4.6	4.4	7.9	1.1	8.6
	1965-70	6.0	5.1	5.1	9.6	-2.1	7.9
	1970-73	10.0	9.1	9.0	22.2	5.5	10.4
Romania	1960-65	8.9	8.2	...	...	-0.1	13.7
	1965-70	7.6	6.2	...	...	-1.1	12.6
	1970-73	11.5	10.4	...	...	18.2	10.4
U.S.S.R.	1960-65	6.4	4.9	...	...	1.2	8.9
	1965-70	7.6	6.6	...	...	0.8	10.0
	1970-73	5.7	4.8	...	...	-1.2	6.9
Yugoslavia	1960-65	7.7	6.6	7.4	6.6	2.1	11.0
	1965-70	6.0	5.0	4.6	8.0	2.8	6.7
	1970-73	6.0	5.0	5.8	3.8	4.2	7.6

N.M.P. Net Material Product

A. Total

B. Per Capita

Source: U.N. Year Book of National Income Accounts 1974,
U.N. 1975, pp. 128-129.

Table K

Index Numbers of Total and Per Capita Product at Constant Prices
1970 = 100

Country	A : Total					B : Per Capita								
	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1971	1972	1973	
Bulgaria	A	48	49	52	56	62	66	73	80	85	93	107	115	125
	B	51	52	55	59	64	68	75	82	86	94	106	114	123
Czechoslovakia	A	65	70	71	69	69	72	78	82	88	95	105	111	116
	B	69	73	74	72	71	73	80	83	89	95	104	109	114
G.D.R.	A	65	66	68	71	74	77	81	86	90	95	105	111	117
	B	65	66	68	70	74	78	81	86	90	95	105	111	117
Hungary	A	59	62	65	69	72	72	78	84	88	95	107	112	121
	B	61	63	67	70	73	73	79	85	89	96	106	111	120
Poland	A	56	60	61	66	70	75	80	85	92	95	108	119	133
	B	62	66	66	70	74	78	83	87	94	96	107	117	130
Romania	A	45	49	51	56	63	69	76	82	87	94	113	124	...
	B	49	54	56	61	67	73	80	86	90	95	112	122	...
U.S.S.R.	A	50	54	57	59	64	69	74	81	87	92	106	110	119
	B	57	60	62	63	68	73	77	83	89	92	105	108	116
Yugoslavia	A	53	56	58	65	73	74	80	82	85	94	109	114	120
	B	58	61	63	70	77	77	83	84	87	95	108	112	116

Source: U.N. Year Book of National Income Accounts 1974,
U.N., 1975, pp. 164-65

Table L Index Nos of G.D.P. Excluding Services of general government and of Private organizations

Year	G.D.P.									Industry		
	Total			Per capita			Agriculture			A	B	C
	A	B	C	A	B	C	A	B	C			
1960	52	59	62	58	72	67	87	80	83	43	53	57
1963	60	68	72	64	78	76	82	82	88	55	63	66
1965	70	77	79	73	85	82	81	87	91	65	73	75
1966	75	82	82	78	89	84	100	90	91	70	78	79
1967	81	85	85	83	90	87	100	94	97	77	82	80
1968	88	91	90	90	95	91	101	96	99	85	89	87
1969	92	96	95	93	98	96	93	95	98	92	96	95
1970	100	100	100	100	100	100	100	100	100	100	100	100
1971	106	105	103	105	103	102	98	101	103	107	104	103
1972	111	111	108	109	107	106	90	98	103	115	112	108
1973	120	119	114	117	111	112	103	105	106	123	121	116

A- Denotes Albania, Bulgaria, Czechoslovakia, the G.D.R., Hungary, Poland, Romania, the U.S.S.R., and Yugoslavia.

B- Denotes World.

C- Denotes Europe excluding countries listed in A above.

Source: U.N. Statistical Year Book - 1974,
U.N., 1975, pp. 10-14.

Table M. Index Nos. of Food and Total Agricultural Production

1961 - 65 = 100

Country	1963	1965	1966	1967	1968	1969	1970	1971	1972	1972
Total Agricultural Production										
A	95	105	121	122	127	124	131	134	134	147
B	100	105	109	113	116	117	120	124	124	129
C	101	103	106	113	114	114	117	121	120	123
Food Production										
A	94	105	122	122	128	125	132	134	134	148
B	100	105	110	114	117	118	122	126	125	131
C	101	103	106	113	115	115	117	121	121	124
Per Capita Agricultural Production										
A	95	103	117	117	121	117	123	124	123	134
B	100	101	103	105	105	104	106	107	104	107
C	101	101	103	109	109	109	110	113	112	114
Per capita Food Production										
A	94	102	118	117	121	117	123	124	123	135
B	100	101	104	106	107	105	106	108	105	108
C	101	101	103	109	110	109	111	114	113	115

Source: U.N. Statistical Year Book - 1974
U.N.: 1975, pp. 23-24.

Legend: A- Includes Albania, Bulgaria, Czechoslovakia, the G.D.R., Hungary, Poland, Romania, the U.S.S.R. and Yugoslavia

B- World

C- Europe excluding countries listed in A above.

Table N

Index Nos. of Industrial Production

1970 = 100

Country	1953	1958	1960	1963	1967	1968	1969	1971	1972	1973
Bulgaria	14	25	34	47	76	83	91	109	119	131
Czechoslovakia	29	45	56	64	83	88	92	116	131	131
G.D.R.	31	46	55	65	84	88	94	106	112	120
Hungary	35	42	51	66	86	91	92	107	112	120
Poland	36	22	44	56	77	85	92	108	120	133
Romania	15	23	30	44	71	80	88	...	...	...
U.S.S.R.	21	36	44	57	79	86	93	108	115	123
Yugoslavia	19	35	45	60	77	83	92	111	119	127

Source: U.N. Statistical Year Book: 1974,
U.N., 1975, pp. 153-55

Table O

Index Nos of Labour Productivity in Industry *

1970 = 100

Year	A	B	C
1958	54	62	65
1960	62	69	71
1963	70	76	77
1968	89	91	92
1969	93	96	97
1971	107	104	103
1972	113	109	108
1973	121	...	...

A - Eastern Europe and the U.S.S.R.

B - World

C - Market Economies of Europe

Source: U.N. Statistical Year Book: 1974,

U.N. 1975, p. 157.

Table P

Volume of External Trade (in Million U.S. Dollars)

	Bulgaria	Czech.	G.D.R.	Hungary	Poland	Romania	U.S.S.R.	Yugoslavia
Imports								
1938	60	239	...	123	248	137	273	115
1948	...	681	...	167	516	....	1224	368
1958	367	1357	1680	631	1227	482	4350	685
1963	933	2160	2331	1306	1979	1022	7059	1057
1966	1478	2736	3215	1566	2494	1213	7913	1575
1967	1572	2680	3279	1776	2645	1546	8537	1707
1968	1782	3077	3393	1803	2853	1609	9410	1797
1969	1749	3294	4105	1928	3210	1741	10327	2134
1970	1831	3695	4847	2506	3608	1960	11732	2874
1971	2120	4010	4981	2990	4038	2103	12480	3297
1972	2567	4662	5905	3154	5335	2616	16047	3233
1973	3266	6137	7854	3919	7814	3468	21108	4775
Exports								
1938	68	295	....	155	225	157	255	117
1948	....	753	....	166	533	....	1308	304
1958	373	1513	1890	684	1060	468	4298	441
1963	834	2462	2713	1206	1770	915	7272	790
1966	1305	2745	3205	1594	2272	1186	8841	1220
1967	1458	2864	3456	1702	2527	1395	9652	1252
1968	1615	3005	3791	1790	2858	1469	10634	1264
1969	1794	3319	4153	2084	3142	1633	11655	1479
1970	2004	3792	4581	2717	3548	1851	12800	1679
1971	2182	4180	5076	2500	3872	2101	13806	1836
1972	2627	4915	6184	3292	4927	2599	15361	2237
1973	3301	6035	7520	4433	6374	3698	21462	3024

Source: U.N. Statistical Year Book: 1974
U.N. 1975, pp. 408-409.

CHAPTER IV

REFORMS AND ITS LESSONS FOR INDIA

'Socialism is not an economic policy for the timid'

- Oskar Lange -

To the extent that one can estimate the historical significance of any recent development, the U.S.S.R. and the East European countries seem to have opened a new chapter in world economic history the era of forced economic growth in agriculturally over populated countries. The U.S.S.R. produced the world's first example of rapid, centrally planned and directed economic development; and planning procedure - exercises today a deep influence on the underdeveloped countries.¹ It is the contention of the above writers that 'these positive lessons, if followed, do not necessarily lead to a soviet type political system since the characteristics of the soviet industrial model which we have discussed are compatible with varying degrees of governmental intervention or control.'² In the opinion of the present writer, though political freedom is not incompatible with rapid economic development adopting soviet strategy, it did not work hand in hand in the case of India. In the case of India 'political freedom'³ along with inefficient planning and implementation has resulted only in a big failure rather than to pull itself out of the shackles of poverty.

1. Dodge, N.T., and Wilber, C.K., 'The Relevance of Soviet Industrial Experience for Less Developed Economies', SOVIET STUDIES, Vol XXI, 1970, p. 330

2. Ibid., p. 349

3. The present writer means by 'political freedom' only the way in which it operated in India till recently.

Indian planning for industrialization suffered from excessive attention to targets down to product level, and a wasteful physical approach to setting and implementation thereof, along with a generally inefficient framework of economic policies designed to regulate the growth of industrialization.¹ In fact India did not plan too much; in certain important ways it did not plan adequately, physical, cost-benefit ignoring and choice-negligent planning, combined with detailed regulation of such inefficiently determined targets, really proved to be a negation of rational planning.² Socialist objectives such as distributive justice, equality and the eradication of material poverty have been frustrated by the existing policies.³ Industrial regulation did not serve its intention but it resulted in gross inefficiencies. 'Ad hocism' at the top and corruption at the bottom', might have been an apt description of the state that administrative machinery was to reach eventually as it increasingly concerned itself with detailed control of decisions in the private sector. These failures have, however, been not merely of administration: they reflect a more basic factor the then-current economic philosophy that the best form of planning is physical and involves detailed controls. The bureaucrats, especially at the top levels, have traditionally taken

1. Bhagwati, J.N., and Desai.P., INDIA : PLANNING FOR INDUSTRIALIZATION, Paris: Development centre of the O.E.C.D. , Oxford University Press, 1970, p. 499

2. Ibid., p. 499

3. Ibid., p. 500

to this doctrine with some enthusiasm, for it has conferred on them great power and re-emphasized their inherited notions of omnipotence. For much the same reason, many politicians in power (and in search of patronage) have also embraced these policies of detailed regulation.

Before analysing the problems of Indian economy, let us briefly point out the problems concerning economic planning in under developed countries in general. The general problem of an under developed economy is the insufficient capital to employ the available labour force. In consequence this may end up in two alternatives. One is to adopt primitive labour intensive production the other is to adopt advanced techniques and render major labour force unemployed or under-employed. Ironically both are found in these countries. Labour intensive form of production exists in spheres where capitalist mode of production has not yet entered or unprofitable to enter. These exists where it is profitable and has replaced existing cottage and handicrafts and driven them to decay. In agriculture, it takes the form of feudal types of land ownership or capitalist plantation system.

The problem of an under developed economy may be summarized as follows:²

1. Ibid., p. 134.

2. Oscar Lange, ESSAYS ON ECONOMIC PLANNING, Second Edition, Calcutta: Indian Statistical Institute, Statistical Publishing Society, 1967, pp.32-33.

Let C denote the value of total stock of capital goods available and V the value of the total labour force employed. Let a be the average degree of 'capital intensity' of production. Then we have

$$a = \frac{C}{V} \quad \text{-----}(1)$$

If N is the total labour force employed (in man hours) and W is the wage rate, we have,

$$V = N W \quad \text{-----}(2)$$

the total employment is thus

$$N = \frac{C}{a W} \quad \text{-----}(3)$$

If N_0 is the total available labour and $N < N_0$, the economy is underdeveloped. The ratio N/N_0 may be considered as a measure of the degree of under development.

As W cannot be lowered below subsistence, N can be raised to N_0 by two ways only. Either a is lowered and the economy kept at a low level of productivity, or C must increase sufficiently with a value of a corresponding to modern techniques of production which requires capital accumulation. As a result of low productivity and unemployment economic surplus which is crucial for capital accumulation is small. But paradoxically the major obstacle is that such surplus as is available is not utilized for capital accumulation.

The causes which prevent such utilization of economic surplus

are the following.¹ a) The feudal mode of production and the corresponding way of life of the old feudal class. b) As a major part of the under developed countries became subject to colonial rule the drain was increased by the very expensive colonial administration and when it remained independent the drain was performed by the domestic monarchy and its officials. c) Foreign capital comes to these countries and treats them as sheltered reserves for monopolistic exploitation. Major part of their profit is taken out and used for the economic development of the metropolitan countries. In case they are reinvested, they are invested in such ways as not to create competition for basic industries owned by them. They are also often invested in consumer goods industries and in the production of raw materials and staple food products.

Elimination of such problems is a pre-condition for economic development. A characteristic feature of these countries is the lack of sufficiently broad and wealthy class of domestic industrial capitalists which would command the resources for substantial investments in industrial development. Thus economic development can take place only on the basis of public investment which seems to be the major strategy.

The physical resources for public investments exist in the form of unemployed and underemployed labour force and under employed natural resources. The task is to absorb this unutilized power and utilize in the production of producer's goods. This is the basic instrument of economic progress of under developed countries. When full

labour force and other natural resources can not be absorbed, a part can be absorbed by means of land reform which distributes land to landless peasants and employ more labour on new land reclaimed by irrigation projects. Another part can be absorbed by labour intensive village industries which can survive on new demand created by land reforms and public investment.

Industrialization and economic development by means of public investments imply the development of a nationalized sector in the economy. This sector not only initiates the process of creating new employment and income, but also, directly through its own purchases or indirectly through income created creates additional demand for consumer goods produced by the private sector with excess capacity will now earn more profit which becomes available for taxation or borrowing for reinvestment in the nationalized sector.

The development of nationalized sector and its more rapid growth than that of private sector of the national economy is a necessary condition for the rapid industrialization of underdeveloped countries. Where such a pattern is absent economic progress is impossible.¹

The development and more rapid growth of the nationalized sector is not sufficient for economic development. A lot depends on the purpose of such growing nationalized sector. This sector should

1. Ibid., p. 39

be used to serve the economic, social and cultural development of the whole nation. Then it becomes the nucleus and starting point of development. On the contrary, if this sector become subservient to the interests of existing concentrations of private economic power then it is an instrument of state capitalism. Even though state capitalism may initiate the progress for an underdeveloped economy, it cannot sustain such progress for a long period; nor can it assure balanced development of the whole economy.¹

With this background we may analyse the experiences of Indian planning. Congress party was voted to power in the union government since independence. The Congress under the leadership of Nehru to begin with had been committed to the objective of socialism. A Socialist pattern of society was accepted as the objective of planned development with effect from the second five year plan. The strategy followed was a growing public sector dominating the basic industries and capital goods leaving a sizable share for the private sector to operate in consumer goods and the other spheres where desirable. A new Industrial policy replacing earlier resolution of 1948 was adopted in April 1956, which states, "The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the state in the present

Ibid., pp. 40-41

circumstances could provide, have also to be in the public sector. The state has therefore to assume direct responsibility for the future development of industries over a wide area". Thus India adopted the soviet planning strategy in two ways. It rightfully avoided 'war communism' of soviet early stages of economic development and straight away launched 'N.E.P.'. Strategy of 'big-push' and unbalanced growth was also adopted. Looking at the results, in spite of exceeding the investment targets both in the public and private sector, the growth rate (industrial) was only 7% for the second plan same as the first plan where industry played a minor role. The national income increased only 20% as against planned increase of 25%. The achievements recorded during third plan was no better. It aimed at an increase of industrial production at a compound rate of 11% a year. It also planned for a growth of 30% increase in the national income and ended up with only 12.5% almost equal to the population growth. Agriculture suffered the most on account of severe drought and suspension of foreign aid. Nevertheless the early years even did not achieve the target of 11% a year. Added to the difficulties pointed out, the failure was largely due to administrative rules and procedures lacked the flexibility to meet changing needs and the necessary changes in them had not come about. The annual plans that followed and the fourth plan as well did not accomplish the tasks assigned.

Turning to the other objective of reduction of inequalities of income and wealth, the plans did less than nothing. This objective requires a two fold process of raising incomes of the low income groups

and reducing incomes at top level. The first calls for an expansion of social services and provision of increasingly large volumes of employment. The latter requires corrective fiscal devices and prevention of the flows of the gains of development to top income brackets. It was proposed repeatedly that income tax, corporation tax, wealth tax, gift tax, capital gains tax and estate duty should be employed in an integrated manner to bring down incomes in the high brackets to reasonable levels. The second and the third plans as usual triumphed that, " steps must be taken to ensure that such incomes (from trading and speculative profits) as do accrue are fully taxed, evasion of taxation is severely dealt with and opportunities for tax avoidance are reduced to the minimum." Yet hardly anything was done.

Regarding the uplift of the low income groups obviously nothing was done. The planning commission did not have even any data on the subject. Nevertheless, few estimates were made by some scholars which throws some light on this acute problem. In 1962, the government set up a study group as to recommend the national per capita minimum consumption expenditure. They recommended a per capita expenditure of Rs. 240* a year. According to an estimate made by Minhas, the per capita consumption expenditure for more than 50% of the population did not exceed Rs 238 per year. In other words more than 50% of the population were in abject poverty after 15 years of planning! Other studies undertaken by Rath and Dandekar vouched the same pathetic condition.

* C\$1= Rs. 9 approximately.

Closely associated with the problem of poverty is the regional disparities. The second plan declared that, "in any comprehensive plan for development, it is axiomatic that the special needs of less developed areas should receive due attention". Again, the Industrial Policy Resolution declared, "... in order that the industrialization may benefit the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced". But in practice it was often pointed out that dispersal can be taken up only when a minimum in terms of national income and growth in different sectors is reached. There may be justification in such an approach, when growth is of primary importance. But the assumption that after some time, it would be possible to spread the benefits increasingly to backward regions becomes unrealistic. If for overall growth, reliance is placed on the usual market forces, new enterprises would gravitate to areas and centres where external economy is present and this accentuates regional disparity. After a certain period it would become impossible to redistribute and would increase regional tensions. There would have been a constraint to this development, if from the outset programmes and undertakings in the public sector had been expanded in underdeveloped regions as a built-in strategy of development planning. If 50% of the total population are below the poverty line, the percentage must be larger in the backward regions. How can the problem of poverty be solved without special efforts to level up these underdeveloped states? ¹

1. Misra, S., 'Socialism in Planning', THE INDIAN ECONOMIC JOURNAL, Vol XIX, No. 2, Oct.- Dec. 1971, pp. 107 - 127.

Planning in Soviet Russia and other countries of our study was largely adopted to tackle three objectives: a) Growth within a short period of time; b) Reduction in inequalities of income and wealth; c) Reduction in regional disparities. In all the three objectives they were successful though they were to adopt different strategy for intensive growth after certain level of maturity. Their growth process should have helped the Indian planners to avoid pitfalls of their planning methods and should have planned more efficiently. But the facts read a different story. Indian planners were only successful in combining the demerits of planning and capitalist systems. Is then planning unsuitable to India? why then the Chinese were able to achieve tremendous success with their growth process?

Willingness and ability of people to work relatively hard and effectively on a national scale for goals that inspire them are perhaps the most important factors in explaining a country's economic development. Harvey Liebenstein has viewed motivation as being a major element in connection with x - efficiency, as well as other factors like knowledge, information and training. Barry Richman ¹ and

1. Richman Barry., 'Chinese and Indian Development: An inter disciplinary Environmental Analysis', THE AMERICAN ECONOMIC REVIEW, Papers and Proceedings of the American Economic Association, May 1975, pp 345- 355.

Thomas Weisskope¹ have recently shown that because of this character of the chinese government and the people, there were able to surpass India in the process of economic development in the past twenty five years.

Economic development comes largely from the willingness and ability of people to work hard and effectively for inspiring goals which in turn is a result of social development - ie., progress in human welfare, attitudes and institutions. Social development is mainly a matter of good ideas, of ideology and the strength of the commitment to it. Chinese superiority therefore lies basically in her superior ideology, which has speeded her social development, thereby raised the productivity of her people, and so boosted her growth rate of output per capita. It follows that India's performance could be much improved if the Indian government would fashion and promote an ideology more conducive to development.

The greater success of the chinese in overcoming inequalities and unemployment is attributed to the character of the basic economic institutions.² Elimination of virtually all forms of individual private property removed the biggest source of income inequality. Secondly,

1. Weisskope, Thomas. E., ' China and India: Contrasting Experience in Economic Development ', THE AMERICAN ECONOMIC REVIEW, Papers and Proceedings of the American Economic Association, May 1975, pp. 356 - 364.

2. Ibid., pp. 360 - 362.

the greater degree of centralized public control over resource allocation and lesser reliance on the market mechanism have permitted a more equitable allocation of resources among income classes and regions. Another aspect of the Chinese approach that has contributed to greater economic equity is the effort to limit the scope of individual material gain incentives; this has allowed for reductions in labour income differentials at the enterprise level. The greater stress on the mobilization of labour in the Chinese approach facilitated by an institutional framework involving strong public control over the labour market has enabled China to combat unemployment and under employment more successfully than India. China's success is also attributed to its self reliance. The Chinese deliberately pursued conservative international financial policies to avoid long term indebtedness after the 1960s. Another important feature is that the Chinese government's strong control over the economy. The dominant position of the state planners in China contrasts with a complex diffusion of power in India among government planners, private business and various other interest groups.¹

India's failures are attributed to the following causes:

- a) Attainment of independence brought about no major re-distribution of power between previously dominant and dominated classes.
- b) India's parliamentary democratic system has enabled certain intermediate groups

1. Ibid., p. 361.

- well to do peasants, organized urban workers, professional politicians and so on - to have a decisive voice in national affairs but the vast majority of poor peasants, landless labourers, and unorganized urban dwellers remain as powerless as ever before.

c) Decisive government action is also limited by 1. Parliamentary democracy, 2. Federal structure and share of power between state governments (some times hostile and region oriented) 3. Extensive protection of private property rights guaranteed by the constitution.¹

Without undermining the achievement of China, the present writer hesitates to accept the above views about China as, '...the bits and pieces of information which are allowed to trickle in from China are certainly inadequate to provide answers ...'² Moreover, as we have pointed out earlier, centralization can help only to a certain extent. Hedonistic tendencies are very difficult to curb and absolute equality is very difficult to achieve as each system has its own hierarchical levels. How long enforced discipline can promote growth? The east european countries have already provided an answer. In fact the author of the above discussion himself has revealed his doubts declaring, " If China does evolve into a truly advanced

1. Ibid., p. 363

2. Padma Desai, 'China and India Discussion', THE AMERICAN ECONOMIC REVIEW, Papers and Proceedings of the American Economic Association, May 1975, p. 367.

economy, it would seem that some of the more important aspects of pure Maoist-Marxist-Leninist ideology would have to be compromised considerably in the process."¹ Moreover, most of the strategies attributed were rather forced on them and the Chinese had no choice over them. The turn of events in both the countries are products of the history of the respective countries.

Nevertheless, the present writer would agree with the shortcomings of India pointed out by these authors and agree that India lacks 'political will' which contributed to the growth of Russia, East European countries and most recently China and Cuba:

Comparison apart, as we have pointed out earlier, India has failed to achieve any spectacular achievement in the important spheres of economic growth, reduction of inequalities of income and wealth and regional planning for which the planning was introduced. We may analyse the reasons for the apparant failures.

In the sphere of administration, India was better placed than any of the other under developed countries. But this administrative

1. Richman Barry, op.cit., p. 354.

machinery was of no great use to changed economic condition. Geared to the efficient running of the British law and order machine, and occupying a position of unrivalled power in a political system which involved alien rule, the I.C.S. (Indian Civil Service) had inherited, by and large, work methods and an attitude of omnipotence which were to interfere seriously with the vastly different and complex administrative tasks of a modern, planned India where administration and implementation extended into fields as diverse as public sector investments in industries and agricultural extension and developmental programmes.¹ The dominance of the generalist often resulted in lack of coordinated view and of a frame of considered policy. Another important difficulty was (and is) sheer incompetence resulting not only from the lack of expert knowledge of the generalist but also equally from the degradation and frustration of the experts and specialists in government service. With the increase and complexity of administrative work, the available personnel are not adequate in quality and numbers. As its size increases, it becomes slower in its functioning. Delays occur and affect operations at every stage and the expected outputs are further deferred. These delays cause corruption which becomes more routine than exception. For many jobs in the government offices it has become an accepted practice and also many employees calculate their salary including this source of income as a part of their salary as if it is an allowance.

1. Bhagwati, J.N., and Desai, p. op. cit., p. 130

In brief, the administrative machine has failed to adapt itself so far to the needs of the state which aimed at planning in depth. The effect of this on the efficiency of the public sector industrial undertakings, which have absorbed an enormous amount of investment, has been seriously adverse.¹

The public sector under various plans was to play an important part in shaping future India. It was designed to become the nucleus and starting point of economic development to serve the economic, social and cultural development of the whole nation. But the tendency has been to reduce it as an instrument of state capitalism. Two problems may be traced in the working of the public sector enterprises: a) The apparent, gross economic inefficiencies of the public sector, as reflected in its productivity. b) The growing infiltration of politics.

As for the performance of the public sector, most of the enterprises are standing examples of incompetence and inefficiency. This is in spite of substantial concessions such as supply of capital on easy terms, interest holidays and moratorium on loan repayments. As the bulk of the investible resources had been employed for the expansion of the public sector, it would not be wrong to conclude that the declining trend in the rate of growth of the economy is, in no small measure, due to the poor performance of the public

Ibid., p. 134.

enterprises.¹

In the sphere of private rates of return very few enterprises are functioning efficiently, while most of them are reporting a huge loss thereby unable to create any surplus and further expansion and dampening the morale of further public sector expansion. In cases where observed profit rates are high, the presence of effective monopoly power may lead to inefficiency in production. However, the former case requires further analysis. In the actual working of the public enterprises it is an observed fact that they exist for the benefit of private enterprises either as suppliers of input or users of the output. Thus the continuance and growing increase of the public sector is favoured by the private sector. Public sector pricing is more conducive for private gain rather than for other intended purposes. Under priced steel for instance, may lead to sub optimal use of it. Moreover, there is no regulation of the prices of end products of the user industries, implies that the profits foregone by the public sector enterprises wind up with the users, who eventually tend to be in the private sector which helps to redistribute revenue in favour of the private sector.²

1. COMMERCE, March 9, 1968, p. 645

2. Report of the (Raj) Committee of Steel Control, Ministry of Steel and Heavy Industries, Government of India., New Delhi: 1963

Turning to social rates of return and choice of projects, a perusal of the methods adopted to plan for the projects and several governmental committee reports underlines the extremely poor quality in general of the work both from a technical point of view and economic cost-benefit analysis. These reports show that no systematic thought was given to questions of project appraisal and that rough, sketchy, and haphazardly incomplete reports were often considered adequate for embarking upon quite expensive investments.¹ This was the case with many huge irrigation and other projects too. The decisions were taken mostly on political and other basis rather than purely economic.

With reference to delays in implementation and increasing costs, inadequate project preparation can be assigned as the major cause. Project itself takes so much time to be approved and in each and every stage there is political involvement and as a result it takes several years before any project is commissioned. These projects are constructed to suit political requirement and as such a source of income for various input suppliers the time, size, required machinery everything undergoing a change. For instance, enormous overheads are constructed with every public sector projects spending huge amounts on construction of houses and so on but excluding the interests of ordinary and economically weaker sections of the workers.

1. Baghwati, J.N. and Desai, P. op. cit., p. 158

In the sphere of Labour, Personnel and Management, the political involvement in public sector enterprises has helped in contributing to its over staffing of unskilled labour and payment of higher average unskilled wages than in the private sector.¹ Political involvement has also contributed to poor handling of labour relations which resulted in heavy loss. The civil service background of the managers, also act with bureaucratic caution and unimaginativeness rather than in bold and inventive ways. Actual management has been hemmed in by traditional audit procedures which entered beyond mere certification of expenditures to an evaluation by the Auditor General's office of whether these expenditures were properly incurred within the framework of the authorizations. Since this scrutiny is intensive and any departure from its exacting standards can lead to censure and disgrace, the scope for imaginative and quick action in the interest of better economic performance is inevitably jeopardized.²

Industrial Licensing:

The Industrial policy resolution of 1951 was designed to implement :

- a) The development and regulation of industrial investments, and

1. Ibid., p. 163.

2. Ibid., p. 165.

production according to plan priorities.

- b) The protection and encouragement of small scale industries;
- c) The prevention of concentration of ownership of industries; and
- d) Balanced economic development of the different regions in the country, so as to reduce disparities in levels of development.

In order to pursue these objectives, the Act conferred powers upon the Government, that 'no new industrial undertaking could be established nor any 'substantial expansion' effected to existing plants, without the prior procurement of a licence from the central government. But such a policy of licensing yielded only negative results. Throughout the planning period, target setting had a weak economic basis, was overly detailed and comprehensive, and was taken too seriously in industrial licensing as far as restraining, the growth of capacity was involved. At the same time the licensing procedures were not designed to ensure or encourage fulfilment of important targets, the follow-through was weak, the criteria of efficient choice among applicants were not defined, and the licensing procedures were designed so as even to rule out the consideration of such choices, and objectives such as balanced regional growth and prevention of concentration in ownership were reiterated, but no procedures were devised to achieve them at minimum economic cost. Indeed, in some cases the procedures even encouraged the frustration of these very objectives.¹

1. Ibid., p. 273.

Reliance on physical controls, rather than the price mechanism, without any success was a characteristic of Indian policy on price and distribution of several manufactures and semi manufactures and was not confined to Industrial licensing. The Raj Committee reported grossest abuses of the control mechanism that could be feared. Priorities were not defined and allocations were chaotic and often prompted by graft. Price control merely implied that public sector steel was sold to private sector users at controlled prices, whereas these users were under no obligation whatsoever to price their outputs on a cost-plus basis and hence priced what the market would bear. Thus in effect price control enriched the private sector which could have been appropriated by the public sector. Regarding the distribution of some of the items like cement, automobiles etc., lead to other problems. The distributive agencies were frequently known to demand graft which tended to offset the differential between the controlled and market prices. But the price obtained by the procedures was fixed at too low a level to permit the expansion of supplies in the long run. The bulk of the control over prices and distribution which were exercised by the government, were ill advised and formed a part of the general economic philosophy of direct intervention without careful examination of direct efficiency and of efficiency vis-a-vis alternative ways of achieving given objectives.¹ We saw earlier in the

1. Ibid., p. 278.

experience of the socialist countries, in some way controls can be a rational form of policy but in the case of India there is little evidence of any such rationality.

On locational policy, the Industries Act (1951), the Industrial Policy Resolutions and Five Year Plan documents have been equally articulate in stressing the need for balanced development. The federal nature of the country and the anxiety of the state political leaders to bring as many industries as possible within their state boundaries distorted often the working of the Licensing Committee. The failure of the Indian planners to work out the space-dimension of their industrial targets, on the basis of economic efficiency constrained by state targets of over all industrial investments designed to assure the states, that they would get some minimum industrialization, in effect left the field almost entirely to political pressures. Licensing committee aided in turn by no clues to optimal size, location, and phasing of expansion of plants by its 'techno-economic' counsel, these political pulls often ruled the day.¹ As a result as pointed out earlier 'planning has not even touched a fringe of the problem of regional disparity'.²

In the sphere of Agriculture especially in the sphere of reforms twenty five years of planning has done nothing more than

1. Ibid., p. 268.

2. Radhakrishnan, 'Regional Balance in Economic Development', ECONOMIC AFFAIRS, Sept. 1962, pp. 432-8.

abolishing the Zamindhars and Jagirdhars at a huge compensation. The reforms were designed in such a way that they sounded more socialistic than any country could attempt but in fact did not alter the structure in any appreciable manner. In fact more land was made available for distribution by individual efforts of Acharya Vinobha Bhave through his voluntary 'Bhoodan' movement than by any legislation seeking 'land ceiling'. The community development schemes, Panchayat Raj and other measures taken to implement 'Democratic decentralization' have ended up with carrying the message of corruption at the grass root level. The co-operative movement in all spheres have resulted only in introducing white collared crime in the country.

India has definitely economic potentialities to record reasonable level of economic development. Its failure is to be attributed to only the lack of 'Political will' as explained earlier. This was the root cause for the early economic development of the socialist countries. There is no difference of opinion among economists that a backward country launching a programme of rapid economic development has to approach the problem like a 'war economy'. Thus centralization as it helped the early stages of economic development of socialist countries of our study, can be adopted as a suitable strategy for rapid economic development. After achieving certain level of economic maturity this strategy may become obsolete and may hinder further growth but in the case of India this stage right now is irrelevant.

India's failure can be directly traced in its political structure. Congress party though returned to power since independence has undergone several changes and gave birth to new groups and even to new parties. Following multi-party system there are several other parties ranging extreme right to extreme left. In recent years regional parties have emerged and some of them were successful in capturing power in some of the states. In addition, the federal structure divided by language, culture and so on has created its own problems. Elections are very expensive and parties can not contest any election unless they have the material support given by the richer section of the society. Candidates are often rich people representing industrial capitalists or rich land lords or their representatives. Thus no legislation can be effectively passed antagonising this section. Moreover, government functions with the only objective of winning next election, Projects are also selected in such a way that they help promoting 'mass appeal' rather than fulfilling any economic objective.¹ Federalism has contributed its own share in the economic unmaking. Each state government with its own anxiety to return to power, try to get as many industries as possible within the state boundary whether the location is suitable or not. Thus

1. For example, Tamilnadu government's expenditure on erecting statues, constructing monuments and so on have no economic significance except used as an election stunt. Other states are no better!

steel Mills, fertilizer plants, oil refineries have become more a status symbol than anything else. This is the case whether the state ruling party is same as the centre ruling party or not. With the regional parties coming to power 'mass appeal' does not stop with 'status symbols' but extended to issues like language, secession unnecessary character assassination etc., which is hardly conducive for economic development. All these have helped only to promote corruption, graft and indiscipline as result people have lost faith in working hard, sincerity, healthy attitude towards society especially when they could see others making easy money the 'demonstration effect' was disastrous. This is the result of 'democracy' ¹ as in India democracy could mean only elections and nothing more than that.

In spite of all these odds India did achieve something:
 a) It has effected a break with stagnation; b) It has significantly raised the national income per head; c) It has strengthened the infrastructure of the economy. But what Indian planners were supposed to achieve and did not achieve was a consequence of 'the objective situation'. It may well be that however completely the planners do their work, various factors built into the Indian socio-political situation will persistently undo it. In a society as divided and

1. It is not the intention of the present writer to criticize democracy as it is commonly understood.

tradition bound as India, effective planning may be impossible so long as the planners have to operate within the framework of the present political system. The limitations imposed both by the social and political structure are indeed severe. The question is whether they can be transcended. In the long run, no doubt transcendence will be achieved; but we are concerned with the short run. Experience of socialist countries of our study suggests that a significant acceleration in the rate of development requires a dramatic break with the old social and political order, and that India may well be one of these. The introduction of democracy gave the manifold interest groups, both old and new, a degree of political influence which would have been denied to them under a more authoritarian regime, and made political stability dependent upon the government's capacity to effect viable compromises between a multitude of conflicting demands. 'planning by consent', which can never be of the more dynamic kind, therefore became the only kind of planning that could be attempted.¹

If India is to remain democratic and Indian planners are to achieve the modest yet encouraging success which are the most that can be expected of democratic planning under conditions of extreme economic backwardness, social fragmentation, and incipient

1. Hanson, A. H., THE PROCESS OF PLANNING, London: Oxford University Press, 1966, p. 526.

disorder, they must have become more oriented towards their own society. Only thus can they become better aware of the real limitations under which they labour and the real opportunities with which they are presented. India is characterized by her 'reconciliation' approach to political and economic problems. The outstanding feature of this system is the high value it places on compromises between groups which express prevailing political objectives and views. In such a system rapid economic growth is possible 'only if there are extensive self discipline, popular participation, and great civic devotion'. It is obvious that weakness of such pre conditions in India both limits the rate and effects the kind of economic growth that can be achieved. It is possible, therefore, that quantitatively and qualitatively satisfactory growth presupposes a change over to a 'mobilization' system, attainable only through a political revolution. If this is so, the sooner it is recognized the better. If, on the other hand, the existing system is to be retained, the planners must learn to understand its distinctive characteristics and work with them rather than against them. Self discipline, popular participation and great civic devotion cannot be conjured into existence, and plans which presuppose their presence will come unstuck. It is useless, while retaining a 'reconciliation' system. It is equally useless to imagine that a reconciliation structure can be combined with 'mobilization' system.¹

1. Ibid., pp. 265-66.

Though the above view was expressed a decade ago, nothing was obviously done in this direction because of the attitude of compromise. The results were obvious. Violence, indiscipline, disorder and chaos had marked the situation in the country till July 1975. The government was held in check because of the mis-emphasis on fundamental rights, excessive protection for private property, which encouraged misused freedom. The government rightly declared emergency last year and the achievements during the period elapsed since then clearly marks what way to go in the future to consolidate economic gains achieved so far and march on to further progress. Indian economy eluded all able economists all these years from offering a solution for all the riddles experienced so far. The period July '75 to present day shows how without major changes a strong 'political will' alone can convert a sick into a galloping economy.

As a result of the emergency, the country is now more stable politically and completely viable economically. Inter-regional and inter cultural conflicts are firmly held in check. Inter-state disputes that had defied solution for decades were sorted out. Political discipline had grown.¹ The violence that had marked academic life in universities is now a thing of the past. Also gone are the agitations and disruptive actions that had been

1. HINDUSTAN TIMES, New delhi: July 1, 1976. p.1

been indulged in by bank and insurance employees, factory workers the educated unemployed, even the police, and the confrontations between political parties.¹

According to an official review reported, with all round improvement in several directions the Indian economy is on the threshold of a major phase of an expansion.² The rate of Industrial growth has improved, the price situation continues to be under check and the foreign exchange reserves have increased substantially. A sizable increase of Rs. 7.14 billion in India's foreign exchange reserves during the last quarter of 1975-76, resulting mainly from the larger inward remittances through official channels and enhanced proceeds from external assistance in the course of the year, have put the country in a comfortable foreign exchange position despite a large trade gap. The external reserves at the end of 1975-76 stood at record level of Rs. 18.69 billion as compared to 9.69 billion a year ago.

Regarding purchasing power of the people, it has gone up by 19% in the case of government employees and by about 15% in the case of industrial workers. Political climate has contributed this directly because it resulted in more production and productivity

1. Ibid., p.1.

2. Ibid., p. 7.

in all the spheres of economy. Monetary demand was restricted and a massive effort launched to mobilize resources accompanied by cuts in non-developmental expenditure.

The output of food grains during 1975-76 is conservatively estimated at 116 million tonnes as against the target of 114 million tonnes and the earlier peak of 108.4 million tonnes in 1970-71. On the industrial front, the situation is equally encouraging. A substantial acceleration in the growth rate of industrial production has taken place since the second quarter of 1975-76. Judging by recent trends the rate of growth in the first quarter of this year is likely to have reached 8%. Industries such as coal, electricity, steel, nitrogenous fertilizers, cement, non ferrous metals, vanaspati, jute manufactures and several other critical industrial goods have shown a remarkable increase. The public sector has recorded an increase in production of 15.7% in 1975-76. Public sector consisting of 120 companies made a combined profit of 312.4 crores in 1974-75 and expected well over 350 crores in 1975-76, as against 148 and 81 crores respectively.¹ During 1975-76 the capacity utilization also increased well over 75% for the majority of the companies.

Over the year ended March 1976, the general index of wholesale prices recorded a decline of 7.8% in contrast to a rise of 8% in the previous year. For 1975-76 as a whole the average index

1. THE STATESMAN WEEKLY, New Delhi: April 10, 1976, p. 1.

stood at 302.7 as against 313 for 1974-75 which is a fall of about 3.3%. Its impact is again shown on consumer price index which at 286 for March 1976, was 10.9% lower than the level a year ago. During 1975-76 bank credit registered a larger increase of Rs. 20.49 billion compared with that of Rs. 12.8 billion in 1974-75 mainly to meet the rural demand. The provisional estimates of collection of major central taxes during 1975-76 indicate an increase of 18.2% over the actual collections for the preceding year. Tax evasion is largely put down within a short period of one year, with strong actions taken by the government. Voluntary disclosure of income and wealth is likely to yield a larger revenue. As a result, in spite of slashing down of various direct taxes more revenue is expected in the ensuing years.

In spite of an increase in production in a large number of industries, stagnation and slow growth in some industries are noticed. This is largely due to the emergence of buyers market in many commodities has shaken the confidency of an over protected entrepreneurial class. Private investment is likely to respond to the incentives provided in the budget and to other policy changes.¹ Nevertheless, to compensate the same public sector investment is being increased by 31%. Under conditions of price stability, this is a very sizable increase and should have a substantial impact on

1. Quarterly Economic Review: India and Nepal, London: The Economist Intelligence Unit, No. 2, 1976, p. 15.

demand particularly for construction materials, machinery, equipment and subsequently consumer goods. Recently changes in the sphere of industrial licensing have been made to stimulate investment in the priority sectors, and to ensure fuller utilization of installed capacity.

Taking into account the various factors, the prospects for industrial production in 1976-77 to 1978-79 are considerably better than in the immediate past. Industrial level studies suggest that given the emphasis on coal and petroleum, the mining sector could expand at an annual rate of over 11% and the manufacturing sector at approximately 7%. The favourable factors are the improving trend of investment generally, the various incentives and relaxations that have been provided, the expanded programme of investment in the annual plan for 1976-77, a gradual commissioning of the plants under construction, improvement in export demand and the far better performance of the agricultural sector.

As for the longer term, much will depend upon the economy capacity to maintain the growth in the rate of investment in the public sector and improve it in key industries, such as steel, non ferrous metals, fertilizers, petroleum and petro chemicals. These ongoing programmes are bound to lead to substantially greater production. But, for this growth to be kept up on a sustained basis, a large number of new investment decisions will have to be taken before the beginning of the sixth plan period.¹

1. HINDUSTAN TIMES, July 1, 1976, p. 7.

No doubt the impressive results have made the world Bank's vice president Ernest Stern to say that, "India had an exceptionally good year. Very considerably credit goes to the Government of India for this improvement". World Bank's assessment speaks very favourably about India's achievements. For the first time perhaps a report of the World Bank speaks with considerable optimism about Indian economy.¹

Thus we can see India has potentialities but lacks political will. But how long such a 'political will' can be enforced? To depend too much on enforced discipline cannot offer any permanent solution to the problems of Indian economy. A strong political system as in these socialist countries is not without any economic advantage. But these countries also show that such a system inhibits economic growth attempted through economic reforms in so far as they are allowed only to that extent which is politically allowable.² Thus the political system itself becomes a constraint to economic development. To suggest what political system India should pursue or will emerge eventually is beyond the scope of this work. But last year's experience shows that some discipline is necessary for economic development. By which method such a discipline can be

1. HINDUSTAN TIMES, May 27, 1976. p. 1.

2. Flakierski, H., "The Polish Economic Reform of 1970", THE CANADIAN JOURNAL OF ECONOMICS, Vol. VI, Feb. 1973, p 14.

achieved is upto the people to decide. However much the foreign press may decry the present constitutional amendments it is far from denying the people of their rights. Nevertheless we should remember that if the mobilization system fights society, the reconciliation system is a prisoner of society. India now attempts some political centralization which is just necessary to remove any impediments that may inhibit economic progress.

In terms of economic strategy for rapid development, as mentioned earlier, these socialist countries show that economic backwardness is not inevitable. This itself will give the necessary motivation for economic development. Planning as a strategy for economic development has a greater role to play with reference to India. In this sphere these countries show how techniques of planning can be improved adopting latest techniques. India is thus in an advantageous position to adopt technically superior planning avoiding the pitfalls of these countries in their early stages. However, the immediate necessity is to train planners and allied tools and necessary statistical information to meet this upheaval task.

Adoption of 'unbalanced growth' strategy itself is a borrowed technique from these countries. This further necessitates growing public sector in the basic and capital goods industries. But before any attempt in this direction is made care must be taken to demonstrate the economic soundness of the public sector by their performance. If once this is achieved the surplus can be utilized for further expansion. Thus 'profitability' plays a different neverthe-

less an important role.

In the case of socialist countries decentralization was adopted largely as a measure of compromising the present and future and was due to failure to achieve the 'glorious aim'. This role is largely played by the private sector in India, whose production and profit and further expansion will help increased consumption and provide necessary incentive to work and save to acquire material requisites. Certain important changes are to be made to achieve fuller realization of the benefits of the same. Licensing policy is to be reviewed as it helped only to achieve concentration of economic power. Decentralization will help larger participation of investible funds and competition which in turn will increase total production. Necessary supervision however may be introduced for utilization of capacity. Moreover, corporate taxes should be devised to prevent these enterprises emerging into giant monopolies. Taxation can be successfully adopted to transfer resources from private to public sector.

One may wonder why a large scale nationalization should not be pursued. The answer is obvious. Performance of the public sector enterprises so far did not justify the same. Secondly, India has not developed so far a sophisticated planning technique, to handle all these enterprises under a single programme. This involves working out of input output tables, plans, prices detailed study of supply and demand situations and so on. Finally, the experiences

of the countries of our study show that mere nationalization alone cannot ensure economic growth. They bring along with them innumerable problems which are to be effectively tackled by some other technique and ultimately compromise with some kind of decentralization. This zig zag pattern can be avoided by retaining private sector and preserving the autonomy of the public sector enterprises.

Indian economy is largely an agrarian economy. Agricultural development therefore plays a very vital role. The experience of these countries point out several valuable lessons. It was tried during war communism to squeeze out agriculture which ended up in a great disaster which was soon rectified. Nevertheless agricultural sector was made to share the major burden of the process of economic development in these socialist countries in general and in soviet Russia in particular. Recent reforms are aimed at changing this situation. The share of the agricultural sector has been increased and the prices of agricultural goods reflecting more close to actual supply and demand position. One reason for these socialist countries not producing sufficient food may be largely attributed to artificially fixed low prices and low share of income for those who are engaged in agriculture. In India there seems to be no rationality in fixing such low prices. As a result neither they could squeeze agriculture in developing industries nor produce sufficient food for consumption resulting inflation detrimental to both urban and rural workers. Under the present system of state procurement at low

prices to meet their requirements for statutory rationing has resulted in sub-optimal production. Rationing along with its administration increases the cost and as a result the final consumers end up by paying a higher price! Added to this dividing the country into food zones and restriction of movement of grain between even taluks (about 50 sq.miles) is completely devoid of any economic rationality. In addition paper tiger legislations on land reforms have virtually nullified any further investment and improvement on land nor it ensured equitable distribution. All these have resulted in sub-optimal production which a country like India cannot afford. The lessons that we learn in this regard is sub-optimal production caused by irrational prices and artificially depressed income share for agriculture in the long run will only inhibit further progress. This is especially so in an agriculturally predominant country like India. Though rationing and procurement may be continued for a while, artificial barriers should be eradicated.

Another important question with regard to agriculture is the problem of collectivization. In all the countries of our study except Poland and Yugoslavia collectivization had been carried through. Rate of Growth of agriculture in all these countries except Romania has not been good. While Poland and Yugoslavia achieved an annual growth rate of 5.5. and 4.2 respectively, evidence is not sufficient to show that collectivization will increase the rate of growth in this sphere. In India large farming (with or without collectivization) and increased mechanisation without alternative

rural or urban employment will aggravate the unemployment problem. This will further lower rural wages and real income. Government action in this sphere instead of collectivization, can be geared to abolish absentee land lordism and to ensure ownership for the tiller. If this is done the results would be far more effective than collectivization.

With regard to prices we saw how in the socialist countries administratively determined prices have created many problems. Recent reforms have allowed flexible prices for many commodities. With the introduction of profitability criteria, flexible prices reflecting demand and supply is considered to be a prerequisite. These socialist countries will no doubt if not immediately will eventually switch over to flexible prices. In India in general for almost all commodities flexible prices are allowed. We have shown how price control in a few commodities have promoted only inefficiency. Price control need not be resorted to control the assortment of goods to be produced. With effective licensing policy and effective control over utilization of existing capacity the government will be able to control directions of production and encourage commodities of essential consumption and direct resources from luxury to essential goods.

One may legitimately question what good is planning without reduction in inequalities of income and wealth. Western countries did not emphasize this aspect since labour scarcity and high wages without governmental intervention did result in fairly good amount of distribution of wealth and income comparatively. This is not

likely to happen in India without positive intervention on the part of the government. A radical redistribution of wealth is not likely to solve the problem considering the magnitude of Indian population and present wealth into consideration. Moreover, with inequalities in skills, educational opportunities and so on it is not possible to maintain equality even if such distribution is achieved. From the practical point of view gradual transformation seems to be more workable. This is to be attempted by developing vocational training for the rural and urban people and other welfare measures increasing investment on human capital to assure equal opportunities especially to economically weaker section. Effective fiscal policy will help to reduce disparities of income and wealth. These however do not aim anything more than the 'Fabian' solution. But will gradual socialism help? Following Pigou we may say 'gradualness' is not a polite name for standing still. Nevertheless, as mentioned earlier, sincere implementation of land reforms aiming at abolition of absentee land lordism and transfer of land to the tiller will pave the path towards reducing disparities and providing the necessary incentives for increased production and investment in agriculture. With reference to the industries, a policy of progressive worker's participation in management and ownership may be encouraged by the government action. Already compulsory Bonus scheme is in vogue and this can be modified to transfer ownership progressively. A suitable policy may be evolved regarding percentage of labour ownership, phase of such ownership etc., consulting management, labour representatives etc. A suitable tax policy may be

evolved discouraging unearned income (including income through shares) and encouraging workers to transfer part of their extra income to purchase of shares of the companies in which they are working. This will enable the government to promote and enjoy gains of socialism while avoiding the pitfalls of extensive nationalization such as huge investment, inefficiency, waste and so on as revealed in the experiences of the countries of our study.

As mentioned earlier, socialist experiences show that it is possible to have a society in which the means of production are owned by the state and there is no income from private property. It has also shown that it is not a sufficient condition either for egalitarian distribution of income or to ensure unhindered economic development. They have also shown how plan and market can and should be judiciously combined for satisfying the present and future, individual and social needs of the country. 'The market system has many virtues which are insufficiently recognized in developing countries. Where ever possible, planning should work in close co-operation with the market forces rather than against them. The great advantage of the market system is that its efficiency requires no great discipline or sacrifice or honesty from individuals. Individuals acting in harmony with their self interest keep the wheels of the market economy in motion. A planned society, on the other hand requires a large cadre of disciplined, honest, selfless, dedicated government officials, and businessmen who will subordinate

their selfish interests to the larger interests of societies. When this is in short supply - and it is in most developing societies - planning often brings results that are inferior to what would have resulted from the operation of a free market. The economic organization of the developing countries of today involves a marriage between the systems of private enterprise and planning. The progeny resulting from such a marriage may inherit the virtues of both its parents or their vices.' ¹ Fortunately in India now the political discipline seems to be improving. Will they exercise it imaginatively and wisely to determine the 'mix' in such a way to bring about virtues and avoid vices of such a union? Time alone can provide the answer.

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