

Growth, Innovation and Reform in Eastern Europe

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By the same author:

Inventive Activity, Diffusion and the Stages of Economic Growth
(Institute of Economics, U. Aarhus, 1971)

***West-East Technology Transfer and its Contribution to the East's
Economic Growth*** (with A. Nove, OECD, 1984)

Introduction

This book is concerned with various aspects of the economies of Eastern Europe and the USSR. It comprises essays that are highly interrelated, providing pieces of evidence and theory which reinforce each other and which together form a distinct way of interpreting socialist economies. It was this close interrelation and the concern to make this distinct interpretation more apparent which persuaded me to collect them into one book. All fourteen studies in this collection have been written over the last eight years, five being published for the first time.

The essays focus primarily on economic growth, efficiency and innovation, and on the mutual interrelationships between these three aspects and the institutional and ideological factors which differentiate these socialist economies from market-based capitalist economies. Some of the studies are policy-oriented or deal with specific problems. Others are more theoretical and general. The analytical methods which have been used also vary: some are institutional and historical, while others are mathematical and econometric.

There are three parts in the book. Part A, entitled *Socialism, Capitalism and Innovation*, deals primarily with innovation, growth and efficiency under capitalism and socialism. Chapters 1 and 3 offer elements of a general theory of long term economic growth and institutional change. Chapter 1 includes also a criticism of Brus's thesis on the link between economic efficiency and political democracy under socialism. Professor Brus's response to this criticism forms Chapter 2. Another debate in Part A is with Professor Janos Kornai. An evaluation and a re-statement of his theory of shortages and inefficiency under socialism are presented in Chapter 5. Part A gives also an empirically-based analysis of the inventive and innovative activities in centrally-planned economies (Chapter 3) and in Yugoslavia (Chapter 4).

Part B, entitled *Industrialisation, Growth and Growth Slowdown*, is more technical and specific, dealing with major aspects of economic growth, especially industrial growth, in the USSR and Eastern Europe in the postwar period. Two Chapters, 7 and 8, and

an Afterword are devoted to the slowdown in Soviet industrial growth. Alternative interpretations are presented, but the emphasis is on contrasting the author's own theory with that of Martin Weitzman and Padma Desai. Chapter 6 discusses industrialisation in Eastern Europe as a whole and Chapter 9 in Poland. The latter is an instructive case study of industrialisation under Soviet-type socialism. An important aspect of economic growth in Eastern Europe has been the so-called import-led growth. Chapter 10 presents both a theoretical model intended to capture the economic relations underlying this type of growth and an empirical computation of the potential growth effect.

Part C of the book, *Crisis and Reform*, is intended to explain why the import-led growth strategy has plunged most of Eastern Europe into an economic depression and Poland into a deep and politically destabilizing economic crisis. All three chapters of this Part focus on Poland, the country-laboratory in which the major economic and political problems associated with socialism of the Soviet type may be seen particularly clearly.

The book is not intended to cover all the ground in a comprehensive way. However, the reader will find in it a body of general theory and methods used in the field of comparative economics and, above all, detailed analysis of some of its central and most debated topics.

Most of this book was written in the stimulating and exciting environment of the London School of Economics. It would be impossible to list all of my colleagues and students who have influenced me and to whom I remain much in debt. Some of these influences will be evident in the acknowledgements and citations in the individual papers. However, I would like to mention Michal Kalecki and Oskar Lange, my teachers and colleagues before my leaving Poland in 1969, and Michio Morishima and Peter Wiles, my colleagues at the LSE since 1970, as those who in their rather different ways have made particularly significant impact on my choice of research interests in economics and ways of pursuing those interests.

The material in this book was prepared for publication in Philadelphia where I was with the Economics Department of the University of Pennsylvania in the academic year 1984/85. I wish to thank Herb Levine and the Department in general for being most helpful and understanding during that fine year.

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Part A

SOCIALISM, CAPITALISM AND INNOVATION

1 Economic Factors in the Democratisation of Socialism and the Socialisation of Capitalism^{1*}

The immediate stimulus to write this paper came from reading *The Economics and Politics of Socialism* (1973) and *Socialist Ownership and Political Systems* (1975), both published by Włodzimierz Brus. The main ideas of these two books are presented and discussed in Part I of this chapter. In the course of the discussion attention is also drawn to a number of socioeconomic phenomena which, it is argued, cannot be interpreted convincingly within either the original Marxian theory of social change or its modification developed by Brus. Two of these phenomena are thought to be especially important: (1) the large variation in the rate of economic development between countries with approximately the same social systems; and (2) the clear preference for socialism in relatively less-developed countries at the time when the capitalist system still prospers in the most advanced countries.

In Part II the aims are twofold. One is to outline a model of long-run growth, which was developed elsewhere, and which I find useful in reinterpreting the empirical material defined by (1) and (2). The other is to argue that this reinterpretation, which in this chapter is only briefly sketched, implies economic requirements for socialism and democracy that are different from those suggested by Brus in his books.

I

1. BRUS'S THEORY

The primary concern of Brus (1975) is the relationship between

* Reprinted with permission from Stanislaw Gomulka (1977), *Journal of Comparative Economics* 1 pp. 389–406, with the omission of sections 1 and 2. The numbering of sections is changed accordingly. © by Academic Press, Inc.

economic efficiency and the form and operation of the central political and economic institutions in the countries of Eastern Europe and the USSR. The generalisations which the author formulates on these matters may be spelled out as follows:

- (i) It is meaningful to make a distinction between public ownership (of the state or cooperative-type) of the means of production and their social ownership. Public ownership is the result of an act of law (nationalisation) while social ownership, which presupposes nationalisation, is really the result of a social process (political democratisation).
- (ii) In the countries of Eastern Europe and the USSR the political system continues to be authoritarian; hence the degree of socialisation of the means of production remains low. This applies especially to the countries of the Soviet bloc, where an 'etatist model' has been adopted, but to a large extent also to Yugoslavia, despite her 'self-management model'.
- (iii) Marx's chain of causation—production potential → production relations → institutions—should, in the case of the USSR and Eastern Europe, be replaced by the chain: production potential → institutions → production relations.² In particular, the Marxian thesis of the unceasing recurrence of contradictions between historically-formed production relations and society's need for further economic development, and Marx's resolution of these contradictions through class struggle, should be replaced by (1) the unceasing recurrence of contradictions between the form and operation of the institutional set-up and the needs of economic progress; and (2) the resolution of these contradictions through the process of struggle between the ruling elite and the workers and intellectuals.
- (iv) A positive correlation exists between the degree of socialisation of the means of production (public ownership plus political democracy) and the level of economic efficiency. This correlation is especially powerful in societies where public ownership dominates.
- (v) Capitalism is unable to meet several of the important requirements of our time, such as a more equitable distribution of incomes and wealth; more effective national and global planning, especially in the area of environmental protection and in the use of non-reproducible natural resources; reduction of unemployment; increase of job security; and price stability. On the other hand, socialism in its present totalitarian form is

wholly unacceptable. Hence the increasing obsolescence of capitalism and the continuing unacceptability of the existing forms of socialism is a major dilemma of our time. A way out of this dilemma is through a slow transformation of capitalism into a democratic socialism in the West and in a gradual democratisation of totalitarian socialism in the East.

- (vi) In the economic field, the present Soviet system of controlling from the centre prices and quantities should be replaced by a system in which only prices, including wages and interest rates, and some macroquantities would remain controlled, while the micro decisions about what, how and in what quantities to produce would be left for individual producers to make, in response to the signals coming from the 'regulated market'.³

In connection with (v) the basic question is, What might democratise totalitarian socialism? What 'objective necessity' will cause the principle of 'the leading role of the communist party', i.e. 'the effective control of the entire political life of the country by the political leadership' (1975, p. 169), to be no longer maintainable in the future? In his answer Brus refers to the work of some western industrial sociologists, notably to Douglas McGregor's *Leadership and Motivation*. One of the premises adopted by Brus (p. 189) is the notion that

people are by nature active and ambitious, capable of integrating their aims with those of organisations, inclined to accept responsibility and display initiative—while indications to the contrary should be ascribed principally to the long refusal to give them an active goal.

This notion is thought to apply to economic organisations as well. The extent to which the above-mentioned 'natural inclinations' of individual workers are respected and taken advantage of influences the motive to work. This is thus Leibenstein's 'X-efficiency factor' which influences the organisation's current performance as well as its dynamic, long-run performance (by increasing the workers' interest and zeal in assimilating innovations).

Hence it follows that considerations of economic efficiency create the need for further democratisation of the political system. No empirical work is produced that would indicate the practical relevance of this rule. But Brus believes that it is relevant, especially under central planning, where to motivate employees requires their meaningful participation in forming economic policy at higher levels of the decision-making structure, particularly at the central

level. A higher degree of political democracy is also thought to increase the probability that the policies adopted are close to the social optimum, and that the cadres employed are better selected to carry these policies out.

Using economic terminology, Brus treats political democracy as a 'factor of production' (1975, p. 180). And while, of course, he is well aware of the fact that democracy is also a 'consumption good' in itself, it is exclusively its production role to which he refers to justify the proposition that 'considerations of economic efficiency are creating a need for democratization of the political system of the socialist countries, a need which is long-term and has no substitute' (p. 180). This economic role of democracy is to be the main driving force of the 'historical process' of the democratisation of socialism.⁴

2. INTERPRETATION AND CRITICAL REMARKS

Although distinction (i) was first introduced by the Polish economist E. Lipiński in 1948, its role has been much enhanced by the use to which it was put by Brus. Proposition (ii) also seems acceptable. There is now a vast amount of evidence that makes it reasonable to say that the changes introduced in the post-Stalin period, such as the replacement of massive-scale preventive terror by terror directed against selected groups and individuals, the gradual transition from total to selective control in the area of science and the arts, the employment in that area of censorship rather than command, and the controlled relaxation of isolation from the outside world, 'have not infringed the ruling *political system*; on the contrary—they were to serve to maintain it, as more effective, more adequate instruments for "dynamic petrification"' (1975, p. 140).

Proposition (iii) implies, I think, that the contradiction between the practically unchanged form and operation of the institutional set-up and the needs of economic development in Eastern Europe and the USSR has been systematically increasing in the post-war period. However, if one takes gross material domestic product per man-hour (that is, aggregate labour productivity) as an index of economic development, and if proper adjustments are made for the impact of the second world war, then one finds that the index for each of these countries was increasing at a more or less constant rate. In the USSR, a very high and declining growth rate of industrial labour productivity in the period 1947–52, a high stable