The Planned Economies of Eastern Europe

Alan H. Smith

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PREFACE

Following a period of impressive industrial growth, combined with low rates of open inflation and unemployment, the performance of the East European economies in the 1980s is a cause of considerable concern. Throughout Eastern Europe industrial growth has declined to the point where the prospect of zero (or even negative) growth has arisen. In all countries substantial increases in retail prices have been announced while the volume of household money savings has approached (or reached) the equivalent of a year's turnover in state retail stores; the level of indebtedness to the West exceeds safe limits for many countries; investment in CMEA (Council for Mutual Economic Assistance) projects to develop energy and raw material sources situated in the USSR is putting immediate strains on current consumption levels; reports of labour unrest, consumer dissatisfaction, black market activity, petty and large-scale corruption frequently reach the West; and the need to allocate labour more efficiently may give rise to frictional unemployment. Although the underlying problems are common to each of the East European countries their scale varies considerably.

The purpose of this book is to examine the adaptation of the Soviet planning system to East European circumstances, paying particular attention to the problems of economic relations with the USSR and the problems of foreign trade, the constraints to domestic policies established by relations with the USSR and the problems of domestic consumer equilibrium.

It is hoped that the book will be of some value to readers with a general interest in Eastern Europe, readers with an interest in economic systems and readers with a knowledge of the Soviet system wishing to extend that knowledge to Eastern Europe. I have, however, assumed no prior knowledge of the Soviet economic system and each section contains a brief outline of the original conceptions of Soviet economists in the 1920s, the development of the system in the USSR and its subsequent application in Eastern Europe. I have tried to simplify the economic analysis for the benefit of non-economists (although some of the theoretical sections are somewhat technical) and readers wishing greater technical detail may pursue the references in the text and the bibliography.

A reference list of official Soviet and East European statistical publications from which quantitative statements have been derived is provided after the bibliography. The use of western data sources is indicated in the text. The term billion always refers to an American billion.

A survey of this nature clearly depends very heavily on other people's work and ideas. The reference list indicates many, but not all of my debts. I am also very grateful to both speakers and participants in seminars throughout the United Kingdom (but particularly at the London School of Economics) for ideas that it is impossible to attribute accurately. In particular, however, I owe a considerable debt to Professor R. W. Davies for first stimulating my interest in this area and subsequently to the ideas of Michael Ellman, Staszek Gomulka, Philip Hanson, Michael Kaser, Colin Lawson, Alec Nove, Mario Nuti, Richard Portes and Peter Wiles, amongst many others. I have also benefited from the opportunity to present papers, on which this book has been based, at the LSE, Chatham House, St Antony's College, Oxford, the Universities of Wales, Reading and Bath, and Dartmouth College, New Hampshire and I thank participants for their comments. I remain responsible for any errors and misinterpretations.

Finally, I would like to thank my wife, Ruth, who typed the whole manuscript and without whose help the book would never have been completed.

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PART ONE

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Introduction

It is tempting for the economist to depict the Soviet model of a centrally-planned economy as a pure economic system that operates with a number of imperfections that arise from the nature of central planning itself.

In fact the Soviet system of planning emerged as a compromise between two vastly different conceptions of the nature of socialist economic organisation. Many theorists saw the launching of the first five-year plan and the collectivisation of agriculture in 1929 as an initial irreversible move towards the installation of a full communist, centrally-directed, moneyless economy implying the defeat of those schools who wished to guide economic activity through controls over the money and banking system, while retaining considerable elements of the market and small-scale private industry and agriculture (Lewin, 1975, p. 97).

The legal recognition of the need to maintain private production and trade in grain in 1932 reversed the move to a moneyless economy and subsequently a compromise role was accorded to the use of monetary relations, not just between private production and trade, but between state economic organisations themselves. A number of practical refinements have been made, but the system remains effectively unaltered fifty years later. Money remains subservient to the planned control of the economy, enterprises respond to central instructions not monetary criteria, but their progress is checked by monetary accounts. Workers are paid in money and spend this on what is made available at centrally-determined prices in state stores. Beneath this a whole framework of legal and (normally tolerated, occasionally suppressed) illegal market activities take place.

Despite the fact that the system emerged as a compromise to prevailing conditions in the USSR in the 1930s, it was imitated from 1948 onwards in a virtually unchanged form in the East European countries that came under Soviet hegemony.

Pre-Stalinist Economic Systems in the Soviet Union

The Bolshevik leadership was faced with a critical economic dilemma immediately on taking power. Capitalism had been viewed as an inevitable stage of development in which the foundations of an industrial society would be established. The Revolution however had taken place in what was predominantly an agricultural society. Furthermore, although Marx left no detailed guidelines for the operation of a socialist economy, there were strong centralist tendencies in both Marxian and Bolshevik economic analysis, while the events of 1917 were inherently centrifugal not centripetal. Disagreement therefore arose on such issues as whether the bourgeois stage of development could be omitted, on the nature of economic organisation and on the relationship between the industrial proletariat and the peasantry.

Lenin's initial conception of industrial organisation was determined by the desire to establish large-scale industry subject to central direction and was influenced by the experience of German war-time planning and by contemporary analysis of the role of financial capital in the process of economic development. He envisaged a system that could be described as State Capitalism, involving the emergence of a monopolistic industry, possibly remaining in private hands but subject to central financial control over investment and subject to operational checks by the emerging workers' committees.

The operation of this concept of planning, which involved the nationalisation of banks but retained private industry, was prevented by the lack of co-operation by private owners, while fears of the wholesale transfer of industrial capital into German hands strengthened the position of those who favoured a policy of the planned nationalisation of industry. Finally, the Civil War (1918–21) and the consequent resort to the printing press as a source of finance brought about the destruction of the monetary system and led to the emergence of an economic mechanism that was subsequently described as 'War Communism'. The major features of industrial organisation under War Communism were the nationalisation of all large-scale industry, the establishment of a moneyless economy involving in the first instance the moneyless transfers of inputs and outputs between enterprises and the establishment of a planning bureaucracy in the shape of the Supreme Economic Council (VSNKH), which functioned not as initially conceived to oversee the financial resources of the government, but to effect transfers of inputs and outputs between enterprises on the basis of central instructions. The progressive collapse of the monetary system led to the increased role of non-monetary relations between enterprises and workers, the establishment of payment either in kind and/or in basic commodities, the development of a barter economy and the free provision of infrastructural goods such as transportation and communications. In the absence of monetary incentives, labour was partially mobilised by moral appeals and partially by a system of coercion which ultimately culminated in the militarisation of labour. In addition, physical wealth was frequently confiscated and redistributed.

A critical feature of War Communism was the process of exchange between agriculture and industry. As a result of the collapse of the monetary system the peasant had little or no incentive to produce for the market. Although attempts were made to send industrial commodities to the countryside and exchange them for agricultural products the system was too unreliable and inefficient to generate an agricultural surplus that would be sufficient to meet the demands of the town. The Bolshevik response was to requisition all foodstuffs above that required by the peasant for subsistence and seed, a measure enforced locally by Committees of the Village Poor. The inevitable consequence was that the peasant reduced the sown area to the level sufficient to meet his own needs, resulting in further reductions in output, leading to further measures of coercion, which threatened to create a permanent break between the Bolshevik regime and the rural population.

There was some disagreement amongst the Bolshevik leadership during this period between those who saw the system of War Communism as an initial, if somewhat premature, development of a communist economy and those who regarded the system purely as an undesirable consequence of the inflationary pressures and chaos engendered by the Civil War.

Those holding the second view proposed to re-establish cooperative relations between the town and country by replacing compulsory requisitioning with a tax in kind and permitting the sale of any produce above this amount on the market. This in turn required the re-establishment of a stable currency and a degree of market orientation on behalf of state producers.

This policy was implemented by a series of measures enacted between 1921 and 1923, known as the New Economic Policy

(NEP). The major significance of NEP for current debates on the nature of the economic system under socialism is that its supporters saw it as a viable socialist alternative to the economic system proposed by Stalin, whilst its opponents argued that it was not socialist in content, that it depended too heavily on the support of capitalist traders, and that it would not have stimulated a sufficient rate of industrial growth to defend the country from outside attack. NEP was, in essence, a system of market socialism in which nationalised large-scale industry coexisted with small-scale private industry. The state sector of industry was largely composed of commercially autonomous trusts that determined their own levels of output and prices on the basis of market criteria, rather than operating according to physical instructions from the centre concerning the supply of inputs and the destination of outputs as subsequently prevailed in the Stalinist centrally-planned economy.

One feature that emerged in NEP that was subsequently retained in the Stalinist system was that the trust (or enterprise) not the state became the basic financial and operating unit responsible for the payment of wages, with its own separate system of accounts.

The decision to reintroduce monetary relations between state-owned enterprises appears at first sight to extend the use of monetary relations beyond the degree necessary for the re-establishment of a stable-link between the town and the country and has significant repercussions for the operation of Soviet-type economies to this day.

In theory, in a socialist economy there is no *a priori* reason why the transfer of inputs and outputs between state enterprises should be accompanied by monetary transactions, and further why workers should receive payment from the enterprise instead of directly from the state budget. Indeed, Preobrazhensky had envisaged a socialist economy operating without monetary relations between nationalised industries. In 1921 he argued: 'All the nationalised undertakings will have a common counting house and will have no need for reciprocal purchases and sales (just like the single enterprise of a wealthy owner)' (Bukharin and Preobrazhensky, 1970, pp. 390–1). It was admitted that the problem was more complex in the case of a socialist sector in a mixed economy where money would have to survive for the part it would play in relations between the socialist and the private sector. Lenin, under the conviction that he was reintroducing State Capitalism may have felt this to be sufficient reason for the widespread use of monetary relations. There were, however, additional economic reasons for using monetary relations between state-owned enterprises. From the microeconomic point of view it was difficult to determine costs of operation and identify inefficient plants and activities without an individual system of accounting at the enterprise level, while the unintentional subsidisation of loss-making enterprises had inflationary consequences. During War Communism this had been expressed by a tendency for revenues to be distributed within the enterprise and for losses only to be transferred to the state budget.

The principal economic tasks facing NEP were to generate a sufficiently large surplus for investment in general, to provide for the growth of industrial capacity, and to stimulate an agricultural surplus to feed the growing industrial population and to provide a source of industrial raw materials and export earnings. The major political problem was whether the increased role of market relations and private capital would imply a return to capitalism if the size of the private sector were to outstrip that of the state sector, or would eventually facilitate such a return by making industry dependent on private traders who controlled large sections of retail and wholesale trade, while in the countryside the regime would come to depend on the richer capitalist farmers (or kulaks) for a marketed surplus of agricultural products.

The related questions of how to achieve these economic objects, of the desirable tempo of industrialisation and of the political implications of the chosen policies formed the basis of the 1920s 'industrialisation debate'. The view of the right wing or the 'geneticists', whose principal theorist was Bukharin,[1] was that in the short run the Soviet Union's comparative advantage lay in agricultural development and that the development of a flourishing agricultural base was a necessary prerequisite for a policy of industrialisation. The corollary of this was the preservation of an alliance with the peasantry through the continuation of price policies that would encourage the peasant to market agricultural commodities in exchange for consumer goods and agricultural implements, tractors, fertiliser, and so on. This implied the expansion of peasant demand to stimulate industrial investment and that the structure of investment should to a considerable extent be determined by the structure of peasant demand and be concentrated in light industry. Although Bukharin himself described these policies in unheroic terms — 'creeping at a snail's pace' and 'riding into socialism on a peasant nag' — the slow rate of growth referred to the size of the socialist sector vis-à-vis the capitalist sector, rather than a slow rate of economic growth, and Bukharin himself argued that these policies would achieve a 'very rapid tempo of development' (Cohen, 1980, p. 183).

If Bukharin's analysis was correct the major objection to his policies would appear to be that to encourage the peasant to pursue his own interest and enrich himself would stimulate the development of capitalism in the village, would strengthen the power of the kulaks and the private traders who were hostile to the regime, and that the structure of investment determined by such a policy would prevent the development of heavy industry, leaving the Soviet Union vulnerable to outside attack. Finally, the policy implied that the terms of trade between the town and the village (ie, the price ratios for industrial and agricultural commodities) should be influenced in favour of the latter, which would threaten to alienate the very industrial proletariat in whose name the Bolshevik regime ruled.

The conviction that the continuation of NEP would lead to a restoration of capitalism and that the security of socialism could only be guaranteed by a rapid rate of industrialisation with investment concentrated in heavy industry was central to the arguments of the 'left opposition' and its principal theorists, Trotsky and Preobrazhensky. Their policy was intended to ensure that the socialist sector grew more rapidly than the private sector by increasing the numbers of the industrial proletariat and that concentrating investment in heavy industry would ensure a rapid growth of the country's industrial and defence potential. To finance this investment Preobrazhensky proposed the policy of 'primitive socialist accumulation' defined as 'accumulation in the hands of the state of material resources mainly or partly from sources lying outside the complex of state economy' (Preobrazhensky, 1965, p. 54).

In terms of the relationship between agriculture and industry, Preobrazhensky (1965 edition) proposed that this should be achieved by a price policy based on unequivalent exchange which would involve a transfer of surplus value from the peasantry to the state, to be brought about either by taxation or through the exercise of the state trading monopoly to effect the terms of trade against the peasant. This policy therefore involved cutting back rather than stimulating peasant demand, in order to squeeze a source of investment finance to meet state determined tasks in heavy industry, with the possibility of a long period between the outlay of resources for investment and any return in the form of commodities for consumption. The critical question became whether the peasant would produce for the market and in particular the state market under these circumstances, or whether he would withdraw basically into production for self-consumption or for unregulated market activity and therefore would coercion be required to extract an agricultural surplus?

The debate was resolved by political manoeuvering against the background of changing economic conditions that have recently been the subject of much detailed research which can only be briefly referred to here. In the latter half of the 1920s a series of low grain-marketings threatened the supply of staple foodstuffs to the town. By 1926 the volume of grain output had approximately achieved pre-war levels while the volume of grain marketed to the town was only just over half the pre-war level (Davies, 1969). One reason was that grain prices had been kept deliberately low and the peasant had responded by shifting production to meat and dairy products, while shortages of consumer goods further lowered the incentive to market what grain was available. While the right wing pressed for grain price increases, Stalin, in a speech in May 1928, quoted figures that indicated that a significant proportion of pre-war grain-marketings had come from landowners' estates and kulak farms, while the redistribution of land that had taken place since the Revolution had largely resulted in peasants producing for their own consumption (Dobb, 1966, p. 217). The significance of this conclusion for the problem of industrialisation was profound. Firstly, it questioned the whole basis of whether a sufficient gross volume of agricultural supplies to the town could be secured through market policies and implied that industrial development based on the latter would require further agricultural inequality and would involve considerable dependence on the kulak. Secondly, it appeared to confirm the Marxian view that the principal source of pre-war investment had been brought about by forced expropriation from the poorer peasant — the corollary of which was 'primitive socialist accumulation'. The further significance of this was that the equilibrium prices that were being urged by the right wing would have required more resources (particularly in view of the goods famine) to be diverted to meeting peasant demand, certainly at the expense of the town, and possibly at the expense of aggregate investment.

Stalin's solution in 1928 was the re-use of compulsory requisitioning to extract an agricultural surplus combined with a series of discriminatory measures against the richer peasant which further damaged any prospect of encouraging increased agricultural productivity through the use of money incentives. It was against this background that the policy of collectivisation of agriculture as a counterpart to centralised planning of industry evolved.

The Basic Outlines of the Stalinist Economic System

The broad principles of the Stalinist system of industrial development were to concentrate a significant volume of national income into investment with additional priorities to investment in industry and construction in general and into industrial producers' goods in particular.

This pattern of development was largely derived from Stalin's interpretation of Marx's model of expanded reproduction, which implies that continued economic growth requires that the output of producers' goods (Department I, or goods to be used in the process of further production) should grow faster than the output of consumption goods (Department II). This rule poses a number of problems of identification and measurement that make it difficult to translate into practical policy measures. It does not necessarily imply the primacy of industrial output over agricultural output as agricultural output can go to either department — it might however be used to justify a preference for industrial crops over food crops. Similarly, most industrial statistics group commodities by their sector of production or origin, not sector of destination (eg, both coal and refrigerators could be either means of production or means of consumption).

Fallenbuchl (1970) has provided an assessment of how Soviet planners in the Stalin era attempted to translate this aspect of Marxian theory into practice; three operating principles have resulted:

1. A high rate of investment expressed in terms of the concentration of a significant proportion of social product into investment is considered necessary as a means to rapid growth.
2. Investment should be concentrated in material production —