

# **Economic Thought in Communist and Post-Communist Europe**

*Edited by*  
Hans-Jürgen Wagener

Routledge Studies in the History of Economics



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## ECONOMIC THOUGHT IN COMMUNIST AND POST- COMMUNIST EUROPE

It is now almost a decade since Central and East Europe saw the demise of the Soviet-style economic planning which accompanied more or less authoritarian political rule by communist parties. The economic thought, based on Marxist philosophy, which formed the theoretical underpinning of centrally planned socialist economies, was peculiar to the region, and was radically different from mainstream Western thought. Written by leading East European scholars and Western experts this volume provides a comprehensive and authoritative resource: a wide-ranging overview of fifty years of economic thinking under communist rule in Europe and during the first phase of post-communist transformation. It also provides an analytical assessment of the impact of economic science on the reform and transition process.

The book includes six country-specific studies, for Russia, Poland, Hungary, Czechoslovakia, Eastern Germany and Yugoslavia. Each one surveys the relevant literature and its interaction with the development of the socialist and the post-socialist economic system in the period 1945–96. The studies show that, despite Soviet dominance and the shared Marxist paradigm, development of economic thought was not uniform, a finding which supports the hypothesis formulated in the introductory chapter that differences in system critique and reform thinking can explain later differences in transformational performance.

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IN COMMUNIST AND  
POST-COMMUNIST  
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*Hans-Jürgen Wagener*



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## PREFACE

This book results from a major research project managed by the Frankfurt Institute for Transformation Studies at the European University Viadrina Frankfurt (Oder). The guiding question was: What has been the impact of economics as a science on systemic developments in the communist and post-communist countries of Central and Eastern Europe? Five years after the great turnaround it was thought that the time had come to assess the development of economics under socialism and during the first post-socialist years, with special reference to system reforms and transformation.

The project brought together research teams dealing with the history of economic thought in five countries in Central and Eastern Europe: the Soviet Union (mainly from the Russian point of view), Poland, Hungary, Czechoslovakia (mainly from the Czech point of view) and the GDR. At a first workshop in November 1994 it was argued that this selection would be too narrow. Important systemic and theoretical developments with considerable influence all over the region originated from Yugoslavia. So it was decided to add a study on the latter country. Economics under communism was not restricted to these six countries. There may have been important contributions from Bulgaria or Romania, for instance, or, especially during recent years, from the individual newly independent post-Soviet states. However, a selection had to be made to keep the project within boundaries, and we are convinced that we have covered representative cases.

The task to write a history of thought over the fifty year period 1945–95 was new to all the teams. Evidently, it had to be written under historically completely different conditions than, say, a decade ago. In most cases the first results were elaborate and detailed studies, partly prepared for publication in the national languages. As a matter of fact, the editor was sometimes confronted with the difficult task of selecting from equally important contributions. The Polish team in particular, coordinated by Professor Antoni Kuklinski from Warsaw, proved very prolific. But right from the start it was clear that a book like this should be produced providing a concise and integral overview of theoretical developments in individual countries, serving as first reference to those interested in the subject and allowing for comparative analysis.

## PREFACE

The late 1990s may be considered too early for a general assessment of economic thinking under communism. Indeed, ours cannot be the final word about the period, if there is such thing at all. However, the time of the project was deliberately chosen: sufficiently removed from the immediate shock of collapse, but close enough to the period under scrutiny to benefit from first-hand knowledge. So, our teams were composed of witnesses, younger scholars who were educated under the old system and elder scholars who had actively participated in more remote debates which are surveyed. Witnesses of their own time cannot be as impartial as witnesses of a traffic accident who, as it often turns out, have very personal versions of the facts. Nevertheless, they can try to render facts, political or intellectual, as objectively as possible. This is not an easy task and has led to interesting and not always uncontroversial discussion.

Such discussions took place at the three workshops accompanying the project, held in November 1994, October 1995 and June 1996. On these occasions, comments on preliminary versions of the reports and independent contributed papers by specialists from East and West helped to form the views and improve the texts. Hence the list of acknowledgements is necessarily rather long:

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*Hans-Jürgen Wagener  
Frankfurt (Oder), March 1997*

# BETWEEN CONFORMITY AND REFORM

## Economics under state socialism and its transformation

*Hans-Jürgen Wagener*

### The project

Comparative economics, dealing mainly with non-market systems, was once called, by B. Ward, a ‘slum field of economies’. Marxist economics, although briefly *en vogue* in the West in the late 1960s and early 1970s, has never attained the status of an accepted and productive branch of the profession. So, what can be expected from a science that was focused on a socialist planned economy and inspired by Marxist thought, such as economics under state socialism? Yet, in each of the countries of Central and Eastern Europe hundreds of dedicated scholars were doing scientific work in economics for more than forty years after World War II: writing reports, publishing papers and monographs, visiting conferences, giving policy advice. Why are the results of such efforts so meagre? For they are meagre, aren’t they?

Looked at from the outside there are two viewpoints: first, what may be called the potential Nobel Prize-winning point of view of great economists since Keynes (Blaug 1985)<sup>1</sup> and, second, the point of view of the specialist in comparative economics. If we browse through the eminent economists’ literature (e.g. Blaug and Sturges 1983, Blaug 1985, Beaud and Dostaler 1995), the authors seem more or less unanimous. There are many East European economists among the highest ranks of the profession, but most of them are emigrants who attained their reputation as members of the Western, predominantly American, scientific community: Kuznets, Leontief, Lerner, Marschak, Domar, Kaldor, Fellner, Balassa, Scitovski, Harsanyi, Georgescu-Roegen, Vanek, and many others.<sup>2</sup> And of the few eminent economists who lived and worked under socialism in Central and Eastern Europe after World War II, two are, again, known more for their scientific

achievements in England and America than for their publications when back home: M.Kalecki and O.Lange. What remains is a short list of three Soviet economists, L.Kantorovich, S.Strumilin and V.V. Novozhilov, and one Hungarian, J.Kornai. It is certainly not unfair to say that hardly any contribution of the three Soviet economists has really been absorbed into the standard body of economics (although, of course, it is well known that Kantorovich received the Nobel award for his development of linear programming algorithms; nevertheless in the east, he was considered a mathematician rather than an economist, and in the West it was Dantzig and Wolfe who set the tone in linear programming). This leaves us with Kornai as the only scholar who—as will be seen later—attempted a general theory of the socialist economy. This, indeed, is a meagre harvest, or is it the result of Western ignorance and arrogance?

The specialists from the slum field of comparative economics, of course, offered a much broader view. Being interested, like their Eastern colleagues, mostly in the workings of the planned system and being able to read the national languages, they were able to follow closely the debates between East European economists, to pass over the ideological bows, to relish the critical undercurrents, to weigh the reform proposals. In many cases they were émigrés, too, and had some concrete field knowledge of the system. There is a vast body of literature which will not be reviewed here. As far as economic theory is concerned, it was mainly the areas of political economy of socialism, reform of the planning system and mathematical economics that received special attention (see, for example, Treml 1969, Nuti 1973, Ellman 1973, Lewin 1974, Zauberman 1975 and 1976, Nove 1986, Cave *et al.* 1982, Sutela 1984, Lösch 1987 just to name a few representatives). Clearly, apart from mathematical economics which essentially analysed the perfect planning variant of the neoclassical paradigm, economics under socialism seemed idiosyncratic and western economists, not specially interested in planned economies, cannot be blamed if they expected little enlightenment from this side. What triggered sensations among the initiated (the Liberman discussion in 1962, the Prague Spring in 1968, *perestroika* in 1985), had little to offer the rank and file Western economist.

On the other side of the fence called the Iron Curtain it was of little importance to the rank and file eastern economist whether or not he entered the pantheon of the profession. He was faced with the task of bringing his professional competence in line with the ideological doctrine prescribed, of keeping *à jour* with all the vacillations of party politics and, finally, of contributing his share to the long-term evolution of a more rational economic system. Apparently, his task was in many respects much more practical than that of his Western counterpart. How could it have been other, since state socialism was not simply socialism, but scientific socialism? The fundamental science of this endeavour, Marxism, ascribed a special role to economic relations in society and, hence, to economics, in fact to both

branches of economics: political economy analysing antagonistic social relations materializing in commodities and values (this branch was bound to disappear together with the state under communism) and economics proper which was needed for the administration of the economy. Economics was bound to be the ruler's science (*Herrschaftswissen*); no wonder the rulers concluded that it was too important to leave it to the economists. Here are to be found the germs of its degeneration, both of the system and of economics as a science under state socialism.

There was a real scientific problem: the system of a planned economy. Economics had started to address this problem right from the first days when socialist planning was conceived as potential reality, that is back in the 1890s (see Pareto 1896–7, 1907, Barone 1908, Pierson 1902). This was the beginning of the famous socialist debate which gathered new momentum when, in 1917, the Bolsheviks seized power in Russia and showed themselves determined to create a socialist system. The immediate reaction of economics was Mises' (1920) classic. But since a planned socialist economy had never existed before (we omit exotic cases like the Jesuits in Paraguay) there was no practical experience available by which to test the theoretical propositions. For Lenin, in desperate need of a model, German war practices (Rathenau) and their theoretical underpinnings (Neurath 1919) were left as the only option available; however, they had little in common with socialist ambitions. The economics of planning was developed in Soviet Russia in the 1920s on a comparatively high theoretical level (see Mau 1993), but still with only limited practical experience, and after Stalin's second revolution of 1928 with full empirical backing, but rather limited theoretical ingenuity (due to purges, work camps, shootings, when scholars like Chayanov, Kondratiev, Bazarov and others disappeared; see Jasny 1972).

Soviet Russia was basically an agrarian and underdeveloped country by 1920. It is of no importance, in this context, whether Marx had ever meant such a country to introduce socialism. But it is quite clear that socialist planning was a special case under these conditions. The scientific and practical problem of a planned economy acquired a new dimension when, after World War II, the Soviet Union extended her sphere of influence, and the countries of Central and Eastern Europe set in motion a process of transformation to a socialist system. Not all of these countries were underdeveloped and agrarian; most of them were small and, by necessity, open economies. If the new system was to function in a satisfactory way in these countries, planning practice and planning theory had to adapt. The Soviet example was of limited use: the planning system ought to be subject to dynamic theoretical and practical evolution. For even if the socialists were guilty of the 'fatal conceit' of constructivism (Hayek 1988), it was unthinkable that an efficient mechanism of governing and guiding the economy had been found at first stroke and could be maintained unchanged through time and in different situations.



This is the starting point and central problem of our present study: How good was economics in Central and Eastern Europe in explaining and improving the socialist system of planning, and what was the contribution of science to system reform? If anything, this must be what Eastern European economists contributed to our science. For the failed experience of Soviet-type planning has become a historic example and will remain a textbook case of how it does not work. In this context, discussion about the workings of the system and possible reforms are to be expected to be highly informative. What we will rarely find in East European economics is a detached, abstract analysis leading to fundamental innovations in theory. As already hinted at, many interesting puzzles deriving from centralist planning have been taken up and treated in a sophisticated way by Western scholars. Examples are Leontief's input—output model based on Marx's schemes of reproduction and theoretically necessary for optimal planning, Domar's (1957) growth model inspired by Feldman (1928), Domar's (1966) and Vanek's (1970) theory of the cooperative and self-management, the theory of incentives (e.g. Weitzman 1980). The few exceptions to this rule are, of course, the names mentioned above, that is, the Soviet theory of optimal planning which is only the planning counterpart of the neoclassical theory of market equilibrium and, hence, of little avail for practical problems, and Kornai's (1980, 1992) theory of socialism.

The external observer may be inclined to infer from the failed socialist experience a correlation of bad theory and bad policy. And, indeed, the chapter that follows on Russia draws explicitly such a conclusion for the *perestroika* policy which was designed by eminent scholars of the optimal planning school. The example reveals the dilemma: optimal planning theory is excellent by Western professional standards. However, it is utterly irrelevant and thus bad theory for improving or reforming the Soviet economy of the 1980s. It did not know the notion of money, of institutions, or of individual behaviour which are crucial in this context. So, it may turn out in the end that economic thinking in Central and Eastern Europe over the last forty years had serious deficiencies, perhaps in some countries more than in others, due to political-ideological intervention. Whether or not this is true can only be determined by closer examination.

When political guidance, or even repression, is mentioned, it becomes immediately clear that science, teaching and research could not enjoy any constitutionally guaranteed liberties under a communist regime. This leads to the question which Lukaszewicz (1997:13) asked in the course of discussion of the present project: 'is it possible that under conditions of an abortive civilizational mutation any cognitive process can proceed and bring about successful results in terms of general scientific progress?' He answered in the affirmative claiming, at least within the Polish environment, the possibility of intellectual sovereignty. The claim did not remain unchallenged: sovereignty presupposes liberty which is precisely what was

not given. However, what Lukaszewicz really meant by defining sovereignty, earnest study of the system and its characteristics, is intellectual sincerity which was difficult enough to maintain in certain situations. Autonomous science relies, as Gligorov points out (see Chapter 7), ‘on the authority of the argument, rather than on the argument from authority’. In a hierocratic system, where holy scripts, fundamentalism or partisanship (*partinosi*) prevail, the argument from authority cannot easily be put aside. As long as scholars have internalized the ideology, by definition they can be sincere: they are true believers. Where this is not the case, either exit, external or internal emigration, or cynicism, a distorted form of loyalty,—the voice option being precluded—is the alternative. It has not been as bad as that all the time and at all places.

Evidently, scientific results are not evaluated in terms of the sincerity of the researchers, but rather in terms of their productivity. The former may serve to separate the courtiers of power from real scientists. As to the latter, it has to be asked: productive in terms of what—explanation, prediction, propelling theory? Explanation, especially of the deficiencies of the system, is the minimum one can expect. A brilliant and very influential example is Brus (1961). But with prediction and propelling theory we hit upon another dilemma. What was there to be predicted in a system which did not know independent agents and which was guided by the autonomous, and by no means unchanging, will of administrators? And which theory could be improved by scientific efforts? Political economy of socialism, the official paradigm, was one possibility to which, for instance, GDR economists confined themselves. Others considered it barren and unproductive. An alternative could have been neoclassical theory which, for better or worse, can help to elucidate planned systems. But this was ideologically interdicted and, therefore, could be used neither in classroom nor in publications. Kornai (1980)—and he was the only one who did—chose a byway by developing a theory of his own that was generally hailed in the West. The productivity of this theory, however, is not unquestioned and it could not be used in the classroom during the socialist period.

We come to the conclusion that assessing economics under state socialism is not an easy task. What we are dealing with is history of thought. Since, evidently, the contributions to economic theory proper are few and far between, we will not concentrate upon the history of economic analysis in the sense of Schumpeter (1954), but rather upon the history of economic thinking. This includes aspects of management of economic theory as a science, its institutional organization, and its representation in teaching. It also includes some aspects of the sociology of science. In the course of the present study a special interview project was conducted among Central and East European economists in order to collect their personal views. The results have been published separately (Wagener 1997), but we will make use of them in this chapter.

A special focus of the project is reform thinking. This derives from the assumption, already hinted at, that productive economic thinking under state socialism contributes to the design of the system and is itself informed by reform practice. There is continuous feedback between economic thinking and system development which yields a form of evolution. It will be seen in the individual chapters that many economists interpreted their task within the system in exactly this way. Already in the 1950s there were the first theoretical reactions to a practice which was unsatisfactory right from the beginning. Later, the reforms of the 1960s all over the region, including Yugoslavia, are the result of such an evolutionary process. In both (and many other) cases the 'natural' evolution was stopped by political power that saw its position endangered and, having been brought up with and knowing nothing else but orthodoxy, cried immediately 'revisionism!' It will be seen in a moment, however, that political reaction to reform ideas was not only due to ignorance on the part of the power élite, but a rational, survival-oriented answer to imminent transformation of the system. Thus, institutional inertia became the hallmark of state socialism. Again, we see the germs of theoretical and practical degeneration.

It is tempting, even if it is counterfactual, to ask what would have happened if the evolution of the socialist system had been allowed to continue without too much political interference. Would the Czechoslovak 'socialism with a human face' have proved viable? Would there have been real systemic innovations? One possible result of such a development can be hypothesized: perhaps what appeared as radical change in 1990 would have evolved continuously anyhow. A socialist market economy would not have worked properly, practice and thinking would have propelled the system to further liberalization and, finally, privatization. Isn't that the Chinese reform path? It is too early to draw such sweeping conclusions, but in face of this hypothesis the notorious dichotomy of shock versus gradualism seems ill-placed within the radical change of transformation as it happens in Central and Eastern Europe. Once continuity has become a stationary rather than an evolutionary process, radical change is the only emergency exit if stagnation is to be avoided. The chance for gradualism has been missed. This is one of the lessons the experience of state socialism has taught.

Transformation in itself, and particular transformation strategies, can only be understood against the background of real-sphere and cognitive developments during the previous period. This is why reform thinking, or the theory of the economic system and its mechanism, was given special attention in the project. However, a clear distinction between reform thought and reform practice must be made: the study does not aim at understanding practical policy measures and evaluating them in the light of the theories discussed. It is restricted to the cognitive pre-history of transformation and the first years of its proper history. A second restriction derives from the

first: the study cannot do justice to the entire scope of economic thinking. For, of course, economists under socialism were dealing with many fields of the science that will not even be mentioned in the following chapters. Many sincere scholars, once they had come into conflict with the party watchdogs, tried to move internally into niches of the science which were thought to be less sensitive and where they did decent work: history of thought preferably of the pre-classical period, operations research where high standards could be reached, economic history. Political economy of capitalism, the Marxist counterpart of comparative economics, also had a slight slummy touch in the East: it was bound to rely on the large body of Marx's writings on this topic which was palatable only for true believers and it was practically irrelevant such that—as happened in the GDR—prominent critics of economic policy were forced to restrict their scientific publications to this topic. And finally, there was a large group of economists working in the field of branch economics which, given the character of the system, was closer to business economics than economics proper.

Economic thinking under communism is heavily influenced by politics, that much has already become clear. Hence, the incisive events of political history must play an important role in its development. The whole period of investigation, 1945–95, can be roughly subdivided into several subperiods determined by the following events:

- 1948–9 Transition to full Stalinism in Central and Eastern Europe
- 1953 Death of J.W.Stalin; East German uprising
- 1956 20th party congress of the CPSU with Khrushchev's revelations on Stalin and Stalinism; Polish political crisis; Hungarian uprising
- 1962–3 Introduction of the East German New Economic System
- 1963 First year with a negative GNP growth rate in Czechoslovakia and, as far as we can see (Maddison 1995:201), also in the USSR
- 1964 Ousting of Khrushchev
- 1965 Introduction of the Kosygin reform in the USSR
- 1968 Introduction of the Czechoslovak reform of the Prague Spring and its suppression  
Introduction of the New Economic Mechanism in Hungary
- 1970 Political crisis in Poland
- 1976 Political crisis in Poland
- 1980–1 Appearance of the independent union *Solidarnosc* in Poland with subsequent introduction of martial law
- 1985 Gorbachev and his *perestroika*
- 1989 Fall of the Berlin wall

Around the major turning points we can group certain periods which exhibit a roughly parallel development in all countries. Yet there are leads and lags in economic thinking which will be documented in the following chapters.

To give just one example: up to 1956 full Stalinism reigned. In that year at the congress of Polish economists the Stalinist model was criticized by, among others, Brus, Drewnowski, Lange and Lipinski.<sup>3</sup> Earlier, in 1954 the Hungarian economists Balázsy and Peter had published critical studies calling for decentralization and market control (see Chapter 4) that remained unnoticed in the region. Also in 1956, but clearly under the influence of the Polish critique, the East German economists Behrens, Benary, and Kohlmeier ventured similar ideas. While in the GDR, despite destalinization, after the Hungarian uprising, any critical remark, whether the authors were as good Marxists as the ones named or not, was denounced as ‘revisionism’, in Poland an Economic Council headed by Lange and Bobrowski was installed in 1957 to work out a reform of the system in important features. That the respectable proposals of this council never had any policy influence is a different story.

The period from 1956 to 1970 may be called the reformist period. In the late 1950s and early 1960s reform economics flourished in the Soviet Union. As the overview shows, reform practice followed from 1962 onward with Poland as the only exception: there were many political crises and policy reversals, but never a distinct economic reform in Poland before 1990. Neither the New Economic System of the GDR nor the Kosygin reform in the Soviet Union gained the momentum or the impact on the whole society, including science, achieved by the Hungarian and Czechoslovak reform efforts of 1965–8. The latter two were developed parallel to each other with, apparently, very little cross-fertilization between each other. The reform impetus started to wane in the GDR in 1965 and by 1970 it was all over everywhere, except in Hungary.

What followed was called in Czechoslovakia the ‘period of normalization’ and in Russia *post festum* the ‘period of stagnation’. It lasted in the Soviet Union until 1985 when *perestroika* set in. The GDR and Czechoslovakia enjoyed normalization until the end of the socialist system. Only Hungary and Poland experienced during this period a somewhat independent development, although totally different from each other. This manifested itself in reform thinking which flourished in both countries, but especially in Hungary where the New Economic Mechanism was further developed.

Being outside of the Soviet empire, Yugoslavia knew a different periodization. The subperiods were determined by the different models of a socialist economy which were dominated, after 1952, by workers’ self-management and where the turning points, except for the reform period during the 1960s, were marked by constitutional reforms (see Mencinger 1996):

- administrative (Soviet-type) socialism: 1945–52
- administrative market socialism: 1953–62
- market socialism: 1963–73
- contractual socialism: 1974–88.

But interestingly enough, the differences are not as great as might be expected. The period 1961–68 was the reform period with an intensive debate in the first part and some reforms in the second. However, emerging transformation economics was cut off by the early 1970s when self-management became the unchallenged ideology and reform discussions stagnated. Transformation, actually along Polish lines, started in late 1989 (see Chapter 7). So, in fact, there must have been also other factors at work, besides Soviet dominance and national reaction, which shaped the time path of the socialist economies.

### The theory

Certainly after 1956 the importance of Marxist theory and especially the political economy of socialism declined in Central and Eastern Europe, being maintained as the focal point of economic thinking only in the GDR. There are three reasons for this. First, East German economists considered themselves as innate heirs of Marx and Engels. Second, in the closed world of the Eastern bloc the GDR economy was considered to be the most productive one so the ideas behind it could not be that bad. Third, the very existence of the GDR depended upon the socialist system. This was certainly true: the end of socialism was the end of the GDR which had no other national identity. In other countries of Central and Eastern Europe the political economy of socialism served the function of an official doctrine which was more or less honoured, but not really believed in: it dried up.

As remarkable as its death is its complicated delivery. Since Marx had not written something of the like, it had to be invented. The development of the Stalinist system in the 1930s happened without any fundamental theory. Stalin himself noticed the deficiency and ordered in 1936 a textbook which did not see the light until 1954. The first such textbook had been published in Poland by Brus (together with Pohorille 1951), the same man who ten years later wrote the most influential critique of the system prevailing at the time (Brus 1961) and who on the eve of the socialist period came out with a book (co-authored with Laski—both long since in Western emigration; Brus and Laski 1989) venturing the possibilities of a socialist market economy. If anyone, it is Brus who personalizes the above-mentioned hypothesis of evolutionary interaction between theorizing and practice.

The political economy of socialism, which was supported by the dogmatic school of Marxism-Leninism and taught at universities all over the region, can be described in terms of the Lakatosian scheme (as in Mair and Miller 1991).<sup>4</sup>

- *World, view* Marxism-Leninism (at times in a rather vulgar interpretation); there are objective laws of history; intellectual autarky ('The teaching of Marx is almighty, since it is true'<sup>5</sup>); historical

superiority of socialism over capitalism; monopoly of the party in political, economic and ideological affairs (dictatorship of the proletariat) in order to bring communism about.

- *Values* Subordination of the individual under the collective; partisanship (*partinost*); solidarity.
- *Goals* To instrumentalize economic science for political activity: stabilization and perfection of the economic system; fighting bourgeois economics and the imperialist system; consolidation of party power.
- *Themes* Nature and scope of planning; character of commodities under socialism; labour productivity; administration of economic units; practical problems of sectors and functional fields (e.g. finance).
- *Methodology* Formally dialectics and historical materialism; materially politico-ideological conformity: selection of problems, use of empirical material and interpretation of results depend on the actual party line.
- *Criteria for assessment of theories* The classics (in varying composition: after 1956 Stalin was out of grace); party line; of course, also internal logical coherence.
- *Hard core* Marx's theory of value<sup>6</sup>; the economic laws of socialism: planned development (*planomernost*), faster growth of sector I (means of production) over sector II (consumer goods); state ownership is the highest form of property; money does not matter; the primacy of politics.
- *Protective belt* There are still commodities under socialism; full communist consciousness exists only under full communism; socialism develops under conditions of competition of systems.
- *Positive heuristic* Show the inferiority of capitalism (hence the sizeable funds devoted to political economy of capitalism); aid the party in its endeavour to build socialism.
- *Evidence* Classical texts; case studies; party decisions.

It has to be realized that the economic order of the socialist system does not follow from the political economy of socialism, but the other way round: the socialist system as antithesis to the Marxian concept of capitalism was in need of a political economy. Capitalism, according to Marx, was characterized by exploitation leading to class conflicts, by alienation leading to exchange value orientation, by crises deriving from market coordination, and by stagnation deriving from the property rights structure. The logical antithesis is a change from private property to social property, from individual planning, markets and money to collective material planning, from exchange value and profit orientation to use value orientation and solidarity, and from class struggle to harmony of interests. The problem of political economy was to operationalize these movements and find appropriate institutional solutions.

The paradigm resulted in seven propositions which may be considered the core of the Stalinist doctrine and remained more or less unchallenged in the open until the mid-1980s (cf. also Zaslavskaja 1984):

- 1 Under socialism there are no contradictions between productive forces and production relations, because the latter are always in advance of the former. Hence, socialism does not know stagnation, structural crises, and any system that is going to supersede it.
- 2 There are no fundamental conflicts between individual, collective and social needs. Democratic centralism mediates between all levels and provides for organizational unity.
- 3 In socialist production labour has a direct social character due to planning. A market transforming individual into social labour is redundant.
- 4 Collective social production is superior to all other (cooperative, individual) forms of production. From this follows the hierarchy of ownership forms.
- 5 Workers as bearers of labour power are the object of central planning, i.e. planning is not coordination of independent economic subjects, but conscious organisation from above.
- 6 Utility functions of individuals contain only material arguments. Hence, the economic system can be separated from the social, cultural and emotional system, and can be organized from above.<sup>7</sup>
- 7 Really existing socialism is scientific socialism: the level of knowledge is sufficient for conscious order and planning.

As far as economic order is concerned, two basic features have to be mentioned in addition which partly follow from the paradigm and partly may be considered as ideological traditions going back to the founding fathers Marx and Engels or to the naive planning propagators Kautsky and Bebel. One is the attempt to treat the economy as a single large firm. This may be called the Kautsky—Lenin fallacy.<sup>8</sup> It was Kornai (1959) who showed clearly the suboptimality of this approach. The other is the conviction that in a socialist planned economy all interrelationships are deterministic and can be designed and changed by conscious decisions. This may be called the Kautsky-Stalin fallacy, and was criticized by Hayek (1988) as fatal conceit. Clearly, it gave a special importance to the primacy of politics and to the role of the party in the economic system (and society which was Hayek's (1944) earlier objection: the road to serfdom).

The economic system of socialism is superior to that of capitalism, since it substitutes rationally coordinated planning on the basis of social property rights and solidarity for the exploitative and chaotic order of decentralized decision-making and market coordination. The superiority is due to the transition from individual to social rationality (no externalities),



from exploitation to voluntary contribution (higher motivation), from underutilization of capacities to full capacity utilization (less waste), from profit maximization to need satisfaction (no class conflicts), and, finally, from institutionally confined to unrestricted innovation (dynamic efficiency). This conviction was by no means restricted to Central and Eastern Europe. A widely read Western textbook on the economics of socialism (Wilczynski 1977:208–10) repeated these claims even in 1977 (see also Brus and Laski 1989).

All this may read as a caricature. It is not. On the basis of this paradigm it was possible to develop a huge body of literature, to feed an army of university teachers and to govern an economy which supported the second world power. Economists from Central and Eastern Europe stress that the paradigm was, certainly after 1956, not generally accepted. In Poland and Hungary in particular the profession was critical; hence the claim of intellectual sovereignty. This is, however, only part of the story. For as critical about the ruling paradigm as one may have been, the question remains whether there was an alternative. At the universities and at the level of textbooks exclusive autarky of Marxism-Leninism prevailed throughout the communist period. Up to the 1980s, when a subterranean current of neoclassical microeconomics and Keynesian macroeconomics emerged, there were no paradigmatic alternatives among practitioners. This is reflected in the purely pragmatic character of the writings of those who were critical about the paradigm. Of course, it was also possible to produce a great deal of criticism about the actual economic regime and economic policy within the ruling paradigm—and such was the normal case in times of intensified reform thinking. What prevented a sovereign intellectual activity were the taboos which had to be respected: the core of the paradigm, especially questions of ownership, the principle of planning and the predominant role of the party (the primacy of politics) were not to be touched upon. Economists who conformed to these rules could feel themselves sovereign, but in fact they submitted to the argument from authority.

‘Economists were providing interesting and valuable diagnoses of various pathologies, but the search for the sources of the latter was too shallow, because several systemic features were out of reach as suspects’, as K.Porwit said in the course of our discussions. This situation had a far-reaching implication, in that it resulted in systemic optimism or the implicit acceptance of the superiority claim: the system in itself is viable, potentially optimal. If something went wrong, the suspects were individuals who did not understand the paradigm fully, who worked for their private interests or, who failed. It was simply not done to blame the system for its failure. It was taboo. So, there must be a possibility to improve, to make the system perfect.

Such a possibility, that is the innovation of historically untested systemic arrangements that derive from organic evolutionism and teleological constructivism, the dynamic forces of institutional change identified by

Menger (see Wagener 1992), cannot be ruled out *ex ante*. These mechanisms do not work, however, if the core elements of the system are taboo leading to, as H.-D.Haustein remarked, a ‘dogmatic ossification of Marxism in a religion of power’. The paradigm degenerates into ‘a “scientific” camouflage for practical actions serving the interests of the rulers’ (K.Porwit). But since the taboo was widely respected, systemic optimism could be upheld. Almost to the bitter end there remained the hope for a ‘socialist civilizational mutation’ (as the Polish economist Pajestka had phrased it), the hope for a ‘socialism with a human face’. Here we may see the dividing line between reform economics, which, for all we know, could eventually have resulted in outright system change, and transformation economics, which departed from the knowledge of the unreformability of the socialist system.

Several features of real socialism have been isolated that lead to the unreformability of the system:

- Priority belongs to politics. The central taboo of the primacy of politics made universal state ownership control and universal interference of party organs a property of the system which could be abolished only together with the political power structure.
- Soft budget constraints (the Kornai verdict). It has been disputed theoretically whether central planning is in principle incapable of making the firms’ budget constraints really hard and thus inducing the efficient use of scarce resources. In practice this has undoubtedly been the case.
- State monopoly of foreign trade with a tendency to autarky (the Pierson verdict). To subject foreign trade to political decision-making and to exclude the national economies from the international division of labour has grave consequences, especially for small open economies.<sup>9</sup> Again, some theoretical solutions of the problem of calculating foreign trade advantage under such conditions have been offered (e.g. Trzeciakowski 1978). In practice, political foreign trade control remained one of the central instruments of socialist economic policy.
- Secondary role of money and finance (the Mises verdict). Economic calculation and prices, despite valiant theoretical attempts and numerous policy reforms, never functioned properly. The Lange solution to this problem was never implemented—it may be assumed for good reasons. And where market socialism was tried out, as in Yugoslavia, it was unable to put all needed markets into operation (including a capital market and a foreign exchange market). The importance of economic calculation (*khozraschet*) was theoretically recognized, but practically it collided with the party’s planning autonomy.
- Unity of economic activity and social policy. The provision of a great part of social services and (existing) unemployment was the task of state-owned enterprises, and this impeded the development of efficient

business management and structural change. A separation of economic activity and social policy would have spoiled the system's alleged major achievement—full employment.

- Closed-shop system of *nomenklatura*. The selection mechanism for higher personnel was biased in favour of political conformity and against professional qualification, in order to stabilize the ruling élite.
- Reliance on paternalism. Political control was exercised in a discretionary manner. This led to patronage by the party secretary on all hierarchical levels instead of the objective rule of law (a rational 'Weberian' bureaucracy). The ensuing governance regime resembles premodern enlightened absolutism and mercantilistic policy rather than the hoped-for post-capitalist rationality and *glasnost*.

What does it mean to be locked in a system which is grossly suboptimal and, at the same time, turns out to be unreformable? In principle this can go on for an undefined period of time as North and Thomas (1973) have shown, comparing the successful Dutch and English systems with the less successful ones of France and Spain in the sixteenth to eighteenth centuries. The essence of unreformability lies in a certain power structure sticking to an ideology which it considers essential for survival. If there are no endogenous forces, like reform politics supported by reform thinking breaking up the locked-in situation, stagnation and decline will become endemic. There may also be exogenous forces causing or speeding up the collapse of the inefficient system. The competition of systems can lead to such a result which, however, is not our present problem. The important point has been made already in the last section: there was reform thinking inside the socialist system during the 1960s which, had it been taken up by politics, may have propelled the system to more efficient regimes, probably ending in a gradual transition to something very similar to what is now produced by transformation. The chance has been missed and stagnation resulted.

Comparing the individual case studies expounded in the following chapters makes the point quite clear. Due to the fact that she had adopted a model of market socialism quite early, Yugoslavia had already reached in the 1960s the point where efficiency and consistency considerations brought capital markets and foreign exchange markets onto the agenda, i.e. the point at which gradual transformation became possible. However, politics shied away from such a far-reaching decision and so the system was petrified in the existing contradictory state from which it could only be freed in 1989 by radical change. By way of analogy it may be hypothesized that politics in other socialist countries, notably the Soviet Union and the GDR, noticed the inevitably ever progressing requirements of continuous market-oriented reforms and preferred stagnation to transformation which would not have left the political system, i.e. their power base, untouched. In other words, party élites in the Soviet Union and Eastern Germany, for instance,

recognized the unreformability of the existing politico-economic regime and deliberately decided to go on with it at the price efficiency. This also implies that by the end of the 1960s the stage was set in Central and Eastern Europe for gradual system transformation. The power structure of the individual countries saw the danger and was still vigorous enough to prevent it: 'normalization' as it was called. From 1970 on the system was only 'perfected', and no longer reformed. Stagnation was the inevitable result. In order to overcome it, radical change became unavoidable.

Where it had been prepared mentally and where economic reform thinking was not completely choked in the years before, as, for instance, in Poland and Czechoslovakia, transformatory change could take place deliberately even if, as in the latter case, the state disintegrated. Where there had been no active reform thinking in the 1980s for whatever reasons, as, for instance, in the Soviet Union and in East Germany, or where other currents of thought like nationalism got the upper hand, as, for instance, in Yugoslavia and some post-Soviet republics, continuity in change seemed impossible and the economic system collapsed. The only apparent exception is Hungary. By 1968 Hungary had embarked on a reform path where reform thinking and reform practice interacted, not always with similar speed and not without certain stagnation periods. If we call this path continuous change, it was certainly slow. However, by the late 1980s reforms had proceeded so far that under transformation they could continue more or less organically. There was no shock therapy in Hungary, there was gradual change—because there had been gradual change before. All over the region transformation was accompanied by economic decline. But decline was overcome more rapidly in those countries in which transformation was realized most decidedly (see World Bank 1996). Within our sample such were the countries with at least some continuity in reform thinking.

After what has been said above about the quality of mathematical planning theory, it sounds rather strange to learn from Chojnicki (1997) that a consistent mathematical theory of the behavioural pattern and the development of a socialist economy has not been worked out. This needs some explanation. For indeed, in the following chapters mathematical economics and quantitative research play a rather subordinate role. In Russia, linear models were developed to a very high standard indeed. Hungarian input—output analysis was even used in practical planning in competition with traditional discretionary material balances (a competition which input—output lost because of its inflexibility). In Poland, there was a rich application of quantitative methods (Maciejewski 1996). So, why are these contributions considered untypical for economics under socialism?

Of course, orthodox Marxist political economy was rather unfavourable about quantitative approaches, criticizing a lack of realism, the a-historical character of the models, and the undue importance of quantitative methods. Such criticism is not unknown to formalized abstract Western theorizing.

On the other hand, analytical Marxism of Western provenance, from the early treatments of the Marxian transformation problem and growth theory onwards, has shown that Marxist theory is accessible for mathematical treatment. It is interesting to notice that Western analytical Marxism, as well as Western theories of the socialist economy had little to no influence upon theorizing in Central and Eastern Europe.<sup>10</sup> What is even more surprising is that vital problems of central planning have been treated more comprehensively by Western scholars than in the countries where these methods were applied. For instance, feasibility, consistency and optimality of planning with material balances is a subject which one would expect to have been thoroughly studied in the GDR where orthodoxy and German traditions of material planning (Ballod, Rathenau, Neurath, to whom Lenin, as mentioned, took recourse when in desperate need of some ideas about socialist planning) were cherished. Nevertheless, the best treatments are to be found in the West (Hensel 1959, Montias 1959). The principal agent problem is, as it were, the central problem of plan implementation. It attracted attention in connection with the discussion of material incentives. The comprehensive treatments, again, are to be found in the West (Bonin 1976, Weitzman 1980)

Next, there was no formalized model of the socialist economy and its development, since there was no general model of the system at all. The difficulties with the textbook version of such a model have been mentioned already. The Kautsky-Lenin fallacy of treating the whole economy as a single firm and the illusion of organizational unity made the political economy of socialism disregard individual behaviour. There is no integral microeconomic theory of socialism before Kornai (1980), which was never accepted for general use, let alone for university curricula. Economists who have at least partly been under the influence of Marxian theory are suspicious of neoclassical assumptions and of mathematical formalism. Yet Marxism, as classical economics in general, is mainly a macroeconomic approach. The profession under socialism has failed to develop the appropriate microeconomic underpinnings. So, if there was any microeconomics it had *faute de mieux* to be neoclassically inspired.

The claim of scientific socialism was not interpreted, as it could have been, in terms of the possibility of implementing a huge general equilibrium model (such were, of course, the intentions of the optimal planners without, however, taking recourse to individual behaviour). Rather it was implemented by taking economic planning out of the hands of the scientists and by claiming scientific capabilities and qualities for party leaders and their decisions. This is hardly amenable to a general economic theory. The idea of analysing the behaviour of the *nomenklatura* and of developing a theory of socialist public choice would have been anathema. The necessity of defining a target function for optimal plans had already met with serious difficulties. If one accepts the structure of the economy as represented in a

model of it, if one accepts the constraints by quantifying them and if one accepts the need to maximize aggregate consumption over a finite or infinite time horizon as an innocent objective, there is little room left for party goals and party decisions. Under such conditions the primacy of politics cannot mean petty tutelage of enterprises and interference with day-to-day activity, but is in need of a reinterpretation which was never accomplished. Rather development plans on the basis of scientific assumptions, of Kalecki and others, for instance, were discredited as being too cautious or even revisionist (see, for example, Chapter 3). So, the models elaborated (for instance, the analysis of international economic cooperation by Trzeciakowski (1978) and others) treated, as a rule, only isolated areas of the economy, yielding theoretically interesting results which, however, remained irrelevant for economic policy.

Similar difficulties arise with respect to econometrics (Maciejewski 1996). Econometrics starts from the assumption that aggregate economic behaviour and interrelationships are of a stochastic nature and exhibit a certain relative inertia (stability). The political economy of socialism sees the planned system basically governed by deterministic interrelationships and, following the Kautsky-Stalin fallacy, assumes that these can be designed and changed by conscious decisions. Of course, there are the 'laws' of socialism. But it turned out to be quite difficult to give these laws a concrete content, and the basic one among them, the law of planned development (*planomernost*), was rather interpreted in terms of party voluntarism. It is well known that Oskar Lange was one of the pioneers of econometrics, having served during his American years as editor-in-chief of *Econometrica* and having written a leading textbook (Lange 1956). One would expect that this was not without influence upon Polish economic science. And, indeed, Poland was the only socialist country where noteworthy econometric work has been done (for instance, at the Lodz centre of W.Weife).

Yet the operation of the economic mechanism was informed by other approaches, as was reform thinking. Since there was no general theory of the socialist economy, these approaches must by necessity have been pragmatic. Asked about the guiding paradigm of their theoretical work, most economists in reformist countries of Central and Eastern Europe mention for the post-reform period (i.e. after 1970) neoclassicism and Keynesianism, but see themselves really influenced by institutionalism which, as a matter of fact, is still in search of a paradigm. Reform discussions rely heavily on plausibility arguments. Reform economics was no research programme in the sense of Lakatos; it could not have been such under the conditions of communist research organizations. This explains its *ad hoc* character.

Only in the period of transformation does it become possible to discern the influence of the various schools of thought whose theoretical background has been built up in several countries of Central and Eastern

Europe, notably Hungary, Poland and Czechoslovakia, during the 1980s (cf. Hoen 1995). Not surprisingly, it was in Hungary and Poland during the 1980s that ‘normal’ science, i.e. theory-informed empirical research with policy relevance, was practised and scholars contributed to the solution of puzzles also discussed by the Western profession. A good example is the Polish research of Charemza and Gronicki (1988) in the context of the disequilibrium discussion. Such an approach, even adopting the assumption of rational expectations, would have been completely unthinkable in the GDR of the same time. And this not only because Western approaches were banned as vulgar apologies of capitalism, but also because critical social and economic thinking in the GDR, even in the late 1980s, was theoretically still inspired by Marxism and young scholars wanted above all to rid themselves of dogmatic restrictions in interpreting Marx. The deformations of the society and economic system of the GDR were ascribed to a deformation of Marxist theory, but not to Marxist theory itself (which, taken by itself, is a sign of a strong paradigm—cf. the resilience of the neoclassical paradigm—but only in combination with theoretical innovation and productivity). Evidently, starting from their traditions of mathematical economics and econometrics, Polish scholars at the prestigious research centres could simply go on working after the system switch, while their colleagues in the GDR had lost their paradigm and their empirical base (and not much later their jobs).

### The people

Being a scientific economist under communism was a politically sensitive job. How far this was the case, differed considerably from country to country. The variables of restrictive practices are numerous: education, access to literature, selection of research topics, freedom of discussion, freedom of publishing, contact with Western colleagues, study and research abroad.

Education was along orthodox lines in all countries. The teaching of political economy was a serious political activity. In the USSR it was strictly reserved for professors with party membership. The syllabus was confirmed and the teaching results were assessed by the ideological party organs (see Zaostrovsev 1995). Textbooks all over the region were under strong Soviet influence. The first 1954 textbook on political economy was widely translated, as were later ones. National roads to socialism did not yield significant theoretical deviations in the sphere of basic political economy. The only big exception, of course, was Yugoslavia. But the example shows the close links between accepted theory and the economic order. However, the importance of political economy seems to have differed in different countries: in Poland and Hungary in the post-1956 period pragmatic subjects like foreign trade, branch economics, fiscal affairs and planning

practice became dominant, while in the Soviet Union and the GDR traditional political economy remained the central subject. As may be expected, the period of 'normalization' (1970–85/89) produced a new stress on orthodox thinking. This was reflected in a new, unifying textbook in the USSR expounding 'mature socialism' called *Politicheskaya ekonomiya* (Rumyantsev 1976: the two volume version was for students of economics, while the one volume version, published one year later, was for general use) and in similar activities in Czechoslovakia, for instance (see Chapter 5). Even the 'new thinking' of *perestroika* did not bring fresh air into political economy although a new 'radically changed' textbook was produced under the leadership of Politburo member Medvedev (Medvedev *et al.* 1988), a fact which reflects the unchanged basic economic philosophy of *perestroika*.

Young students of economics were brought up on political economy or, only a tiny minority, on mathematical economics. In the latter case they received a thorough mathematical training, but as little Western style economics as their politico-historically trained colleagues (see also Alexeev *et al.* 1992). Young students could come across other schools of thought only in courses on history of thought or on political economy of capitalism. Naturally, there they were presented with critical views (the market economies of advanced countries showed all the signs of 'dying imperialism' as Lenin had described them) and rarely with the original texts from which they could have made up their own minds. Although even in the Soviet Union translations of a few modern classics (Keynes, Arrow, Baumol, Galbraith<sup>11</sup>) and especially the introductions to these volumes were intended by the editors to provide information about theoretical alternatives, scholars without any other access to Western thinking and practice simply ignored them. The same fate seems to have befallen the translation (in a somewhat abridged version<sup>12</sup>) of Samuelson's (1964) *Economics*: absolutely no impact on Soviet thought can be discerned. After 1990, however, this edition had a brief revival: because of the urgent need of Western-style textbooks and an extreme shortage of supply (in Russian translation) it seems to have been used in classrooms (Zaostrovsev 1995).

The counter example of a rather early pluralization of education may have been Hungary (see Hámori 1995). Of course, in the aftermath of the crushed 1956 revolution ideological orthodoxy was strengthened. Also later, non-Marxist scholars, like Kornai, for instance, would hardly get an appointment as university professor. But from the early 1960s on there were several reforms of the educational system. Subjects such as sociology, for instance, which elsewhere in the region were considered 'bourgeois pseudo-science', were taken up in the curricula. Language laboratories deserve special mention, since they lay the material basis for access to foreign literature. The language capabilities of Hungarian and Polish economists were in stark contrast to their Soviet or East German colleagues. Even more important was the possibility of university teachers spending a year abroad



or attending international conferences. It may be wondered why the party allowed such travels, but in Hungary and Poland it did, whereas in other countries it did not. The Ford Foundation, and others, provided the financial means and a large number of Polish and Hungarian scholars were able to benefit from the opportunity. These 'American boys', as they were called in Hungary, were definitely lost to ideological indoctrination<sup>13</sup> and they pushed for curriculum reforms.

In particular, the introduction of the New Economic Mechanism in 1968 was accompanied by a new wave of reforms at the universities. The market orientation of the economic mechanism, which formed the core of the intended system, made the branch orientation (industry, agriculture, foreign trade, home trade, transport) of the economics curriculum less well adapted to professional practice and necessitated the development of a functional orientation (finance and marketing). The adoption of marketing as a university subject in 1972 was undoubtedly an innovation previously unheard of in the whole of Central and Eastern Europe. The final reform before the turnaround in Hungary happened from 1986 on. It introduced, again an innovation in the region, the separation between economics and management in the third year and it introduced a rather (Western) standard structure of courses.

Soviet and East German scholars were rarely allowed to travel and the great majority remained unacquainted with Western economic thinking and practices of university education. The privileged among East German as well as Czechoslovak economists were able to study in the Soviet Union. This was experienced as an opportunity to widen their views, since the intellectual climate in Russia seems to have been less narrowly restricted than in East Berlin or in Prague. There were, within the general Marxist approach, local schools of thinking with their own publication outlets: Moscow, Leningrad, Novosibirsk. Access to Western scholarly publications also varied from country to country. While in the more liberal countries of Poland and Hungary they were, in principle, available although with a delay, in the Soviet Union and in Czechoslovakia they mostly were not and what was available (in English and in German) in East Germany was not really considered relevant. Economics in East Germany was characterized by a high degree of self-referentiality.

When the ruling doctrine is supported by the state and the ideological party apparatus while there are alternative theories and views in the air, it may be asked whether such thing as a clandestine college or a shadow science has developed. When asked about its existence (see Wagener 1997), above all Hungarian and East German scholars answered 'no', clearly for different reasons. From the early 1960s onward, alternative views could be discussed fairly openly in Hungary, although not always published. In the GDR the 'revisionism debate' of 1956-7 had disciplined the profession. On the one hand clandestine activities were extremely dangerous, and on the other hand

the majority of the profession accepted the claim of the special position of the 'front-state' GDR and the special role of Marxist science, in particular Marxist economics, within it. It is also important to remember that up until August 1961 exit was the most common route for dissenters in East Germany, and so that those who remained were generally in favour of the socialist system. The situation was slightly different in Czechoslovakia where, after the massive exodus of 1968–9 and the repressive period of the 1970s, clandestine colleges showed up at certain professional institutions (see Chapter 5) and were able to prepare a group of informed economists who later moved to leading positions in the transformation period.

Besides, one has to face the question: why should East European economists of Marxist and socialist provenance be enthusiastic about Western economic thinking in the 1960s and 1970s, when many young Western students of social science rejected the neoclassical mainstream lock, stock and barrel and organized alternative courses informed by Marxist thinking? Only the comparative decline of the socialist economic system, which, ironically, became apparent at exactly the same time, could induce East European scholars to question their theories and policies. In other words, socialist claims of installing a progressive and fair society were deeply rooted in the region and could be shaken only by persistent system failure. Closer research would probably reveal that they are still in place and that transformation is considered to be an attempt to find more suitable institutional solutions.

As H.-D. Haustein, an East German economist of stature, remarked, when he was studying at Berlin university in the 1950s, young intelligent scientists, were not impressed by the doctrinal stupidities of the anti-revisionism campaign. What had impact was, for instance, the contribution (in the 1957 special number of *Wirtschaftswissenschaft* against revisionism) of the philosopher Scheler (1957) on spontaneity. Spontaneity and consciousness are basic qualities of human action, it was argued. Spontaneity, however, is a capitalistic atavism. Once there is social ownership in the form of state ownership, actions can be guided by conscious social will and plan based on knowledge of the objective laws of social development. Of course, the party leadership was in possession of such knowledge. This is Hayek's 'fatal conceit'. But Hayek was *persona non grata*, his books unavailable and, if available as in the West, rarely read by the believers in planning optimism. Wasn't this a constructive message for a young aspiring economist? Of course, the political message of the revisionism campaign also got through, namely that a deviating opinion would have raised political suspicion. But it was more likely to be the elder scholars who got scared. So, spontaneity as a creative element of evolution was for good out of discussion.<sup>14</sup> '*Nichts geschieht im Selbstlauf*' (nothing happens autonomously) was one of the slogans of the Ulbricht period—everything had to be initiated from above.

Clearly, this must have a devastating effect upon any science, and especially so on a very politically sensitive one like economics. The profession would have liked to abandon the descriptive handling of planning theory, as Haustein deplored, and to develop a clear axiomatic approach for the socialist economy. But research planning of the party ordered merciless a scientific interpretation and propagation of the actual party line. It is remarkable that the GDR did not produce a single eminent individual achievement in economics because of—it may be presumed—

- the elimination of free discussion,
- the isolation from international science,
- the politically motivated cult of secrecy, and
- the strict control of all scientific activities.

This brings us back to the question of intellectual sovereignty. There were undoubtedly gifted scholars with sincere scientific intentions and standards, but they lacked the space to develop their capabilities. Along that line a science degenerates.<sup>15</sup>

When transformation took off in the late 1980s, the starting conditions in the individual countries of Central and Eastern Europe were quite different. In Poland, Hungary and Czechoslovakia there were young, Western-trained economists who decided to change the economic order from a planned economy into a market economy. In Russia, a similar group of young economists with similar intentions gained influence, although they mostly lacked, however, the training in Western-style theory. The economics profession in the GDR was taken by surprise by the turnaround in 1989. Neither intentionally nor in cognitive terms were they prepared to manage the transition from plan to market, which was decided by the East German parliament and then left to Western specialists. Nowhere in the region could Western specialists gain such an influence as in the GDR which, of course, was also a consequence of the abolition of statehood.

The theoretical discussion, inspired by political-institutional requirements, naturally paralleled the discussion during the previous transformation from capitalism to socialism of 1945–9. The central fields of policy action of transformation, whether from capitalism to socialism or vice versa, are as follows.

- *Property rights* When switching from capitalism to socialism, socialization of ownership is top of the agenda. However, there can be discussion on who should exercise social ownership rights. The difference between Yugoslavia and the Soviet system makes clear that Marxism is open to different solutions. Switching back implies privatization, but, again, how far it should go and who should get the property rights *in concreto*, is by no means evident.

- *Coordination* Here, the switch from capitalist markets to socialist planning seems to be the more difficult step. In the 1940s there was no practice to be imitated and no practical theory of planning to be followed when socialism was introduced. In the transformation back to capitalism it was thought that markets evolve spontaneously when regulations restricting their working are abolished by liberalization. This, however, is an error. ‘Well-behaved’, efficient markets are made and rely on trust which requires formal and informal institutions and, hence, time.
- *Money* Clearly, a capitalist market economy relies on money. Although poorly reflected in the neoclassical paradigm, the role of money, and its institutional prerequisites, are sufficiently well understood by mainstream theory. It was different in the first transformation from capitalism to socialism. Can money be completely abolished? What role has it to play in a planned socialist economy? Banks are strategic (‘commanding heights’) in both processes.

So far discussion and policy action was similarly oriented in all economies of the region. Germany, however, had a special dimension of transformation in both cases which involved the individuals more than in her neighbouring countries.

- *Handling the past* The transition from capitalism to socialism between 1945 and 1949 was at the same time an opportunity to get rid of the remnants of the previous Nazi period. Socialism was presented as the only legitimate ideology of anti-fascism (which had the useful implication of equating anti-socialism with fascism) and certainly as the only effective practice. Similar arguments could be heard in Hungary, too. A complete exchange of the élites seemed imperative. With similar consequences the second transition eradicated the roots of communism, at least in the politically sensitive areas, where *Abwicklung* (windingup) implied in most cases the loss of their jobs for academic personnel.

Of course, in other countries as well, teaching and research staff changed with transformation. But this happened in a less forced manner and more by voluntary exit of young able people opting out for business or administration, in some cases in the form of a second job, becoming scholar and businessman at the same time. Whether this is a new type of scholar, as Kuklinski (1995) suggested, or only an intermediate stage during transformation, time will alone show. On the other hand, there are a number of young able people moving into economics from the closed-down units of the military industrial complex, as seems to be the case in Russia. The less mobile of the academic staff remain in their old positions. On average, the academic community appears to be getting older and older and prospects for

young able people are brighter elsewhere. The inherent danger has been noticed, but not dealt with. Handling the past is generally thought to be a matter of intergenerational change.

### What's left?

Looked at from the point of view of the universal history of economic theory, economics under communism has not produced any spectacular new insights, theorems, laws or controversies which have to be memorized by all students of economics like, for example, the Cambridge controversy, Say's law, the Coase theorem or the Heckscher-Ohlin theory. Even in the fields of Marxist theory and debates referring to a socialist planned economy, the contributions from within the system are meagre. The fundamental Marxian theorem has been elaborated by N.Okishio and M.Morishima. The socialist debate which inspired eminent economists throughout the twentieth century received no outstanding contributions from Central and Eastern Europe, leaving aside Oskar Lange's computopian vision. Growth theory, so magnificently initiated in the late 1920s by G.A.Feldman (1928), was successively accomplished by E.Domar, R.Harrod and R.Solow. Similar was the fate of business cycle theory and Kondratiev's contribution. As has been said, only the mathematical theory of planning and input—output theory can claim a substantive impact.

We could come to the conclusion that (almost) nothing is left. Such a conclusion looks unfair to the large group of able and sincere economists in Central and Eastern Europe who worked on the project of coming to grips with the model and the practice of central planning. The following chapters will show the efforts dedicated to the research programme of economic reform, i.e. the search process for a viable system of planning which, regrettably, was impeded by politico-ideological restrictions. It took the capitalist market economy more than a century to develop in an evolutionary way a fairly efficient and just and, hence, sustainable system. The competitiveness of the planning system had to be established in a much shorter period and it could not rely on spontaneous forces.<sup>16</sup> Reform thinking, therefore, is a most important scientific activity in the ultimately failed attempt to prove the viability and optimality of a planned system. However, the importance of concrete reform discussions, so characteristic of normal science under communism, can be illustrated by the fate of the contributions to monetary problems of young East German economists in the late 1980s. Within the very restricted confines of 'permitted theoretical evolution', some ideas and proposals may have been considered daring and innovative. Once the restrictions were lifted and the whole stock of Western theory suddenly became available, such contributions did not even reach the stage of publication any more. Together with the specific situation in which they were conceived they lost all professional interest. A similar fate has

befallen the human capital of the Western specialists in comparative economics. 'The doctrine was a kind of code; once the code deciphered it was much easier to understand the books and articles and to read between the lines, an exercise we were all familiar with' writes Lavigne (1996). Such capabilities are no longer needed.

So, what is left is certainly the abortive experience of a central planning system of the Soviet type and of a socialist market system of the Yugoslav type. There seems to be a consensus both within and outside the region that these systems are not sustainably viable. It has to be said that such a conclusion was reached only *post festum* by most scholars dealing with the systems. The Austrian, and especially Hayek's (1944, 1988) critique was taken as a philosophical objection, not as a prediction of collapse. However, the arguments which, taken together, establish the non-viability of the Soviet-type planning system and the Yugoslav-type socialist market system have been accumulated during the whole period of their existence. They are worth remembering, since they constitute the result of a truly evolutionary cognitive process, a body of knowledge with great practical relevance. Knowledge of the Soviet-type system, as well as of the Yugoslavtype system, its working, functional problems, deficiencies and failures, will, it may be hoped, be included in textbooks on economic systems and economic policy for a long time to come. This knowledge, however, is not linked to specific names, schools of thought or outstanding publications. It may turn out, for instance, that the only book written by a scholar from Central and Eastern Europe that is necessary for an understanding of the system will be Kornai (1992) published, in fact, also *post festum*. In all probability, only a few specialists of economic history and the history of economic thought will dig into the details of discussion and argument which accompanied the reform waves from War Communism until the New Economic Mechanism. On the whole, it seems that the contribution of Soviet socialism to economics was, above all, negative in establishing the counter-example of more successful market capitalism.

Nevertheless, we still study the mercantilist writings, although mercantilism as an economic system paradigm is considered inefficient (despite the fact that it is still practised *mutatis mutandis* in certain situations all over the world). For the writings of some mercantilist pamphleteers or scholars contain germs of the future for economic science. Clearly, what is valuable in Colbert, Hume, de la Court, Petty, Hornigk, Becher and others, can be assessed only with the advantage of hindsight. This is the consequence of the evolutionary character of scientific theory. It therefore cannot be excluded, in principle, that the failed socialist experience also contains the germs of a future economic theory, difficult as it may be to imagine that right now. What these are, can also be assessed only with hindsight.

In view of the definitive obituaries for Marx, Marxism and socialism in general, it apparently needs to be stressed that the fall of Soviet-type socialism does not automatically imply the disappearance of the Marxist research programme, i.e. the critique of the capitalist economic system and its political economy. The neoclassical mainstream is under permanent scrutiny and attack by post-Keynesian, evolutionary, institutional, radical and other non-standard schools of thought. Marxism has been one of them. Yet it has to be admitted that no convincing alternatives have been offered by proponents of orthodox East European Marxism. It would be astonishing to find here germs of a new future economics. Despite the impressive development of economic theory in the West during the fifty post-war years, there remain a number of problems connected with the capitalist market economy which have been solved satisfactorily neither in theory nor in practice:<sup>17</sup>

- Distribution of income among wages and profits, part of the classical inheritance, has been utterly neglected by neoclassical theory or externalized as just a political problem.
- Unemployment has become a permanent feature of market economies. It cannot be reduced either by standard neoclassical methods (wage flexibility for example) or by interventionist approaches. How can we account for such a permanent deviation from equilibrium?
- The role of non-price signals, as, for instance, treated by Weitzman (1974) and Kornai (1980), is not restricted to planned economies and can be used to broaden equilibrium analysis in general.
- Growth and development are both, in theory and in practice, not well accounted for and insufficiently realized. This becomes plainly visible also in transformation. Why the Chinese transformation process, unlike that in Central and East Europe, lacks a transitional crisis and rather experiences a stormy growth period, as expected everywhere after deregulation, is still unexplained.

Of course, it was the planning system which was considered a panacea against all sorts of market failure. Eminent economists such as Kalecki were convinced of its superiority in this context. Again, it has to be admitted that the theoretical and practical solutions of these problems offered in Central and Eastern Europe are not unequivocally convincing although, some time ago, lessons were drawn from the socialist experience (see, for example, Ellman 1979). To sum up, even if the Marxist research programme is still relevant, at least Soviet-socialist theory and practice has not proved that it is productive. This is not the place to speculate over the future of socialism in general and its theoretical foundation.

If our evolutionary conjectures above are not entirely false, something more will be left. For even if transformation is characterized by considerable

imitation and institutional transfer, the economic systems evolving in Central and Eastern Europe will be influenced by their past, by the specific features of the socialist system and its intended and realized reforms and by economic, political and social thinking prevalent in the region. That is to say, transformed capitalism coming from socialist planning, even of the Soviet type, will yield a special type of capitalist economic order. If not, the evolutionary vision would, indeed, be falsified: past and path are irrelevant, convergence to the optimal order is absolute, if no restrictions, legal or ideological, impede the process. It is impossible to pinpoint now the germs of this specific order which are to be found in economic theory and practice of the past and assess their concrete impact. It is not so difficult to conjecture where such germs will concentrate: in property relations (see, for instance, the hesitance all over the region to put soil under free sale), in types of governance (see, for instance, what has been called ‘recombinant property’ in transformed capitalism; Stark 1996), perhaps also in social security (here, transformation is still lagging in all countries). Transformation objectives and the transition path will be influenced by experiences and ideas of the past. There are, it seems, several good reasons not to throw economic thought under communism into the dustbin of history.

### Notes

- 1 Even in the pre-revolutionary period the region under review produced few economists of world fame. Because of the ever-changing political history of the region, it is difficult to link names to our six designated countries. After all, Russia included parts of Poland; Hungary was (a discernible) part of the Habsburg monarchy; Poland was partitioned; the Czech lands belonged to the Austrian part of the Habsburg empire and Slovakia to the Hungarian; a similar, but even more complicated fate was allotted to the former Yugoslavia; the GDR did not exist. If we disregard the latter, we find in Blaug (1986) among the 100 great economists before Keynes, precisely five names from the region: L.von Bortkiewicz, who was born in St. Petersburg, but was active in Berlin, R.Luxemburg, who also worked mainly in Germany, E.Slutsky, N.D.Kondratiev and O.Lange, the latter two being, in fact, younger than Keynes and thus belonging to the socialist period. Only Palgrave (1987) has a somewhat longer list, including for the pre-war period A.V.Chayanov, V.K.Dmitriev, G.A.Feldman, E.A.Preobrazhensky, P.B.Struve, M.J.Tugan-Baranovsky, W.S.Woytinsky and W.M.Zawadzki, and listing among those who worked in the region after World War II A.A.Konüs, M.Manoilescu, V.S.Nemchinov, E.Varga and N.Voznesensky. The world fame of some of these names is, however, debatable.
- 2 Analysing origin and residence of the (at the time of publication) 674 living and 397 dead great economists of Blaug and Sturges (1983), we arrive at the following result:

<i>Country</i>	<i>Birth place</i>	<i>Residence</i>
Russia	29	13 (of whom 1 living)
Hungary	13	1
Poland	10	2



Czechoslovakia	2	–
Yugoslavia	1	–

Again, for the post-war period this boils down to the above-mentioned six: Kantorovich, Novozhilov, Strumilin, Kalecki, Lange and Kornai. The great majority of those who were born in the region emigrated and made their names in the United States.

- 3 Proceedings published in *Ekonomista* 1956–5.
- 4 We have made extensive use of the contribution of Chojnicki (1997) in the discussion of our project.
- 5 There were such slogans to be seen in East Berlin on the occasion of Marx's centenary in 1983.
- 6 This implies that it has lost its property of a theory and adopted the property of an assumption.
- 7 This proposition may sound strange for two reasons. First, the political economy of socialism does not know utility functions. Here we are using Western terminology for something which it does know, namely needs and objective functions. Second, system theoretic partitioning seems to contradict Marxist holism. But once this proposition is accepted, the individual need not suffer from central planning.
- 8 Kautsky and Lenin were evidently unable to appreciate the irony in Marx's (1962:377) remark: 'It is characteristic of the most enthusiastic partisans of the factory system that they cannot find a more serious criticism of any general organization of social labour than claiming it would change the whole society into one factory.'
- 9 This, of course, was the reason why the Dutch economist Pierson (1902) jumped on this point of Kautsky's exposition of the socialist system.
- 10 Two remarkable exceptions have to be mentioned. The fact that Sraffa's (1960) famous tract has been translated and edited in East Berlin shows that some people (in this case G.Kohlmeier) were abreast of their time. At the same time, exceptional as it was as the only truly theoretical translation from Western languages it must be considered an accident at work, since it had absolutely no influence on East German economic thinking. The opposite case is Yugoslavia where B.Ward's and E.Furubotn and S.Pejovich's theory of the self-managed firm and property rights had a serious impact upon internal theory formation (see Chapter 7). Clearly, there was a huge difference in openness between the economics professions and society in general of Yugoslavia and East Germany.
- 11 Of course, neither Keynes nor Galbraith are especially conducive to appreciation of competitive market processes. Given *The General Theory* and *The New Industrial State* to be the only information available on the theory of the capitalist economic order, this order would neither appear very attractive nor its theory very relevant to a socialist system.
- 12 For a detailed analysis of the translation as well as for a general evaluation of Soviet treatment of Western theory see Gerschenkron (1978).
- 13 'The some hundred thousands US dollars spent by the Foundation on the training of Hungarian professors proved to be the best fruitful investment of all times' (Hárnori 1995:20).
- 14 It is interesting to note that R.Luxemburg's 1903–4 critique of Lenin's verdict against spontaneity was published in the GDR not before 1988, see Luxemburg (1988).
- 15 Jim Leitzel quoted in the discussion a story told by A.Aganbegyan (1989) about the Soviet economist Albert Vajnstajn, still known from the 1920s and later a

- student of national accounting: ‘Someone asked him “How can it be that you spent twenty years in camp, then came out, and immediately wrote your dissertation? Could you study in camp? Did you have books there?” “Goodness me, no”, he replied.... “Of course, I regressed as a scientist in that time, but then economics did not stay in one place either. It regressed, too. So we caught up with each other”.’
- 16 Stalin was quite far-sighted when he said: we will either catch up within 10 years with what the West has attained within 150 years or we will perish. His major error was to confine the insight to material production and to disregard the systemic resilience of capitalism.
- 17 Here, I make use of Lavigne’s (1996) contribution to the discussion.

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# ECONOMICS UNDER SOCIALISM

## The Russian case

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This chapter is divided into several parts. First, some brief general comments are offered on the interconnections between socialism, reform and economics in the USSR. Second, a historical typology of socialist reform economics is offered, followed by a few important insights by Soviet economists. Next, the political economy of socialism, *perestroika* and the economics of transition are discussed in more detail. Then aspects of current change in Russian economic education are touched upon. Finally, some conclusions are offered.

Some limitations of the chapter need to be pointed out. The discussion does not attempt a global picture of the evolution of Soviet economics. In earlier publications the present authors have discussed many of the building blocks missing here (see, for example, Sutela 1984, 1987, 1991, 1992, Mau 1990, 1993, 1995a,b,c, 1996). At least some of the biases inevitable given the space available should be pointed out. First, this chapter concentrates on that part of Russian economic literature that concerns the economy as an allocation mechanism (economic mechanism, to use Russian terminology). Issues of ownership and organization, for instance, tend to be left out. Branch economics are also absent, though in the case of agricultural economics, for instance, a discussion would be well warranted. Second, the emphasis is on the writings of academic economists. Economic journalists, for instance, are largely neglected. Third, the discussion only concerns published writings. In spite of Soviet censorship and ideological constraints, this is not an unduly restrictive limitation. There was very little economic samizdat in the USSR. Nor did the lifting of publishing restrictions produce a notable flow of previously suppressed manuscripts. Fourth, the chapter surveys Soviet literature largely separated from Western and East European scholarship. Foreign influences are usually not traced. Nor is the degree of

originality of Soviet economists discussed in a systematic way. Fifth, though Soviet and other economics do not live in a vacuum, the interconnections between economic development, social problems, policies, reforms and scholarship are highlighted at most incidentally. Sixth, in the Soviet case one has to start the analysis from the 1930s when both the centrally managed economy and the political economy of socialism were established as two aspects of the Stalinist revolution. This leaves out the remarkable Soviet economics of the 1920s and also later discussions on the New Economic Policy, as important as they often were as barely disguised reform proposals. Finally, though the number of economists discussed or at least mentioned is large enough, even such eminent representatives as *Stanislav Strumilin* (1877–1974) and Yakov Kvasha receive only a brief mention.

### Socialism, reform and economics

#### *General considerations*

As argued in earlier publications (Sutela 1984, 1987, 1991, 1992), ever since the 1930s Soviet economics of socialism were faced with a dual task. On the one hand, the discipline was defined by the authorities as an integral part of the general Marxist—Leninist doctrine. This, naturally, endowed economics with the greatest official importance, as Marxists traditionally, and Soviet Marxist-Leninists in particular, were proud to base their policies on alleged objectively existing societal laws founded and elaborated upon by scholars—under the closest censorship, supervision and guidance by the responsible party-state authorities, of course.

The scientist attitude of the Bolsheviks sets them in a class of their own among modern political movements. Still, the scientism of the Marxist-Leninists should not appear in an absolute way. At least the more successful among the Marxist—Leninists always considered power the highest of priorities. The needs of power moulded the conduct of ideology much more than vice versa. Following the twists of *Realpolitik*, yesterday's heresies could and, indeed, did become today's orthodoxy overnight. The relation between power, ideology and economics was, however, never as simple as setting the latter two equal and subordinating the ensuing doctrine directly and completely to the needs of power. This is so for several reasons.

First, there was the issue of the practical value of economics. Soviet economics was never supposed to be exclusively about ideology. There was a recurrent if not a persistent call for scholarly usefulness all the way from the 1930s until the times of *perestroika*. There was a sphere of high, ideologically loaded political economy—both of socialism and of capitalism—living its almost separate life as a quasi-intellectual *Glasperlenspiel*, but without any clear rules of the game. In this respect, comparisons with belief systems and quasi-theologies are well in place. All

eventually practical proposals of economists had to be such that they could be seen as remaining within the boundaries of the current official definition of socialism and its developmental laws. Only seldom could scholars aim at changing the definitions, and usually even then only in marginal ways. Defining socialism, enumerating its laws and even interpreting them remained the prerogative of the political (and politically motivated) authorities. Doctrinal consistency was unnecessary here. Given the sharp turns of political considerations, too much logic was not only irrelevant but could also be downright dangerous.

Second, ideology was never totally monolithic. This is graphically shown by the project of an official textbook of Marxist—Leninist political economy. The project was launched in 1936 and the outcome was finally published in 1954 (Sutela 1984:61–7, 70–5). Careers were created and lives ruined around the project. Still, the published textbook reigned unchallenged only for a few years. Competing textbooks were soon published. Attempts to relaunch a single official textbook failed in the 1970s. The differences between existing alternative truths were not major, but they did have some at least marginally interesting implications. In this perspective there is nothing surprising about the fact that being an economist member of the Soviet Politburo was one of the more dangerous positions available, as the cases of Sokolnikov, Bukharin and *Nikolai Voznesensky* (1903–50) highlight.

Most economists naturally did not risk execution most of the time. Dangers were of a smaller scale, but hardly any more foreseeable. Within and around the economics profession, a set of ideological priests gathered, searching for different possibilities to further the always interconnected goals of communism and personal advancement. In a changing and unpredictable environment, keeping the canons of doctrinal purity was not an easy job, but the supply of gatekeepers, if not their quality, was usually quite sufficient. As Albert Vainshtein, an economist of the 1920s who survived the purges, commented in 1965, much of political economy had actually not been descriptive but outright destructive (*Ekonomisty* 1965).

The main exception to the logic just outlined, naturally, was *perestroika* which consciously aimed just at profoundly changing the definition of socialism (Yakovlev 1994). *Perestroika* did produce the one economist Politbureau member who survived<sup>2</sup>—*Vadim Medvedev* (b. 1929)—but it also triggered the final collapse of Soviet socialism. In this historical instance at least, socialism proved unreformable.

*Perestroika* is of exceptional importance for this study because it was the final showdown for the Russian Marxist scientist pretensions mentioned above. *Aleksandr Yakovlev* (b. 1923), the main ideologist of *perestroika*, recently wrote about the late 1980s:

an illusion was created that what needs to be done is to gather as full and reliable information as possible, analyse it strictly



scientifically and (then) act in a corresponding way—in that case everything will go in the necessary direction, an honest and reasonable policy will be formed. This is an illusion which I also shared.

(Yakovlev 1994:205)

This illusion—let us call it the objectivity illusion—is central to this study. Reflecting a complete neglect of any questions of power and knowledge, the objectivity illusion is a highly peculiar mistake for people who should have been well immersed in classical and Marxist theories of class and power.

The objectivity illusion helps to understand the prominence of such empirical social scientists as *Abel Aganbegyan* (b. 1932) and *Tatyana Zaslavskaya* (b. 1927) during the early years of *perestroika*. In the mid-1980s Andropov and then Gorbachev scolded economists and social scientists in general for having neglected the study of ‘the society in which we live and work’. True, empirical social studies were few and of dubious quality. What Gorbachev chose to be silent about was that it was his party that had actively made such studies impossible. Aganbegyan and Zaslavskaya were probably closest to being the prominent exceptions to the rule. Therefore, their voice was prominent both in the media and in the Kremlin.

But then another illusion was revealed. Why should anybody believe that Soviet social scientists, given all their handicaps to be discussed below, were in a position to formulate a necessary programme of reform—even bypassing the issues of the eligibility to implement them or to reform socialism as such hinted at above? In fact, the truth about Soviet economics is cruel. Economic *perestroika* was based on the best advice that Soviet economics could offer. The failure of policy was also a failure of doctrine.

Calls for a practically useful economic science started in the 1930s, blossomed in the 1950s and continued until the collapse of socialism. What changed over these decades was not only the cognitive level of economists but also—and probably more importantly—the definition of what was officially acceptable as a proposal for improving socialism. Given the progressively diminishing availability of economists with a pre-revolutionary education during the decades of Soviet rule, it is rather less than self-evident that the economists’ cognitive level actually improved. But on the other hand, the overall trend was towards piecemeal political liberalization. This, together with purely technical progress, probably implies that the Soviet economists’ policy advice improved towards the end of the Soviet period.

Navigating the Scylla and Charybdis of the practically useful and the politically acceptable was never easy. Therefore, most of the intellectually low to medium-brow economists accepted a totally subordinate position for

themselves. Abandoning any questions of seeming immediate or even looser political relevance, they confined themselves to such humble matters that could be deemed devoid of danger. Most economists accept some such position for themselves in any society, defining implicitly or explicitly themselves as technocrats, social engineers or—as Keynes put it—economic dentists. Still, the situation in the USSR was different from the one probably prevailing in, say, Nazi Germany. Because of weak and broken intellectual traditions, adverse selection into higher education in the social sciences and the capricious character of the political framework, the general standards of economic research in the USSR were—as far as can be judged afterwards—exceptionally low.

The matter was further complicated by the general uselessness of available information. Apart from explicit censorship, the general random character of most economic quantities under socialism is a profound problem. Detached from any real theoretical framing, facing a lack of meaningful statistics, and in most cases unable to analyse in any intelligible way what data might be available, Soviet economic research was usually not only boring but also quite valueless. Pity the proverbial CIA analyst who buried herself in piles of Soviet publications to find the famous gold nugget—some knowledge of what was actually going on in the enemy economy.

Looking at the matter from the angle of theoretical economics, the situation was little better. The standard inference that Soviet science was best at what only requires a pencil, some paper and possibly a blackboard is true enough for mathematical economics. This has been documented by Ellman (1973), Zauberman (1976), Sutela (1984) and others. But even pure theory languishes in a vacuum. It needs contacts with world science, and even after the abolition of complete scientific autarchy in the late 1950s there were very few Soviet economists who were publishable in Western professional journals. During the most recent decades, Viktor Polterovich—a world-class specialist on mathematical equilibrium and disequilibrium economics—was about the only successful one. Contemporary theoretical economics often needs advanced computers, and by the 1980s the scope of using only pencil and paper was fast diminishing. But most importantly, theoretical research needs a living contact with facts. There is really no other way to distinguish intellectual pastiches from more fruitful approaches than to be able to ask the guillotine question: ‘Nice, but so what?’ More often than not, the answer can only be in terms of the empiric. That connection was crucially missing in Soviet economics.

Anyone who has had to convince a Soviet economist in the 1980s that it hardly makes sense trying to estimate what were meant to be models of specifically Soviet enterprise behaviour using Finnish company data, is able to appreciate some of the complications involved in the dilemmas just described. The terms empirical and concrete do not, however, only refer to statistics and other such data. There is also a question of social structures

and processes, as will be discussed below in more detail. While most empirical economics was made by low- to mid-brow economists, meaningful theoretical economics—excluding quasi-theologies—is necessarily a high-brow preoccupation. In such scholarship, as in literature, silence can sometimes be very loud indeed. Making a crucial social process exogenous, as the optimal planners often did, might also work as a way of pinpointing its importance. This is a point we shall come back to later on.

### *The objectivity of economic laws*

In the Soviet political economy of socialism the relation between economics, economic policy and the economy can be discussed best under the title of the ‘objectivity of economic laws’. One of the reasons why the official textbook project launched in 1936 dragged on for almost two decades concerns this. Marx and Engels prided themselves on having found the true laws of motion of the capitalist society. According to usual Marxist parlance, those laws were objective in the sense that they existed independently of human consciousness. For a market economy, with its separation of the economy and the polity and with its market forces, this indeed seemed a natural enough idea.

But when victorious socialism was announced, several problems arose. First, Marxism—Leninism claimed to be a general world view and theory, the true objectivist and materialist alternative to all the false subjectivism and idealism. Certainly, therefore, all development should be subject to laws, and social categories and laws should be objective in any society, socialism included. Second, however, socialism did not arise and develop spontaneously. It was proudly announced to have been built under the guidance of the party-state. But did this not imply that a society founded on conscious policy could not be based on objective laws? Third, focusing both on conscious policy and objective laws might permit a dangerous conclusion. Perhaps the party-state did not know, or failed to follow, existing economic laws. Might the role of the economist be that of a critic of policy?

Clearly, these equations are without a satisfactory solution because of the underlying confusion in the concept of ‘objective laws’ and especially because of the utter impossibility of allowing for critical social science under Soviet socialism. But by the 1950s the party had declared that socialism was indeed based on objective economic laws. It was not the product of a political decision but the outcome of historical development. The political and ideological risk involved in the concept of objectivity was first minimized by declaring that the laws involved were such as industrialization, collectivization and other defining features of Soviet socialism.

The problems referred to above came in along two paths. Planning was obviously a central feature of socialism. It had to be based on some law as well. The law involved could not really be planning itself. That was too obviously a conscious process. But there could be something like the law of proportionate development or—even better—the law of planned character *planomernost* of socialism. Planning, then, would be the practical implementation of such laws. But such a conclusion facilitated arguments on better or worse planning and therefore provided for an ideological framework in which to make criticisms and supply propositions for improvement. GDR-German language mirrored the political problem involved perfectly. What was needed was a further perfecting (*weitere Vervollkommnung*) of planning. The system was basically perfect, based on objective laws. But some further work was still possible....

A more serious problem for orthodoxy followed from the incomprehensible Stalinist declaration that the law of value existed objectively in socialism. The declaration was incomprehensible because, for Marx, this law is a shorthand for market processes. Given *planomernost*, what could the law of value mean in socialism?

The first possibility was to focus on pricing. Perhaps the law of value provided the objective basis of prices. This interpretation tied Soviet economists in a strange vocabulary but also provided for several price models to choose from. Should socialist prices be based on a crude version of the idea set out in *Das Kapital* Vol. I of counting only labour costs? Or was there a peculiar socialist modification of this principle? Or perhaps prices should be based on a *Das Kapital* Vol. III production price model, where capital costs are also included. Doesn't Marx also discuss equilibrium prices as somehow embodying the law of value? Such issues were debated at length in the late 1950s and early 1960s.

The second alternative in discussing the law of value under socialism was to proceed beyond the pricing interpretation. Was not the law of value actually the reflection of something more general, something that Marx had also called the law of economy of time? Did not that imply the need to attain efficiency by economizing on live and embodied labour? Was not the planning task—according to the law of value in socialism—actually the task of minimizing total labour input, given various constraints? Were proper socialist prices therefore not simply the shadow prices derived from such an optimizing task? This is the argumentation developed by V.V. *Novozhilov* (1892–1970), *Nikolai Petrakov* (b. 1937) and *Yevgeny Yasin* (b. 1934) in the late 1960s. Optimal planning was for them the proper Marxist interpretation of socialism.

The third alternative interpretation of the law of value in socialism was ideologically even more sensitive. It was based on simply taking Marx at face value: for most reformers the law of value became a code word for markets. Surely, this cannot have been the original intention when the existence of this law was decreed.

## A typology of socialist reform economics

### *Introduction*

Typologies can be useful for structuring amorphous phenomena. The typology used below was first outlined in Sutela (1991) and presented in a more finalized form in Sutela (1992). The variant proposed here, however, differs from the earlier ones. The purpose is to present a sequence of socialist reform measures in a way which combines history with a logical stepwise process. Logically—as pointed out by Balcerowicz (1992)—socialist reforms proceeded by relaxing one by one the crucial assumptions defining socialism. In the end, nothing was left of socialism, and transition followed reforms.

Historically, a similar stepwise process is clearly in evidence. This process is not consecutive: elements of different logical steps often coexisted, as allowing less stringent definitions of socialism did not necessarily kill off or even make irrelevant all the proposals logically belonging to the previous step(s). The logical sequence is not necessarily the only one possible, but it is the one empirically in evidence, and indeed it is logical. Here, this development is traced on the basis of Soviet planning theory; later in this chapter the same sequence is characterized in political economy.

### *The pre-stage of economic reform*

The starting point is the Kautsky—Lenin image of socialism as a single hierarchical factory (Sutela 1984, Mau 1993). This image, whose roots go back all the way to Robespierre and Rousseau, depicted the future society as a nineteenth-century deterministic mechanism functioning like a clockwork—or to use another image also belonging to nineteenth-century socialism, as ‘the German army under von Moltke’—to reach the goals predetermined by society or, more realistically, its ruling élite. With important exceptions, most reform economists would argue that exactly this image of the future society was the one implicitly or explicitly followed in the practical ‘construction—of socialism’. Elements of self-management were also present in classical Marxism but they were neglected in Soviet theory and practice.

For various reasons the normative model could only be very roughly approximated in practice. There was thus always much to be improved in the sense of making actual reality correspond more closely to the normative model. Such efforts constitute the historical and logical pre-stage of economic reform. By personnel changes and purges, by organizational changes, by the implementation of shifts in investment allocation as well as by the reformulation of centralized pricing rules and also incentive schemes, the pre-stage tries to make the existent allocation mechanism conform more

closely to the Kautsky-Lenin image. One can also characterize these endeavours as attempts to make the existing bureaucracy conform more closely to the Weberian ideal of bureaucracy.

This phase of economic reform, an attempt to rationalize and make feasible the single factory model, was entered into immediately after the institution of the centrally managed system. In the Soviet case, the economic literature of the 1930s is surprisingly rich in proposals towards this goal (Sutela 1987). Moreover, these proposals proved almost a permanent feature of Soviet economic debates. Many of the proposed incentive schemes, for instance, reappeared repeatedly during the coming decades. The need to make prices and physical planning conform was also already understood in the 1930s. Indeed until the 1960s some of the veterans of the discussions of the early period—people like Shamaï Turetsky and especially Aleksandr Birman—remained among the prominent reformers. Later, as discussed below, pre-stage proposals dominated reformism within Soviet political economy in the 1970s and 1980s.

This does not imply that there was no progress within proposals that still logically belong to the pre-phase. There was a ripening of the Soviet economic system, there was accumulation of experience and learning among the economists, there was the experience of other centrally managed economies, there was a softening of the political atmosphere, and there was technological progress. All of this mattered.

To take just one example. *Leonid Kantorovich* (1912–86), a young Leningrad mathematics professor in the 1930s, was convinced of the need to make mathematics useful in practice. He was eager to accept the famous Veneer Trust task, and having solved it, even more eager to generalize his approach to economic planning at the national economic level (Sutela 1991:29–34). The 1939 Veneer Trust case hardly attracted the attention of economic planners in general, but the 1942 generalization was a different matter altogether. National economic planning, Kantorovich argued, should be seen as optimization under constraints, the attainment—as Kantorovich formulated it—of maximum production subject to various resource availabilities, technologies and a predetermined product mix.

Kantorovich's approach was within the Kautsky-Lenin framework in several respects. It was firmly within the single factory tradition, literally a generalization of the veneer trust case on to the national economic level. Property rights, markets, competition or macroeconomics in general were all bypassed. Reflecting Soviet realities, determination of the product mix was taken to be exogenous, within the competence of the planners, while the maximizing approach was well in line with the current ethos of quantitative growthmanship. And what is most important, Kantorovich was proposing social engineering written large. As academician *V.L. Makarov* (b. 1937), a pupil and collaborator of Kantorovich, was to write decades later, the mathematician's approach was based on

the possibility, immanent to socialism, of constructing the economic system. Because socialism, in distinction from earlier formations, has an author—the Marxist-Leninist doctrine—the economic system too must be constructed consciously, proceeding from the theoretical conception of this doctrine.

(Makarov 1987)

Kantorovich's was thus an extremely narrow technocratic suboptimization approach. By consciously neglecting all social and political issues it made the economist a humble servant of the Stalinist state. Still, when in late 1942 Kantorovich submitted the manuscript for approval in beleaguered Leningrad, the reaction of Soviet economists was reportedly in the main negative. This was partly because the computers needed for solving Kantorovich's formulation were unavailable, but more importantly, in contemporary orthodoxy the socialist economy was supposed to be about loosening the constraints, not about optimally adapting to them. One professor of statistics reportedly scolded Kantorovich for 'speaking about the optimum, while Pareto also spoke about the optimum and Pareto was a fascist' (cited in Belykh 1989).

Because the rationalizing proposals of the pre-stage of economic reform could be seen as attempts to narrow down the prerogatives of the politicians and planners to make irrational decisions, their tolerance of such discussions varied over time. In 1938 Molotov is said to have banned any discussion by economists on prices because that was not their concern (Sutela 1991:13). Ten years later, one of the reasons for the demise of Nikolai Voznesensky in 1948 must have been his long-nurtured technocratic approach to planning. Voznesensky defined the political economy of socialism as a study of 'the laws of planning and organizing production' (Voznesensky 1948). Justly famous debates on pricing and investment criteria were waged in the late 1940s, until the efficiency approach in economics was condemned in the person of one Yaroshenko by Stalin in his economic *magnum opus*, a brochure of assorted comments on various economists' opinions (Stalin 1952).

The simple problem with arbitrariness in the economy is that it becomes all too expensive in terms of production, efficiency and welfare. A consensus on this was soon found by the post-Stalin Soviet leaders. The 1950s were a period of wide criticisms of established Soviet Marxist—Leninist political economy. Politicians and officials scolded it for its irrelevance, scholasticism, undue abstractness and other related sins. Something else was called for. As one Central Committee secretary put it somewhat later, in 1963, 'practical results are the decisive criterion for the value of science' (Ilichev 1963:21). Since the late 1950s, reformist economists were fast in offering their commodity based on three interconnected main pillars. One of them was Kantorovich's book, finally

published in 1959 and also available in English (Kantorovich 1965). Another was the work of V.V. Novozhilov (1970, 1972) and the third one that of V.S. *Nemchinov* (1894–1964) (1964a). Kantorovich provided the underlying mathematical approach, Novozhilov—among other things—much of its economic interpretation in a way acceptable to Marxists, while Nemchinov combined many properties, among them political and organizational acumen with a good economic intuition.

The optimal planning approach, as this current became known, was never homogeneous. Especially in the 1950s, but also in the 1960s its main proponents tended to emphasize the social engineering character of the approach. Nemchinov and Novozhilov soon evolved into proponents of limited market mechanisms or phase II of economic reforms, while Kantorovich's mature approach can perhaps be best characterized as a prominent example of phase I of economic reform. Many others saw in mathematical planning methods and computing just a tool for maintaining existing institutional relations. Input-output was supposed to create consistency in plans; growth economics would substantiate longer-range planning than had been actually possible before; enterprise models would assist in developing incentives; regional models would provide the basis for spatial planning; and efficient computers would overcome the informational overburden of traditional data channels. In the Russian context, the failures of such 'computopias' have been discussed by Cave (1980), Conyngham (1982), Ellman (1973), Zauberman (1976), Sutela (1984) and others. In the comparative perspective, it is interesting to note that Oskar Lange seems in the 1960s to have come to thinking that computers could indeed outperform markets, rivalry, entrepreneurship and private property rights in solving the allocation problem (Lange 1972).

In Russia, the political economy conclusions drawn from modern economic methods diverged hugely. Some of the reformist interpretations will be discussed below. About the conservatives, it is sufficient to mention here that there were indeed political economists who regarded mathematical planning as a means for returning to Stalinist planning (Moiseenko and Popov 1975).

Before that, another important example of development within the prestige of economic reform should be pointed out. For the sake of size, the single factory of the Kautsky—Lenin image of future society simply must be partitioned into plants. The traditional way of doing that was by creating branches, a solution that leads to various such well-known problems as deficient coordination across branch ministries, attempts at self-sufficiency and excessive transportation. Khrushchev's infamous experiment with *sovmarkhozes* provided a cure that was probably worse than the disease, and it does not seem to have been proposed by economists. The Brezhnev regime duly brought branch management back.



In the 1970s, economists associated with the Novosibirsk Institute of Industrial Economics (Aganbegyan *et al.* 1972) and Moscow's mathematical economists (Danilov-Danilyan and Zavel'sky 1975) proposed planning algorithms that attempted to combine branch and regional aspects of planning. In the Moscow variant, for example, another important departure was the absence of a global objective function to be maximized. The optimum was to be defined through an iterative process between the centre and regional population groups—a proposal reflecting Vasili Nemchinov's earlier ideas for a *khozraschet-economy* and with obvious political implications.

Such proposals were found to be both technically impossible and politically impalatable (Sutela 1984:127–32). Another approach was, however, developing at the same time, and by the mid-1970s different variants of what was called goal-oriented planning were proposed by all the leading research centres. The idea was simple: to identify central social needs or goals and to structure planning around attempts at meeting them. Originally an approach much used in military and strategic planning (the nuclear programme, the space programme, etc.), this had two important implications when applied to national economic planning. First, it abolished the primacy of branch ministries, sometimes even calling for their abolition (Sukhotin 1983) and was therefore often called the inter-branch approach to planning. Second, it also aimed at destroying the traditionally resourcebased 'planning from the achieved level' (the ratchet principle).

In addition, there was an even more far-reaching implication. Assuming that the central goals of the society are limited in number so that programmes only encompass the real priorities, assuming further that planning is somehow organized around the programmes, how are all the non-priority activities to be handled? In 1970, proceeding from the somewhat different perspective of Nemchinov's proposals for a *khozraschet* economy, Nikolai Petrakov had already argued for dual-track planning where most activities would be based on regulated markets. Thereafter, scholars had to tread carefully in their published opinions. It was perhaps only in 1989 that the implicit conclusion so obviously present in goal-oriented planning was published: leave all the non-priority activities to the market (Bim 1989). This was already a proposal for the late *perestroika* years, but here, as in many other aspects of *perestroika*, the proposal given was anchored in the best scholarship of the 1970s.

The example of partitioning the planning problem is interesting for another reason as well. As such, partitioning clearly seems to belong to the pre-stage of economic reform, and although proposals on it may easily have relatively far-reaching consequences, they do not necessarily have them. Thus, for most of its proponents, goal-oriented planning was hardly more than another attempt to avoid the dangers of 'excessive departmentalism'.

Neither should one conclude that Soviet economists were able to analyse in sufficient depth the implications of their proposals. It is one thing to imply that some activities might be left to the market, another to elaborate what the interconnections between plan and market might actually be. Such elaborations were usually left missing.

### *Phase I of economic reform*

Economic reforms proper begin where at least one of the defining features of traditional planning is challenged. The defining feature chosen here for the point of departure of discussion is the concept of factory-specific compulsory plan targets, often called ‘addressed plans’, in contrast to ‘parametric’—or in Russian ‘normative’—plans. In parametric planning, the centre determines directly only such value parameters as prices, interest rates and a depreciation coefficient common to all or at least a large number of plants. Addressed plans are a defining feature of traditional planning. Normative planning came to be the Soviet variant of phase I of economic reform. As long as discussion on the ‘petty tutelage’ of plants by ministries only concerned the instability, contradictory character and excessive numbers of assuredly obligatory plan indicators, debate remained within the pre-stage of reform. But when the idea of factory-specific targets itself was challenged, discussion had reached phase I of economic reform.

In the USSR, economists had proceeded so far by the early 1960s. Kantorovich’s optimal planning seemed to have proved the possibility of indirect centralization. Direct, traditional centralization was based on hierarchically determined compulsory enterprise-specific targets. In an optimal plan, however, shadow prices can be used to decentralize the planning task in the sense that once they have been derived with the constrained optimum, shadow prices can be used as parameters, guiding profit-oriented plants to activities consistent with the objective function and constraints of the planning task. This is still centralized planning as the shadow prices are derived from a—possibly unified—central plan. But enterprise behaviour is not commanded from above, it is guided by parameters. In a perfect setting, plants have no reason to act against the wishes of the centre. Given the economic environment formed by the parameters, factories under these conditions are free to find out all by themselves what the centre wants them to do. That is also in the plants’ own best interests. Incentive problems have been solved.

This idea was the main inspiration of Soviet reform economics from early 1960s all the way until *perestroika*. It was formulated by Kantorovich, specified by Novozhilov and widely disseminated by Nemchinov. In various forms, it was propagated by a generation of Soviet reform economists, both optimal planners and the political economists to be discussed further below. The views of Vasili Nemchinov, in particular, are of special interest. His last

article was published in 1964. Almost twenty-five years later Mikhail Gorbachev singled this article out as the theoretical inspiration of *perestroika* (Sutela 1991:62). We should therefore ask what Nemchinov's *khozraschet* economy actually implied.

For all the scholarly, pedagogical and political skills of Nemchinov, interpreting his writings is not easy. Nevertheless, an attempt has been made (Sutela 1991:62–7). First, one should note the things that Nemchinov did not propose. He did not argue against the monopoly of state ownership; he argued for strengthening the role of planning; he opposed 'free markets and market competition'; and he never dwelled on the internal organization of factories or the status of hierarchically higher institutions.

Nemchinov argued for central planning with limited independence for enterprises. The number of obligatory plan targets was to be dramatically reduced; parameters guiding enterprise behaviour had to be stable; most production would, in addition to a few obligatory targets and stable parameters, be based on central orders allocated in a competitive process; factories would further decide on their activities through horizontal contracts; means of production would be allocated by wholesale trade; and plants would be free to sell any production in excess of plan orders, though in most cases for prices centrally set.

This is probably the first proposal for a dual-track planning system. Still Nemchinov was careful to emphasize that the contract system did not amount to markets. Contracts would be strictly monitored and in most cases based on centralized pricing. This is basically still a phase I view.

As already mentioned, the dual-track planning view was further developed by Petrakov (1970, 1971) a few years later. His view was that most production should be based on market demand. Only the most important goods should be subject to explicit planning. Even market-determined production would be subject to central regulation through resource payments, taxation and finance. Some resources would remain centrally allocated, and at least some prices would also be centrally fixed. In general, however, Petrakov was somewhat unclear about the relation between market-determined and centrally fixed prices. His recommendations on these matters also varied with political cycles. This did not prevent him from being among the economists most fiercely criticized for the sinister sin of market socialism (Sutela 1984, 1991).

Clearly inspired by the optimal planners, some leading young reformist political economists such as *Leonid Abalkin* (b. 1930) (e.g. 1973) and *Vadim Medvedev* (e.g. 1966) developed views on 'planned socialist markets' or 'commodity—money relations'. According to these views, the crucial difference—there are others as well—between socialist and capitalist markets was simple. In socialism prices and other values are planned. Therefore, Abalkin and Medvedev proposed a case for indirect centralization, not for an economy with actual markets.

The absorbed habit of using market economy-related Marxist terms like the law of value while discussing the Soviet economy unfortunately muddled much Soviet debate. An overarching distinction between *tovarniki* (marketeers) and *antitovarniki* emerged. The former argued that Soviet socialism either was or should be a specific socialist variant of commodity production. They were usually identified as reformers, as they argued for the legitimacy and desirability of markets in some sense. In their vocabulary, the law of value existed in socialism. The *antitovarniki*, on the other hand, referred to Marxian orthodoxy and pointed out that Marx fundamentally equalled markets, the law of value and capitalism. They were seen as being anti-reform, as they basically argued that markets were an alien body within socialism.

In general theoretical terms and taking Marx seriously, as Mau (1995c) points out, the *antitovarniki* of the 1960s and the 1970s were right to criticize the *tovarniki*. Actual markets cannot be planned, and exchange with exogenous prices does not amount to markets. Phase I socialist reformism is not about markets. Verging on acting as devil's advocate, Abalkin (1970) gave a clear discussion of the issues involved. In the USSR, he argued, monopoly of state ownership axiomatically exists. This necessarily implies centralized planning. Why? As the state combines both political and economic power, it is necessarily the one and only centre of authority in the country. Such power cannot be shared with markets or any other possible centre of power. As a positive analyst, Abalkin clearly cannot be faulted: real markets are only possible if the state sheds its totalitarian ambitions, voluntarily or otherwise.

Later Abalkin came to write much about the specifics of 'socialist markets'. The real specific feature, naturally, was that they were not actual markets. It took until about 1989 to abandon the theory of specifically socialist markets. Even then, Soviet economists usually simply abandoned their earlier views. They rarely argued in any detail why those views had been wrong and why they had been abandoned.

Among the optimal planners, *Stanislav Shatalin* (b. 1934) shared fundamentally the same approach in the 1970s as Abalkin. In a series of articles and books from the 1960s until the 1980s—discussed in Sutela (1984:176–84)—he put forward three propositions. First, markets cannot be planned (e.g. Shatalin 1982). Second, the more there is planning, the less role have markets to play (Grebennikov *et al.* 1975). Third, the idea of markets implementing either plans or optimality in general is 'simply mystical' (Shatalin 1982).

If one believes in the practical possibility of an optimal plan, Shatalin's approach is surely the logically correct one. But actually, there are many well-known and often discussed reasons why the idea of perfect indirect centralization is a utopian one. This is one of the reasons why Soviet reform debates declined to stay within the neat theoretical boundaries of *ex post* analysis. In fact, they kept sliding between phases I and II of economic reform.

*Phase II of economic reform*

As defined here, phase II of economic reform starts when the replacement of parametric planning with centrally calculated prices by actual markets is proposed. It is, in retrospect, almost incomprehensible that anyone can have truly and seriously believed in phase I, that is in the possibility of having all the prices—and wages, interest rates, depreciation coefficients etc.—determined centrally, even by less than an optimal plan. But as we know, such ambitions certainly existed. And they were not only limited to those economists whom we would regard as conservatives. On the contrary, even Novozhilov (1963:52) argued in 1963 that literally all prices and other parameters relevant to indirect centralization should indeed be derived from the centrally determined optimal plan. In this sense, all economic questions—without a single area remaining outside of state management—would be handled jointly by the centre and the enterprises. Nevertheless, after a few years of experience in trying to draft optimal plans in practice, surely not only a reformist like Novozhilov but also any centralist economist worth something must have conceded deep in her/his heart that some prices simply have to be market-determined until the heady day on which full communism finally arrives. But if such markets were of very minor importance indeed and especially if other possible attributes of real markets—concerning entry and exit, for instance—did not obtain, such concessions would not really amount to phase II economic reformism or market socialism. Something more relevant had to be at work, though the minimal requirements are difficult to define in any precise way, especially in an environment heavily influenced by censorship and political taboos.

This difficulty of interpretation is serious not only in proposals for parametric planning but also in the easily related but logically separate case of dual-track planning proposals. At one extreme, it might be a proposal for leaving only sausage kiosks outside of explicit planning. At the other extreme, only the state budget sphere would be actually planned. The former case would be little different from traditional socialism. The latter case might in principle equal the distinction between markets and hierarchies in a true market economy.

The inherent problems of dual-track planning have been much discussed, in particular for the Chinese case. Soviet debates never reached such a level of concreteness, though the proposals for *kazennye*—treasury-owned—enterprises in the early transition years clearly belong in the same tradition. Concerning these and earlier debates, it is difficult to say with certainty to what degree unclarities were due to political constraints and to what degree they simply reflected muddled thinking. The interesting fact that almost no economics *samizdat* existed in the USSR and no major unpublished works later emerged from scholars' safes clearly hints at the latter possibility.

During *perestroika*, despite the unlimited possibilities to publish given to Soviet economists very little of theoretical interest appeared. They were also given a real possibility of influencing policies. The reforms failed.

In high theory, the most prominent candidate for the title of leading Soviet proponent of markets in the 1960s was Viktor Volkonsky. Basing his views on the by-then already well-established equivalence between an optimal plan and an economic game, he argued in a 1967 book that ‘the greatest achievement of world economic science is the strict proof of the ...possibility of setting up a system of optimal decentralised management founded upon commodity-money or *khozraschet-relations*’ (Volkonsky 1967a:10).

To be strict, Volkonsky is not explicit on whether he had actual markets or perhaps a kind of bargaining process in mind. What seems to be certain is that he was not referring to indirect centralization. He was also criticized all through the coming decades as a market socialist. Still, he also warned about the cyclical problems of markets and was explicitly unwilling to leave large investment decisions to be made by markets, due to the inconveniences involved.

Volkonsky is a mathematical economist. Nevertheless, his comments on the social framework were among the most prominent in Soviet discussions. First, there was the issue of functioning markets, exit, unemployment and its social and political consequences. Aleksandr Birman, a veteran political economist and prominent reformist since the late 1930s, had argued that chronically loss-making plants should be closed. In a masterpiece of the craft of writing under censorship, Volkonsky very visibly chose not to comment:

Of even more importance [than material incentives] is the question raised by Prof. A.M.Birman on the unavoidability of the consequences of bad economizing under the market system. The practice of economic management both in this country and abroad gives much material analysing this problem, which is one of the key issues in the political economy of socialism and is also connected with socio-economic questions. Discussing it, though, is not one of the tasks of this article.

(Volkonsky 1967b:493)

Much later, in 1996, Volkonsky proved still true to his market socialist convictions by emerging as one of the economic advisers of Gennady Zyuganov, the communist presidential candidate.

From another methodological extreme of the economics profession, the journalist Gennady Lisichkin emerged in 1966 as a proponent of market socialism (Lisichkin 1966). He insisted upon the difference between genuine markets and the use of commodity—money relations in indirect

centralization. For him, the New Economic Policy (NEP) of the 1920s was the model of the market alternative, as such ‘the uniquely correct system of economic relations, until such time as full communism is built’. As the head of the economics section of *Pravda*, Lisichkin was a prominent and influential journalist. His preference for markets was clear, and later he had to suffer for his views. His journalistic analysis was, however, limited by the fact that he only understood markets as ‘a complicated structure of conditions under which the disposal [*realizatsiya*] of social product takes place’ (Lisichkin 1966:13, 56). This is an extremely limited view of markets.

It is important to remember that Soviet economists naturally were following developments in the other socialist countries, particularly in Hungary, whose reform can be seen as implemented phase II reform economics. Possibly the most outspoken proponent of the Hungarian model was the Novosibirsk economist Raimundas Karagedov. Even in the very conservative year of 1974 he was able to write that the Hungarian model had ‘proved its viability and can be regarded as a model of planned management of socialist production with a future’. Furthermore its importance ‘stretched beyond the borders of the country in question’ (Karagedov 1974).

To conclude the discussion on markets in Soviet economics of the 1960s, the contribution of Nikolai Petrakov should be noted. Though a prominent young member of the optimal planning approach, Petrakov was never a mathematical economist. Indeed, heavily influenced by Novozhilov, he sometimes criticized his fellow optimal planners for excessive formal technocracy. His approach to understanding the role of markets was a different one. Petrakov’s 1970 *Novyi mir* article was probably the first case of a Soviet economist explicitly abandoning the Kautsky—Lenin image of socialism as a single factory. A social objective function does not exist, Petrakov argued, contradicting not only Soviet ideology but also early optimal planning theory. Instead, there must be a ‘mechanism for defining, specifying and correcting’ social goals. In particular, planning is too important to be left to planners only: they also have their specific interests.

Markets, Petrakov argued in an Austrian vein, are not only mechanisms for transmitting existing information. Of more importance is the generation of new information. Both this and the articulation of interests demand the existence of pluralism in society. Petrakov actually used the term in print. Social decisions should essentially be informal compromises which take into account the diversity of existing interests. This is not social engineering. Petrakov called quite openly for a pluralistic political process. He combined pluralism, markets and the generation of information in a way that was truly pathbreaking in the USSR. But his ‘Austrian’ approach did not and could not go as far as arguing for the necessity of private property. He remained a socialist and would later emerge as an adviser to Gorbachev.

Petrakov's criticism of centralized planning is particularly interesting in his discussion of equilibrium prices. Scarcity, he pointed out, has to be rationed, either by prices or through planning. The former method, he stated, is the democratic one. Rationing through planning, in addition to having various efficiency and equity deficiencies, is an undemocratic method of allocation. It subjects consumers to the discretion of the planners. Altogether, Petrakov's article puts forward an Austrian argument for markets and market pricing, and his criticism of technocratic optimal planning was an important departure in Soviet economics. Overall, by crossing the prevalent Soviet abyss between economic and political radicalism Petrakov broke important new ground in the USSR. Consequently he was heavily criticized, and later he had to argue for equilibrium prices derived from plans. To make matters worse, to combat petty tutelage by ministries over enterprises—a typical phase I concern—he and other optimal planners also argued for the stability of normatives like prices over periods of five years. Predictable policies are a worthy goal, but five-year planning of equilibrium prices is an idea not of this world. Petrakov's proposals for dual-track planning contain several other unresolved problems as well (Sutela 1991:85), but most importantly, Petrakov's democratic arguments for markets preceded those of *Gavriil Popov* (b. 1936), *Nikolai Shmelyov* (b. 1936) and Abalkin by almost twenty years. In the late 1980s, the idea finally became widely accepted and as an adviser to Gorbachev, Petrakov then participated in a grand failure to reform the Soviet economy.

After the radicalism of the 1960s, a conservative period followed. Until the late 1980s, economic reform discussion was either in terms of commodity—money relations or in terms of socialist markets. An idea of markets regulated so deeply that they are actually planned was the underlying conclusion. In debate and in legislation this led to various anomalies.

First, the often-expressed view that socialist markets could somehow utilize only the assumed 'positive' features of real markets, leaving the assumedly 'negative' features to capitalism, was utterly naive and reflected a highly technical view of markets. Only very late did Abalkin (1989), for instance, argue that markets are markets are markets. But even then he added that given a socialist environment, markets do not produce unemployment or exploitation. Commodity arbitrage, the key both to entrepreneurship, capital accumulation under disequilibrium, and also to greater efficiency through approximation of the law of one price, remained illegal under Soviet legislation. Therefore the USSR failed one crucial test on whether real markets are officially allowed. As long as commodity arbitrage is illegal, real markets are naturally outlawed as well.

The second anomaly concerned the position of market producers. The 1987 law on Socialist Enterprise was remarkable for several reasons. Following 1986 proposals (Anon. 1987) put together by such leading reformist economists as Aganbegyan, Abalkin, *Pavel Bunich* (b. 1929),



Petrakov, Popov and Shatalin (Sutela 1991:151–4), the law was based on the ideas of the 1970s on dual-track planning, stable normatives, increased enterprise autonomy and labour self-management, of which more below. But the law also still argued that enterprises are both market producers and hierarchically subordinated administrative units. Among other things, that implied that the system failed another test for the actuality of markets: most pricing would remain centralized.

Afterwards, reform economists would emphasize how the 1987 law was the result of compromises, often finalized by conservative bureaucrats totally ignorant of economics (Aganbegyan 1989). That is true, but it is equally true that centralized pricing and stable normatives were a part of the 1986 concept proposed by economists. Actually, at the time they even did not use the word markets. All talk was of commodity-money relations and of indirect centralization. The anomalies of the early *perestroika* policy cannot be explained by bureaucratic inertia only. They are also anomalies of the very best in the Soviet economics profession. This is the background against which a small article by *Larissariza Piyasheva* (b. 1947) (Popkova 1987) and a larger piece by Nikolai Shmelyov (1987) attracted such an attention. Piyasheva, in particular, argued that any attempts to combine socialism and markets are destined to fail. One cannot be partially pregnant, as she famously put it. Shmelyov, among other things, declared readiness to accept unemployment as a price to be paid for markets. But in 1987 *Otto Latsis* (b. 1934), a leading reformist, could still counter Piyasheva by stating that optimal planning theory had shown that indirect centralization is both possible and desirable (Latsis 1987). Old illusions were still prevalent among reformers. No economist, it seems, rose to defend ‘Popkova’.

### *Phase III of economic reform*

The last phase of socialist reform discussions comes when in addition to commodity—and labour—markets, the need for capital markets is also recognized. In Eastern Europe, such recognition seems to have arisen from two alternative sources. Either one tended to emphasize the need for efficiency in capital allocation and argued that capital markets should supplant bureaucratic distribution. Or, more frequently, one proceeded from the Kornai thinking on soft budget constraints and argued more widely that capital markets are needed to cut the paternalistic umbilical cord between plants and the state hierarchy. Either way, such debates still remain within reform economics if it is thought that capital markets can be created while maintaining suitably defined socialism. Two major alternatives seem to have appeared: market socialism based upon self-management and market socialism based upon such quasi-state capital managers as banks or funds. In both variants enterprises would be able to raise capital in markets. The difference is in *de facto* property relations: whether enterprises are owned by

employees or outside capital managers. As far as both classes of owners can be presented as the representatives of the state and no formal privatization takes place, this is still market socialism.

Leaving aside the specific case of Yugoslavia, employee self-management was proposed and partially implemented in Hungary and especially in Poland. Later, that was to have an impact on the fortunes of privatization policies in both countries. Proposals for quasi-state capital managers remained academic in both countries until existing political constraints were removed and the issue of socialist economic reform became that of transition into ordinary capitalism.

In the USSR, phase III reform economics almost never existed. As we have just seen, market economy remained taboo until about 1989. Discussions on property relations had been left as the prerogative of conservative political economists (see below), which, together with the availability of Eastern European examples, may explain why Russia jumped within just a couple of years from phase II reformism to transition economics. As central economic authorities deteriorated progressively, even proposed state holdings were more an attempt to recreate branch ministries than a way to dilute their power.

Self-management did have a small number of proponents during the last years of Soviet rule. Among the economists, the most prominent of them was Pavel Bunich. Other notable names were Boris Rakitsky, a labour market economist-cum-sociologist, and V.P.Kurashvili, a legal specialist, and—from a different side of the political spectrum—Mikhail Antonov, a latter-day *narodnik*. But it is characteristic of the Soviet case that arguments for self-management really only became vocal during the transition period. Then, they were used by left-wings politicians and academics as an argument for preserving at least one element of the socialist heritage. In the USSR, reform economics lagged so far behind Eastern Europe and even domestic developments that reform concepts were sometimes adopted so late that they actually became a burden.

It has been suggested (Aleksandr Nekipelov in *Istoricheskie*: Anon. 1995) that during early *perestroika* the population was inclined to a self-management solution. The only practical outcome of such inclinations was the 1987 law on Enterprise which decreed elected managers and enterprise self-finance. The intention was to have ‘more democracy, more socialism’ and to undermine the powers of the ministries. Among the outcomes were high inflation and the beginnings of spontaneous privatization.

### *From reform to transition*

In the USSR, mainstream reform economists like Abalkin only acknowledged the need for a market economy in 1989. By 1991, the choice had *de facto* been made for transition into capitalism. How can one explain

such a compression of intellectual history? Clearly, the answer has to come in several parts.

First, there was the model of the Eastern European experience leading to transition as soon as the Brezhnev doctrine was evidently no longer in force. Second, the failure of *perestroika* tended to discredit all socialist reformism. Third, *perestroika* weakened the Soviet state so far that it made any reformist proposals on piecemeal change largely irrelevant. Fourth, by 1991 the state of the economy left no alternatives to speedy liberalization and stabilization. This was understood by proponents of transition much better than by reformists. Fifth, as Gorbachev's Soviet state identified itself with reformism, the identification of Yeltsin's Russia with transition was politically almost inevitable.

Although reform economists had by 1987 an anxious listener in Mikhail Gorbachev, *perestroika* reformers did have proposals that were not experimented with. Among them are Nikolai Shmelyov's fixed idea of supporting domestic consumption with foreign debt and Nikolai Petrakov's repeated proposal for aiming at monetary equilibrium through a parallel currency. The fact that such ideas were treated as being irresponsible rather than reasonable contributed to frustration. In Russia, only very few of the earlier reform economists—Yevgeny Yasin being the most prominent example—joined forces with those former students of theirs who were now in key economic positions. Most reformers joined one or another of the opposition currents. Under Shatalin, Abalkin, *Dmitri Lvov* (b. 1930), Petrakov, *Yuri Yaremenko* (b. 1935), *Oleg Bogomolov* (b. 1927) and others, the economics branch of the Academy of Sciences actually became a vocal critic of government policies and a busy—if ineffectual—drafter of alternative economic programmes. The transition economists reciprocated by establishing their own research institutes and think tanks outside the Academy system.

Since the late 1960s reformist Soviet economists were in two camps (for contrasting views on this compare Pavlov 1995, and Shatalin 1992). Alexei Kosygin, the prime minister, had Abalkin among his advisers for incremental change. The optimal planners, on the other hand, were fighting for influence for their more radical proposals through the party apparatus. Only during the *perestroika* years did they succeed in gaining such prominence. Much of the time they cooperated with Abalkin in various Gorbachev teams. Finally in 1990 some of the roads parted, as Shatalin joined younger economists on the 500 Days Programme. But in the end the roads met again, now in opposition, as the students of the economists of the 1960s formed the Gaidar team.

It is impossible in this change to overestimate the generation gap in Russian economists. The socialist reformers were among those Soviet intellectuals to whom the formative experience had been the anti-Stalinism of the 20th Party Congress in 1956. A surprising number of them were

actually born in 1936–7, at the height of the terror. Their thinking was that of socialist renewal. The economists of the Gaidar generation were typically born in the mid-1950s. Their years of formative experience were the years of Brezhnevite stagnation. They had little trust in the socialist perspective. Also, contrary to their teachers, they are often fluent in English and relatively well-versed in Western economics.

### Insights by Soviet economists

#### *Structural analysis*

The Soviet Union had something of a tradition of long-run economic analysis. Economists like Strumilin and Nemchinov first studied the development of Russian national income, then repeated attempts to initiate long-run economic plans and later added an interest in forward-looking growth studies. There was a strong if broken domestic tradition both in growth theory and the precursors of input-output analysis. Naturally, these studies were handicapped by data problems, by the need to claim Marxist orthodoxy and by the necessity of forecasting the victory of socialism in global competition. Still, there was prominent progress, especially in the 1970s, when the prospect of 15–20 years' planning was taken seriously politically. The situation was contradictory. On the one hand, a methodology of planning needed to be developed. On the other hand, when the normal forecasting methods of input—output and growth studies were elaborated, the true problems of disequilibrium and growth slow-down were necessarily highlighted. In the end Gosplan reacted with an angry rejection of such methods (Sutela 1991:86–7).

Among the prominent economists working on long-range planning were Boris Mikhalevsky, Stanislav Shatalin and especially *Aleksandr Anchishkin* (1933–87). Anchishkin (1977) even attempted to develop a new growth theory, consistent both with Marxism and Soviet reality. His work was driven by the question of whether—to borrow later terminology—one could make technical progress endogenous in growth theory. In a centrally managed economy that implied the question of whether one should actually study the behaviour of planners to understand how the economy worked. Early optimal planning theory had been very normative: it asked what kind of planning would be optimal. The scientifically more interesting and politically more difficult question was the positive one: does the existing economy work towards optimality?

This question was approached from two major aspects. The first concerned the objective function of the economy to be optimized. Instead of postulating theoretically motivated functions, one should ask how decisions are actually made. This was the road taken by Petrakov in 1970 (see above) and after him by many others, especially by Efrem Maiminas

(Sutela 1984:184–90). The other alternative was to concentrate upon the structure of the economy and ask what the decades of planning had actually produced.

Such a structuralist approach peaked in a 1981 book by Yuri Yaremenko (1981). Contrary to the consistency approach of input—output and the optimality approach of linear optimization, Yaremenko argued that actual planning is still priority based. In particular, he emphasized the importance of allocating heterogeneous resources among competing uses. Here, the emphasis was not on finding an optimal allocation. It was on understanding how allocation is actually made in terms of resources and technologies, not in terms of economic institutions and motivation. The contrast with traditional optimal planning theory was stark. Unfortunately, this approach was left largely undeveloped.

The third name to mention among the structuralists is *Sergei Glaziev* (b. 1961). He developed, on the basis of different streams of domestic and foreign economic analysis, an original concept of technological waves in long-range economic development (Glaziev 1993). Logically, this led him to highly contested economic policy proposals (Glaziev 1994) which he pursued first as a member of the reformist government and then as the leading economist of the centre-left opposition. Glaziev's structuralism leads him to emphasize the importance of industrial structure and especially of technologies. At the same time he tends to underestimate the importance of stabilization and liberalization.

### *The bargaining economy*

During the years of *perestroika*, both reformist political economists like Abalkin and Medvedev, empirical economists like Aganbegyan and optimal planners like Petrakov and Shatalin had an important role in Soviet policymaking. In the end, Gorbachev used structuralist advisers, like Yaremenko. During the Yeltsin years, a young generation in their thirties and forties took up responsibility. They saw themselves originally as technocrats pursuing the task of abolishing the old institutions so that new ones might grow up. To critics—and to a large degree also to Yeltsin—they were ivory-tower academics detached from reality. Nevertheless, among them were a group of those rare Russian economists who actually had done some theoretically inspired research of the economy. In their view, it was more a bargaining economy than a command economy.

The command economy view was made popular in the Soviet Union by Gavriil Popov (b. 1936) (1987), a management professor who later became Mayor of Moscow and a failed politician. Popov was immensely successful in spreading of the command economy idea. In rhetoric at least, his view of an administrative system was widely accepted in the late 1980s. But differently from many others, Popov, in a Hayekian vein, argued that the

seeds of the command system are in any attempt to impose change upon society from above. In this sense, Popov argued, Gorbachev's *perestroika* is fundamentally similar to Stalin's revolution (Sutela 1991:140–2). While Mayor of Moscow, he tried—together with Lariza Piyasheva—to push through privatization from below to deliver the death-blow to the old institutions. The results are controversial at best.

The alternative view of late Soviet socialism as a bargaining economy was developed by a number of young economists, including *Pyotr Aven* (b. 1955), *Yegor Gaidar* (b. 1956), Vitali Naishul and Vyacheslav Shironin (Aven and Shironin 1987, Shatalin and Gaidar 1989, Naishul 1991). This view shares the more generally accepted point that the actual Soviet economy did not function as a single factory. Although the high authorities had powerful means at their disposal, the plants and regions were never mere cogs in a wheel. They have power over information to be released, over actual effort delivered, and over the decision to engage in second economy activities. Within the plants, a similar situation is repeated between the managers and the employees.

In principle, this is widely accepted. If the issue were only about relative bargaining strengths in the economy, disagreements would not amount to theoretical alternatives. The point the bargaining economy view is making, however, is rather a different one. The dominance of the command economy view has—they argue—prevented the study of how bargaining takes place in practice. As nobody knows how the system actually works, economists propose partial reforms without the possibility of knowing the consequences. What is the reaction of the economy towards various changes? A clever reform strategy should be able to foresee this. It should plan in advance more than one chess movement ahead. This may be accepted as a criticism of Soviet and other socialist reforms. Another question however arises: did the bargaining school economists, when in power, fulfil their own requirements? Not unexpectedly, they were later criticized for exactly the same mistake they had noticed in reform attempts (see, for instance, Saburov *et al.* 1996).

### Three case studies

#### *The political economy of socialism in the 1960s*

As already mentioned, the debate on the reform—or ‘improvement’—of the Soviet economic system has been going on since the very beginning of the era. The most fruitful periods in this respect were, of course, the 1920s and 1960s. Nonetheless, this section discusses the economic debates of late 1950s and early 1960s. At the time, Soviet economists were dealing with the problems of an already mature economic system. The political climate in the country gave rise to quite sincere polemics for a period of time. Of course,

ensorial limitations existed, but the mistakes of that period were for the most part sincere. Therefore, the narrow-mindedness of some of the conclusions of economic reformers reflected the existing level of understanding of the USSR's economic problems. The fact helps to explain the many problems and contradictions involved in the practical implementation of Soviet economic reform in both the 1960s and 1980s.

This section starts by characterizing the economic debates that led to the reform of 1965. It was the last great attempt to transform the national economy within the framework of the Soviet regime. Then, the orthodox and reformist views concerning the type of transformation that was needed for the Soviet economy is considered. The debates eventually led to the formation of an ideology that became the basis for economic *perestroika*. The ideology had to be overcome in the early years of Russian post-communist development, 1992–3.

The main defects in the traditional economic system were basically obvious. In spite of censorship and other constraints, they were discussed remarkably frankly in the Soviet economic literature of the late 1940s and early 1950s. In particular, economists pointed out the existence of overly centralized decision-making, bureaucratic planning, the lack of interest on the part of plants in economic growth, in increasing production capacity and in improving the quality and range of products. A successful plant was punished by the so-called planning from the achieved level or ratchet. The fruit of hard work was confiscated by the government for distribution to weaker enterprises. This corresponded with the official view of the national economy as a single complex. All production units registered in the plan were to operate for the good of the entire society. There was no mechanism for weeding out inefficient enterprises. Powerful equalizing forces existed in the economy. Such phenomena were not only discussed by economists but their criticisms found their way into official documents as well.

In the 1950s there were three models available for understanding the microeconomic functioning of the Soviet system and hence for improving it.

In the orthodox view the plan was a law that had to be obeyed without question. This view was based on twin pillars: the centralized plan was an 'economic law' of socialism and there could be no true interests of economic agents different from those of the national economy as a whole. Individual enterprise interests were considered a survival of the past that had to be rooted out. Consequently, the task of creating a management mechanism for including the interests of economic agents could not even be addressed. The planning system was to be improved through better methods of central planning, through strengthening politically the planning bodies, through ever stricter control over the operations of enterprises as 'plants of one and the same factory', and through increasing the civil and criminal liability of enterprise managements for not fulfilling the plan. This view obviously belongs to the pre-stage of economic reform.

The second view reduced the problem of the economic mechanism into defining the best set of centrally established goals or indicators to be given to enterprises. Instead of the sometimes absurdly large number of indicators traditionally used, there would be one or a few target figures to be achieved by the plants. The task was to find the optimal indicators. Proper incentives for achieving such targets would motivate enterprises to take on and implement taut plans. This view—though still within the pre-stage of reformism—was a step forward compared with the orthodox concept of socialism, because it in fact admitted that economic agents have individualistic interests. The authorities were given the task of encouraging, not suffocating these interests.

Finally, by the middle of the 1950s (Lieberman 1955) an entirely new direction of analysis denied the earlier orthodoxy of equating planned management with fulfilling and overfulfilling a centrally given plan. In the traditional set-up, enterprises tried to understate their capacities and overstate their input needs. It created the worst disincentives in the Soviet economy. Something else was needed. The search for that alternative determined the tone of Soviet economic debates from the mid-1950s to the late 1960s.

The first works to derive these conclusions came out in the early 1950s (Lieberman 1955). The most extensive treatment took place after the early 1960s as a consequence of Khrushchev's destalinization of Soviet society. The article by Evsey Lieberman (1897–1983) 'Plan, profit and bonus' in *Pravda* (Lieberman 1962) launched one of the most extensive discussions in the entire history of Soviet economics. Among the key participants in the debate as to how the functioning of the Soviet economy could be improved were Aleksandr Birman (1963a), Kantorovich, Lieberman (1964), Nemchinov, Novozhilov, as well as younger colleagues such as Abalkin, Aganbegyan, Petrakov, Rakitsky and others. The polemics, referred to in the West as 'the Lieberman discussion', led the leaders of the USSR to an understanding of the necessity of reforming the Soviet economic system. On the basis of the discussion, Nemchinov (1964a,b) formed his ideas of a *khozraschet* economy (see earlier). It was at the time the most comprehensive proposal for the renewal of the socialist economic mechanism, and marked the shift to phase I reform economics in the USSR.

The following were the main conclusions to come out of the debate of the early 1960s:

- Enterprise independence should be decisively extended not only in fulfilling plans but also in planning itself. The state should provide the enterprise with a few parameters to serve as a general framework for its economic activity (most importantly, a criterion for dividing profits).
- Enterprises should not be rewarded for fulfilling and especially exceeding plan targets.



- The incentive system should be reoriented towards sales, i.e. demand.
- Value units should be used instead of volume units as criteria for enterprise results.
- Incentive funds should be rewarded to enterprises as a percentage of profit that is fixed for a number of years.
- Planner-prescribed supply links should be eliminated and free trade in means of production started.

The conclusions described here were in many respects inconsequential and contradictory. Many implications that would have arisen after any attempt to implement them in practice remained undiscussed. In particular, the question of whether to preserve the traditional Soviet system of economic management based on a large number of government entities authorized to issue plan targets was not raised. On the one hand, there was an emphasis on long-term stable plan indicators. On the other hand, centralized annual and quarterly planning of output was to be preserved. Enterprises were to maximize profits, but the question of pricing was completely neglected. Possibly for political reasons, economic autarky was not tackled and chronic shortages were usually not discussed. The goal of the economy was equated with traditional quantitative growth. The task of the enterprises was to increase productive capacities through better profitability.

Among the conclusions enumerated above, the last two are especially interesting. The former was a step towards a normal system of taxation. The latter—first proposed by Birman (1963b)—was probably the best legally available route towards introducing real markets in the economy. Therefore, a shift to phase II thinking was imminent. The need for private ownership and entrepreneurship was in any case not discussed. In addition, several economists made highly perceptive observations, but usually almost as an aside and without any necessary elaborations. For instance, as already mentioned, Birman and Volkonsky pointed out the emergence of unemployment in a market economy. Boris Rakitsky (1968) took up the need for competition, while Liberman (1964) resurrected an idea discussed in the 1920s by saying—naturally without using Kornai's later vocabulary—that the price mechanism could not function without hard enterprise budget constraints.

Such reformism encountered strong opposition from conservative and moderate economists. The orthodox objections were mainly politically and ideologically oriented. The reformists were accused of forsaking the fundamental features of the socialist economy and of its communist future (Feodokritov, 1964). It was said that instead of experimenting in the ways proposed it would be better to focus on the technical improvement of planning. Others suggested that greater use should be made of the computer in direct centralized management of national economy (Zverev 1962,

Fedorovich 1962, Bor 1964). The ideological nature of the objections tells that the end result of the reformists' recipe would be a denial of the fundamentals of the Soviet economic system and, consequently, the demise of socialism in its Soviet form. Purely ideological objections were not the only ones. Others concerned, in particular, pricing and the ability of existing value units to transmit information about relative enterprise efficiency. In the given environment, the incentive impact of profit maximization might well prove to be perverse. Such criticisms, however, fundamentally concerned phase I issues. The real debate, as seen above, had already progressed beyond them.

Most of the objections of conservative economists were well taken, within the logic of the 1930s model. But what would be their alternative? They might either aim at the preservation of the old, admittedly inefficient economic system with some phase I improvements or at another attempt to find ways to reform the Soviet economy. In the latter case, a new political problem would surface sooner or later—the need to reject the fundamental characteristics of the system.

The economic debates of the 1960s were no ivory-tower discussions. They resulted in the economic reforms of 1965, the most important attempt to reform the Soviet economic system since the NEP. A reform is not a scientific discussion. It is a political act which results from complex interaction between diverse political forces in a given society at a given time. The reform of 1965, as it was outlined in official documents, contained many contradictions. It combined orthodox ideas of state ownership with conservative views on the dominant role of planned indicators. The reassessment of these indicators was the centrepiece of the reform concept. There were also reformist suggestions for increasing the role of the price mechanism as a regulator of the economy. The situation was paradoxical. The fundamental ideas for change were developed by one group of economists. Normative documents were prepared by another group, generally of much more moderate persuasion. The practical implementation was carried out by yet a third group, a number of whom were out-and-out opponents of the central ideas of the reform.

The 1965 reform programme was a combination—or rather a mix—of all the options available for organizing the economic mechanism: working for the plan, for fulfilling certain normatives and for reaching end results. The key element nevertheless continued to be the question of planned indicators, not that of a complex reform of the entire economic mechanism.

The lack of substance in the reform concept did not help in its implementation. At the time, Soviet leaders had two clear alternatives. Either, they could start an evolutionary process of 'manageable' economic reforms, much as the Chinese leadership did in 1978, leading to a gradual transformation of the society in its economic, social and political aspects. Or, they could return to the old economic system, declining all essential

modernization and leaving only some formal signs of a connection between the new measures and earlier reforms. Because of the conservative political atmosphere prevailing, Soviet development took the latter direction. Another phase of the 'socialist cycle' (Gaidar 1990) was concluded. Between 1966 and 1970 the economy became a little more dynamic, but at the same time there were macroeconomic imbalances as enterprises geared towards increasing delivered output increased production costs. There was a mood of political liberalization. Together with the 'Prague spring' experience, this was totally unacceptable. There was an immediate and strong reaction. In due course, a number of articles appeared strongly attacking the theoretical foundation of economic reform because it 'undermined the centralized management of national economy' (Tzagolov *et al.* 1968). One such attack argued:

Some economists consider socialism as a form of commodity production and the law of value as the main regulator of the development of socialist economy. But the law of value cannot carry out its regulating function without competition and free price formation. For this reason the supporters of this point of view inevitably demand unlimited freedom in production, economic and commercial activity of our enterprises and therefore act as opponents of the centralized management of the national economy.  
(Dzarasov 1968:13)

The author pinpointed the problem very well. He was perhaps even more perceptive than the reformist economists of the 1960s themselves. The latter generally did not want to give up centralism. They sincerely believed in the possibility of combining the market mechanism with the 'advantages' of Soviet socialism.

Political attacks soon followed. Censorship was tightened, the possibility of publicly discussing economic problems diminished. Economically, the country deteriorated. The technological gap between the USSR and industrial Western countries widened. However, the stream of so-called petrodollars started flowing in 1973. For about a decade they provided the chance to postpone the start of real reform.

### *On the road to economic perestroika*

The failure of the 1965 reforms did not end Soviet reform economics. Soon, the 'improvement of the economic management mechanism' became not only a separate but also the most dynamic part of the economic theory of socialism. For political reasons many of the problems could not be subjected to analysis. It proved a handicap in the second half of the 1980s, when the Soviet leadership again tried to carry out serious economic reform based on the research of reformist economists.

The 1960s witnessed a qualitative jump in reform economics. The following two decades were a time of accumulation and systematization of the received doctrine and of a struggle between reformist and orthodox communist economists. Neither group favoured the preservation of the status quo. Both agreed on the necessity of serious economic reform. Where the two groups differed widely was the orientation of the reform. This is shown by an analysis of the two groups in the 1970s and early 1980s.

From the orthodox perspective, the only way to ensure the manageability of the economy was to enhance the role of the directive method of managing the economy. These economists criticized—strongly, but not always conspicuously—the deviations from the model of the 1930s that had taken place in the 1950s and especially in the 1960s. The centrepiece of this model was, of course, the centralized directive plan. The improvement of the economic mechanism starts with enhanced competence of the planning centre. It would be able to determine for each individual enterprise the product assortment, resource sources and consumer base. All this was supposed to be given to production units in the form of directives. These units were to compete in the fulfilment of assigned tasks. Because the national economic plan reflected the ‘interests of the society in the form of a directive, as a complex of directive tasks’ it was the centrepiece of the economic mechanism and should therefore include as many interconnected indicators as possible. Their number was limited only by the technical possibility of determining them centrally.

Technical and to a certain extent also social reasons were behind another feature of the orthodox model: economic centre, as a rule, refers not to a single authority but to a hierarchy of management bodies directly connected so as to ensure the setting of orders for enterprises. Prices and other value indicators played an auxiliary, accounting role, being used only because the centre was still unable to do all the necessary calculations in physical units. Therefore it is natural that among these indicators priority was given to the gross output indicators, which were, according to these economists, not really price-based but rather accounting values (Moiseenko and Popov 1975, 1981, Kotov 1980). Obviously, such a plan could not be stable over the planning period. Consequently, plan implementation must be under daily supervision of the centre, which can and must continuously adjust the plan. ‘A plan being fulfilled is a plan being constantly corrected’—this is the conclusion of the model (Moiseenko and Popov 1981:153). The argument is undoubtedly consistent, though it does imply a fundamental revision of all previous Soviet viewpoints on planning, beginning from the earliest discussions in 1920–3.

Because the product mix and production linkages were to be determined by the centre, the role of the enterprise was limited to the narrowly defined production process. The enterprise is purely and simply the basic link of this

process. The economists in question were convinced that 'as experience is accumulated, one has to free the basic unit from "commerce" (sales, supply, finance), so that it could concentrate on the process of production' (A.M.Yeryomin in Anon. 1984). Similarly, enterprise independence is a result of insufficiently developed methodologies and technique of planning. Therefore the enterprise's role must be limited to dealing only with a very narrow circle of local problems (Polikarpov 1983).

The discussions were based on the thesis that only the economic centre ('the socialist state') is a consistent, and perhaps even the sole defender of society's interests and needs. They can be communicated to enterprises only in the form of directive tasks. The gearing of producers towards the satisfaction of society's needs using economic incentives was declared impossible in principle. A certain auxiliary role for incentives was of course admitted, but it was associated with providing for plan fulfilment and overfulfilment (Bachurin 1982). 'The question of incentives is artificial' according, for example, to V.F.Kotov (1980:103). Generally, two interrelated reasons were given for this view. On the one hand, any system of incentives leaves a number of loopholes for circumventing the 'interests of the society'. On the other hand, there was an alleged necessity of treating enterprises individually in the assignment of plan targets. In this context, it was typical to enlist the thesis that an enterprise must produce not for prices, not for values, not for salaries, but for promoting the interests of society. Clearly, implementing this model would place a heavy load on the centre with respect to collecting, processing and evaluating the accuracy of data. Enterprises would not have the incentive to provide objective data. Therefore, much hope was put in the development of computers and the creation and introduction of a wide range of various automatized management and information systems. This concept totally neglected the elements of self-management which were a necessary component of the socialist and communist doctrines of the nineteenth century. It was fundamentally an idealization of the centralism of the war communist model. The contradiction remained undiscovered for a long period. Only much later, after the collapse of socialism, did communist theoreticians begin to make attempts to incorporate incentive problems into the centralist model of the national economy.

The other, reformist approach was based on pre-reform economic debates. The concept of 'improvement of the mechanism of management' first (Abalkin 1973) appeared as part of this approach. Such vocabulary allowed reform economists to avoid the quagmire of ideological discussions with communist orthodoxy. At the same time they were able to defend themselves against dangerous accusations of advocating 'market socialism'. Gradually, a subtle division of spheres of influence took place: questions of property were left to orthodox political economy never tired of elaborating upon the socialist nature of property. Reformist

economists largely focused on such more 'superficial' subjects as interest, incentives and enterprise behaviour. All of these matters were included in the problems of the economic mechanism. Thus the property problem was separated from the problem of reforming the national economy and, for a decade and a half, the separation gave many economists a good opportunity to pursue the search for ways to reform the Soviet system. But when in the second half of the 1980s they were confronted with the task of implementing practically economic reforms, the lack of development of the property issue and the lack of interest in linking reforms of the management system to changes in property relations led to a number of serious economic and political mistakes. These mistakes added to the economic and political difficulties of getting rid of Soviet-style socialism.

The reform movement concentrated on creating a coordination mechanism for the interests of economic agents. There was to be created an economic regime that would allow economic agents to make specific decisions freely, but would at the same time orientate them towards the priority of the interests of the national economy. The plan for the national economy was seen as a mechanism for achieving such a concordance of interests. The starting point of the analysis was the centre's problem of limited data attributable more to social and economic than to technical factors. It was not in the interests of economic units (enterprises) to provide the planning centre with accurate information about their production capacities and required resources. Neither technical innovations nor threat of criminal prosecution could change this fundamental fact. In other words, the centre will always suffer from a shortage of data and will never be able to optimize the plan (Birman 1978).

Assuming that information was scarce, it followed that there was a need to develop an incentive scheme encouraging enterprises to reveal and make maximum use of their own production capabilities. Economists argued that the lack of such a system reduced the effectiveness of government regulation and also caused certain negative consequences. So-called disincentives increase enterprises' interest in hiding their production capabilities, raising their product prices, slowing down the rate of technical innovation in production, etc. (Bunich 1976; O.M.Yun in Anon. 1984). To create the appropriate incentive scheme, it was suggested—similar to the pre-reform discussions—that evaluations based on the plan should be finally replaced by a system based on actually achieved economic efficiency. In contrast to the 1960s, the main indicator proposed now was close to value added, either net or gross income generated. Staying within the pre-phase of reform economics, reformists argued that evaluation of achieved efficiency does not contradict the principle of planning but actually helps to improve planning (Bunich 1980). Enterprises would aim at tight plans, not at adjusting the plans downwards (Gaidar and Koshkin 1984).

Reform economists fully understood that increased enterprise independence went hand in hand with taking full responsibility for their operations and for their ability to satisfy society's needs. But how could such economic responsibility be brought about? Discussions would again lead to conclusions concerning property reform. Though it had been officially stated in 1923 and again in 1965 that the state is not responsible for the debts of the enterprises, complete enterprise responsibility would be incompatible with continued state ownership. Without drawing such radical conclusions, reformers managed to suggest a number of measures that fell within the framework of the politically feasible. Purchasing enterprises might be given the right to refuse suppliers who violate the terms and conditions of delivery. They might even choose their suppliers. This was rationalized by the consumer's position as 'bearer of society's interests'. At the beginning of the 1980s the right of the user to reject a contract with a given producer was also seen as creating real 'competition' among the producers. This would create strong incentives concerning quality, costs and service. Finally, recommendations for increased independence and competition were also given for such other spheres of the economy as investment tenders.

True to the political constraints of the pre-phase of reform economics, Soviet reformers of the 1970s and 1980s had to explain that implementing their proposals would actually improve central management (Medvedev 1983). While withdrawing from petty tutelage, the state would be able to concentrate upon such key issues as growth and technology policy, macroeconomic equilibrium and reform (Abalkin 1981). As already discussed, reform economists of the time also emphasized the role of the state in issuing long-term normatives. Leonid Abalkin was the leading reformist political economist of these decades. In 1973 (Abalkin 1973) he distinguished—similarly to the optimal planners, as pointed out above—three different ways in which the centre influenced enterprise behaviour: general rules and normatives, addressed planned tasks and the provision of information. The main weight should be given to the first class of measures.

Partially because of the above-mentioned informal division of spheres of influence between the reformers and orthodoxy questions of property were neglected in reform economics. Only a philosopher argued that a large number of cooperatives should be established in the Soviet economy (Tsipko 1983). As it was suspected that the issue was not just cooperatives, the book was widely debated. The neglect of property reform issues seems to have persuaded many economists and political reformers that market-oriented economic reforms could be implemented even in an economy totally owned by the government. It was assumed that state-owned enterprises, if given independence and responsibility for their financial results, would react to a sufficient extent to market signals. The government could make the appropriate adjustments for market failures. From this neglect others

followed concerning incentives to maximize capital values, competition, monopoly, shortages, market pricing and other issues. Though limiting the role of addressed planning was much advocated, nobody proposed its total abolition.

In retrospect it has been argued (Pavlov 1995) that Gorbachev's advisers actually proposed the legitimization of private property in 1986. Though this seems, in fact, to have been a proposal to legalize only the capitalization of exceptional labour incomes, it may have been that the artificial character of the traditional Soviet division between labour and non-labour income was becoming widely understood. This, in turn, makes it easier to understand why the formal acceptance of private property—when it came about in 1989—was so widely shared and apparently needed no special theoretical argumentation. Such defects of reform economics did not matter much prior to *perestroika*. Reform measures adopted were generally of almost no consequence, and their exact content was of little importance. In addition to economists of the planning and party hierarchy, academic economists like Leonid Abalkin also participated in the reform exercises. For most economists, political decision-making was a totally alien environment. In that respect, the situation changed completely as M.S.Gorbachev came to power. In a few years, the failures of Soviet reform economics contributed to the collapse of the USSR.

### *Economics of transition in Russia*

When discussing the intellectual roots of Gaidar's reforms, friends and foes of Russian post-1991 economic policies usually laid emphasis on foreign imports and influence. Nelson and Kuzes (1994, 1995), strong critics of these policies, see the Russian reformers as having been under the extremely strong influence of a small number of foreign advisers and international financial institutions (IFIs), in particular the International Monetary Fund (IMF). Åslund (1995), a prominent adviser, applauds the intellect and determination of the young Russians, but at the same time deplores the number of mistakes they committed, in particular when diverging from the advisers' counsel. He also strongly attacks the IMF. Hernández-Cata (1994), giving the IMF view, emphasizes the degree of development (towards the better) in Russian transition policies, no doubt partially due to the impact of IMF economists. Murrell (1994), finally, detects a chasm between what he sees as simplistic advisers' messages and actual policies pursued by the IFIs and Russian authorities. Jevgeny Saburov (1996) on the other hand, one of the early competitors for Gaidar's position in reform politics, enumerates several Russian sources of transition thinking: Vitali Naishul on the use of vouchers in privatization, Pavel Bunich on self-management, Yuri Yaromenko on priority planning and Viktor Volkonsky on price liberalization.



The collapse of Marxism-Leninism and the USSR after a few years of attempted reforms in which academic economists had played an important role, naturally signalled a huge crisis for traditional Soviet economics. The traditionalists simply disappeared. The reformists were in disarray. Some of them—like Pavel Bunich and Gavriil Popov—continued in politics. Some went into business. Others—like Nikolai Petrakov and Stanislav Shatalin—engaged in a cycle of opposition manifestos and programmes. Still others—Leonid Abalkin (1992, 1994, 1995)—attempted to create a totally new economic paradigm, different both from traditional Marxism—Leninism and Western mainstream. The new paradigm should be specifically Russian, sensitive to her culture, religion and traditions, national interests and geopolitical realities. Few results are currently visible. And, finally, some were looking for a way out in existing alternative currents such as evolutionary economics (Anon. 1995b). Everybody understood that a change of generations was taking place in economics. The profession was still dominated by the people of the 1960s: Abalkin, Aganbegyan, Petrakov, Shatalin and others. Because of plain biology this would change by the end of the millennium. What would new Russian economics be like then?

Academic science needed to change not only in content but also administratively. Government finance of institutes collapsed, there was a large outflow of younger scholars into government, administration and business, and the traditional administrative structures were no longer appropriate. To survive and to work, institutes had to down-size, reorganize and learn to earn money by means of privatized property and contracted research. A large number of research centres and think-tanks soon emerged outside the Academy. Some of them have already disappeared again.

Not unexpectedly, assessments of the contributions of economists under Gorbachev differed widely. Abalkin, who had served both as a deputy prime minister and as a presidential adviser, denied that blame for failure could be laid at the door of the economists. A reform concept existed and was further developed. The problem was a lack of wise and effective leadership (Abalkin 1992:138–9). Quite consistently he was willing in early 1992 to give Gaidar the benefit of the doubt: it was good that at least someone's programme was being implemented (*ibid.*: 194). But soon he joined those accusing the reformers of 'economic and political extremism, based on setting absolute monetarist methods' (Abalkin 1994:9–10—first published in early 1993). Transition was leading, he feared, to deindustrialization and loss of independence. This was because of having adopted an alien model of economic policy and economics.

Life is too short to debate the applicability of economic regularities across countries in general and in Russia in particular. Neither can we engage in attempting a complete picture of post-Soviet economic and social thought.

What we probably know is that basic macroeconomics is true in Russia as well as elsewhere; that microeconomic incentives work fundamentally similarly in different societies; that economics textbooks are based on models; and that matters become especially complicated when they are directly connected with informal institutions.

The early thinking of the Gaidar team is generally reputed to have been strong on liberalization and weak on stabilization. Indeed, insiders have proposed that, since the governability of the economy had already been lost, the task at hand was the destruction of as much of existing institutions as possible, thus both securing irreversibility and clearing the road for a new institutional evolution (Glaziev 1994:24—first published in May 1992; Aven 1994). This view was put with exemplary clarity by Petr Aven:

The historic role of Yegor Gaidar's government (at least as it was seen by its members) was to provide an 'institutional shock' to the economy, i.e. to destroy the traditional stereotypes and mindset of the centrally-planned economy (CPE). The deepest beliefs had to be changed; the systemic features of the CPE, that had been untouched earlier, were now to be demolished. These features were the absolute dominance of state ownership.

Aven clearly believes that the government was also successful in this. Glaziev, on the other hand, argues that by introducing the institutional shock, early reform policies underestimated the inertia of the inherited economy. The Gaidar reforms were in his view a dogmatic attempt to impose elementary neoclassical economics without regard to existing institutions. Therefore, in his view, standard macropolicies produced surprising and even perverse results. Exactly how Russia's institutions translate orthodox macropolicies into perverse microresults however remains somewhat unclear in Glaziev's writings. The institutional inertia argument actually becomes more interesting when applied to institutional change, which Glaziev tends to bypass. Russian privatization is the key illustration here. In retrospect, overwhelming insider privatization was the inevitable outcome once it had been made possible. The interesting question is whether Gaidar and others understood this from the beginning. Did their particular view on the Soviet bargaining economy affect their choice of transition policies? Indeed, was there a choice, or have we witnessed an inevitable process which politicians could do little if anything to influence?

Perhaps surprisingly, people did have serious problems in interpreting what was going on. Vitali Naishul (1993), the best-known proponent of the view of late Soviet socialism as an administrative market, opposed privatization plans because they would end up taking property away from those who already had it:

Privatisation is unnecessary and harmful because in fact it means a redistribution of property: a forced confiscation by the state of legal entities' property rights and the transfer of these rights to other persons in line with a plan worked out and implemented by bureaucrats.

That, naturally, was exactly what did not take place: Russian privatization fundamentally legalized existing *de facto* property rights. It did not redistribute them.

Neither was the command economy view a good key to understanding Russian processes. Larissa Piyasheva, the prominent liberal, ended up a defender of Mavrodi's infamous pyramid scheme as genuine grassroots capitalism. But also her diagnosis of privatization was at fault. Commenting on privatization legislation she claimed that 'under no circumstances will the employees of an enterprise have controlling interest in it.... This virtually deprives employees of the opportunity to...become independent of administrative control' (Piyasheva 1994). In most cases, in fact, employees became majority—even if passive—owners (Sutela 1995).

Russian privatization did not take place according to preconceived plans. First, voucher privatization was imposed upon the reformers as a political compromise. The main privatizer has in retrospect emphasized that 'I was and remain a principled opponent of voucher privatization. But one has to do not what one would like to do but what one must do' (Anatoly Chubais as cited by Mikhail Leontyev in *Segodnya*, 21 June 1994). Second, the original intention was to privatize after successful fast stabilization. But once stabilization had failed, there was really no alternative to give-away privatization. In a sense, what took place was more a definition and clarification of existing property rights than a redistribution of ownership. 'Distribution of property rights in Russia,...as also in other countries, takes place in proportion to existing power elites', Chubais now says (*Izvestiya*, 6 December 1995). It is impossible to say whether these remarkable words, which confirm the most frequent criticism of Russian privatization, contain more cynicism or resignation. They might be compared with Chubais' (1992) goal in mid-1992:

The essence of privatization is not in a simple change of an owner, but in transfer of property into the hands of the most effective owners, strengthening of a new type of owner, able to act in a responsible and concerned way in order to increase his capital. Possibility of such owners to evolve under conditions of free distribution of property is at least doubtful.

In particular, Chubais was opposed to employee ownership, citing the familiar dangers of asset stripping and wage inflation. Even more strongly and earlier, voucher privatization had been opposed on these and other

grounds by Grigoryev and Yasin. Prophetically, they warned about mass distribution of property as a road to a ‘peculiar corporatist system’. But in fact free distribution to insiders did take place. The reformers were left with an emphasis on stabilization and secondary markets of property titles to facilitate the emergence of efficient distribution of property rights, as promised by the Coase theorem (Sutela, 1995).

But efficient orderly capitalism does not necessarily evolve after an original distribution of property. Countries may find themselves locked in a bad institutional setting not conducive to efficiency, equity and growth. As Russian reformers found themselves increasingly in the opposition, this started to be openly admitted. Parts of the old *nomenklatura* had indeed exchanged *Das Kapital* for capital (Radzikhovsky 1995) and the danger of the country remaining reminiscent of a Latin American weak state corporatism (Sutela 1993) had to be taken seriously.

Nobody, it seems, took it more seriously than Yegor Gaidar (1995). Adopting a world history sweep from Asiatic mode of production through feudalism and socialism to Russian privatization Gaidar—following Trotsky and Djilas, among others—detects a universal attempt of bureaucrats to ‘privatize’ their power into property. Late Soviet socialism developed into a bargaining—or administrative market—economy, and *perestroika* opened the gates for *nomenklatura* privatization. For external and internal reasons Soviet socialism ended not with a violent revolution, but with an essentially evolutionary compromise. Hence the choice between the open market economy of the Western type and *nomenklatura* capitalism, another version of the Asiatic mode of production, still remains to be made. In Gaidar’s 1995 view, an evolutionary compromise was the best possible path. Indeed, *nomenklatura* exchanged power for property, but that was the only possible peaceful solution. The alternative would have been civil war and a *nomenklatura* dictatorship. Therefore, the most that the reformers could do was to push the system towards freer markets through liberalization but without an attempt to directly change the existing social power structure. And the least that voucher privatization created—even in its compromise form—were equity markets and some of the other preconditions for later evolution of ownership distribution. Russia can still evolve from *nomenklatura* capitalism with quasi-state ownership to free markets and private property. At the other extreme of alternative futures is the mafia state. Such thoughts are very far indeed from Aven’s institutional shock. The radical reformers were a midwife, but to what?

### Change in economics education

Given the ideological importance of Marxist—Leninist political economy, university education in economics was under the particularly close attention of the authorities. All university students had to study political economy. For

those majoring in economics, the portion of Marxism-Leninism was heavier than for the others. Majoring in economics actually meant majoring in a huge variety of subjects. Political economy (of capitalism and of socialism) was only one of them, and its popularity among students had declined steeply by the 1970s (Sutela 1984). Nevertheless, it was supposed to form the theoretical backbone of the various sectoral and applied branches of economics that most students chose, thus graduating with a narrow specialization closely tailored to the assumed needs of the economy and without any explicit and with little implicit theoretical basis other than general claims on the superiority of the planned socialist economy. As already mentioned, several textbooks of political economy existed, though the differences in their contents could generally only be detected by the professionals. In the 1970s, the ideological authorities decided that a single official textbook would be the proper thing to have. The project, however, never succeeded due to its failure either to create uniformity or to enhance anybody's interest in political economy.

One of the specialized branches of economics in which one could graduate, though only at the biggest universities, was mathematical economics. This existed under different names in different universities. The numbers of students graduating in mathematical economics were never great. The foremost such chair was no doubt at the Moscow State University. It had been founded by Nemchinov, and after him it was chaired for many years first by *Nikolai Fedorenko* (b. 1917) and then by Stanislav Shatalin. Such chairs gave students the opportunity to catch a glimpse of something closer to modern economics. Many reformist research economists had side-jobs teaching at such chairs. Others might teach an economics course at a science institute, where ideological control would often be looser.

Although a number of Western mathematical economics, cybernetics and management texts were translated into Russian in the 1960s and 1970s (Sutela 1984), their availability was usually meagre. A famously abridged edition of Samuelson's *Economics* appeared in 1964. It was the first translation of a Western textbook into Russian for decades. It is not unknown when the previous one had appeared; the next ones came out in 1992. Galbraith was translated in 1969 and almost succeeded in convincing a generation of Soviet economists that the market economy belongs to the past. But both Samuelson and Galbraith were rare exceptions. Three further possibilities of learning economics existed. In some privileged cases students both knew English and had access to the literature. Furthermore, it was possible to learn something about economics through Marxist—Leninist criticisms of bourgeois economics, which were an important part of any Soviet economics education. Finally, there was at least one Western Marxist textbook which provided an overview of economics, including not only supply and demand analysis, otherwise anathema in books available in Russian, but also relevant macroeconomics (Pesenti 1976).

Transition in economics teaching started simultaneously in different universities in 1978–88 (Zaostrovsev 1995). Interestingly, university teachers had translated textbooks—more often than not Samuelson—into Russian, but as publishing possibilities were severely restricted, there was a severe shortage of literature. Nevertheless, when János Kornai first lectured at Moscow State University on the economics of shortage in 1989, the audience surprised both him and the local faculty by being familiar with Kornai’s theory in spite of there being only one copy of the book available at the university library. Clearly, a fair amount of self-education had been going on. By 1992 the first Western textbooks started to appear in large editions, and soon they were followed by the first Russian textbooks in economic theory. The number, coverage and probably also quality of Russian texts, however, still leaves much to be desired.

Russian universities are traditionally large and inert institutions which change slowly. As research was traditionally done within the Academy of Sciences and other research institutes, universities tended to house the less gifted and more conservative economists. As the academic sector in general declined from the late 1980s, there was from the universities’ point of view more adverse selection, because there was little demand for the less gifted and more conservative teachers both from the emerging private sector and in politics. The quality of economics teachers is therefore now even worse than before. In 1992, most of the political economy chairs became chairs in economic theory and new requirements for contents of teaching were soon elaborated. University teachers answered with a variety of tactics (Zaostrovsev 1995). Some stuck to Marxist orthodoxy; others created mixtures of Marxist and economic theory; a third group argued that both should be taught, but separately; while a final group argued for replacing Marxism with economics. For many teachers, job maintenance is the primary concern. They often also argue for a peculiarly Russian variety of economics—obviously something they would be able to teach.

Clearly, there is no quick and easy solution. Foreign-funded programmes—like *Novaya shkola ekonomiki* in Moscow—mostly have the role of screening young economists for further studies abroad. Fundamentally, Russian economists have to be taught by Russian teachers in Russian universities. At least some of the institutional and funding problems should be sorted out quickly. The time for the first generation of Russian economists sent to study abroad to decide whether to return or not is at hand. It is important that they should have the possibility of returning.

### Conclusions

The first thing that needs to be emphasized is that this chapter has been nothing like a complete overview on Soviet and Russian economics. For the earlier decades, one would need to add several dimensions: applied

economics, studies of foreign economics and abstract mathematical economics are among the fields obviously neglected here. The influence of Eastern European economists has been mentioned repeatedly, but much more could be added. For the last decade at least, the intellectually mostly uninteresting but politically potentially important currents of Russophile and other heterodox economically oriented thought should be added (for some comments see Lester 1995).

But even the limited space available has allowed us to take up a few themes. The uneasy coexistence of calls for orthodox and useful economics is one of them. The failure of Soviet reform economics during the *perestroika* period is important to note. So too is the compressed development of reform thinking into transition economics in 1988–91. Here, as in the near future, change of generations is the overarching theme. It is impossible to say how much—and what kind of—peculiarly Russian thought will remain in Russian economics as the new millennium commences. This chapter has emphasized the meagre bequest that Soviet economists are leaving to the new generation. It is unlikely that pretransition economics will offer much that will remain highly relevant. But life itself, the scope of the changes of the last ten years as well as the uncertainty of the future ensures that the essential Russian questions remain: What is Russia? Where does she come from? Where is she heading to? Who is to be blamed? What should be done?

### Notes

- 1 Comments by Morris Bornstein, Lázló Csaba and Jim Leitzel are gratefully acknowledged.
- 2 This neglects Andrei Gromyko, who did have a doctorate in economics but was never actually an economist.

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# LOOKING BACK AT ECONOMIC SCIENCE IN POLAND, 1945–96

## The challenge of system changes

*Krzysztof Porwit<sup>1</sup>*

This chapter falls into three parts. In the first, the author explains his intentions and assumptions concerned with some specific features of Polish economic thought in two distinct periods which are covered by the second and third part, i.e. the long period of Soviet domination (1945–89) and the first years of independence (since 1989).

### Introduction

#### *General assumptions*

A review of economic science in Poland from 1945 is a large and inevitably controversial topic. I am limiting its scope here by reviewing exclusively the contributions to ‘general’ economics and by concentrating on the problems of economic systems features and their changes.

As far as the controversies are concerned, I intend to present their substance, seen in the light of economic science and its methodical standards. I shall try to refrain from judgements implying right and wrong. However, I am aware of difficulties because during the period under review the substance of economic matters and of economic studies was so closely interlinked with ideological and political premises. What is more, the officially promoted school in economic science employed a peculiar methodological approach, which introduced certain biases and elements of incomparability in respect to the scientific standards prevailing in democratic societies.

It is important to remember that in Poland (as in neighbouring countries) there were two general system changes after 1945:

- The first transformation in the late 1940s aimed to destroy the market economy and democracy in favour of implanting the Soviet-type,

centralist economic system and totalitarian autocracy of socialism. It proved to be a total failure<sup>2</sup> and led to a turnaround, i.e. to the second transformation.

- The second transformation, ripening in the late 1980s and getting underway in 1989, aimed to reinstate a market economy and democracy.

Referring to the first transformation and its consequences one should not fall into the trap of considering the Soviet-type system, in economic terms, simply as a hypertrophy of state interventionism, i.e. of accepting implicitly the plane of controversy: either 'invisible hand' free market regulation or 'visible hand' state intervention. Moreover, it is not enough just to emphasize the failures and informational unfeasibility of the command economy's vertical state regulation as opposed to self-regulation based on horizontal interrelations between actors in private markets. As stressed by *J. Drewnowski* (b. 1908),<sup>3</sup> the Soviet-type system destroyed an economic and social microtissue. The transformation of the late 1940s implanted a system totally alien to Polish history and tradition. It affected most features of social and political life, in law and all institutional matters, in human relations, in moral and ethical values, etc. The specific nature of this type of socialist economic system was closely linked to and dependent on specific institutions of centralism (allegedly 'democratic'), of collectivism, of politics and arbitrariness permeating everywhere into economic and human relations as well as into the constitutional and civil law fundamental to social and economic order. Distortions and hypocrisy prevailed in the field of ethics, and similar symptoms arose in human relations, in mechanisms governing individual careers, etc.

An attempt to learn from the past is justified at least for two reasons: first, to assist the cognitive functions of economics in the present period of transformation and, second, to indicate the impact of political and institutional constraints on certain methodological aspects of economic science. On the one hand, it seems important to understand fully the nature of the starting point, the inherited set of systemic features for the transformation processes towards democracy and market economy which began after 1989. On the other hand, it is relevant for present-day disputes to elucidate the issues that find so many diverse interpretations and lead to controversies: What can be said about the economic system existing in the 1980s after all the reforms of earlier decades and after the many analyses and disputes of economists? How far were the main elements of the economic system from today's goal of a market economy?

A growing understanding of such issues is essential for today's economists because it may help to elucidate the nature of the differences between systemic features of the past, of the present transition period and of a desired (or probable) future.

In a more general sense the experiences of the past are relevant for the ever recurring question of constructivism, its objective limits and its dangerous forms. The general lesson may confirm the view that it does not make sense to envisage and construct any 'secular paradise' (socio-political and economic), presumably attainable during our life on earth. As the experience proved, especially dangerous were those illusions that were not only pretending to express a hypothetical vision in intellectual games but were directly inspiring and serving political will to impose such a 'paradise' by force, giving an excuse that the envisaged end sanctifies all means (even those most horrible in terms of criteria presumably adopted for the future).

This search into the past leads inevitably to many examples of critical appraisals of the socialist system's shortcomings as well as of the notorious inability to improve the system's quality. The critics of capitalism may find here a more detailed warning, explaining what made the remedy imposed in Poland a failure. So, they may be inclined to conclude that from the viewpoint of generally prevailing societal values and efficiency criteria it would be unwise to try similar systemic arrangements again. On the other hand, economic scholars accustomed to concentrating on a purely market-oriented approach may find warnings not to assume away issues of crucial importance for cognitive and utilitarian aspects of science, such as various pathologies of the market economy and democracy which, if tacitly neglected, would induce people again to search for another 'brave new world'.

Finally, I wish to add a personal remark. As a person participating in the processes under review I do not feel entitled to undertake the task of giving a full, objective (unbiased) historical report. I am not pretending to offer such a report but trying to present my viewpoint on the lessons from the past which can be inferred from the selected published thoughts of Polish scholars. The citations included in the chapter are made in this context and do not imply any kind of ranking, nor do they reflect my personal attitudes to the authors cited or not cited in the text.

*Main issues relevant in assessing qualitative features of  
economic thought in 1945–89*

This section provides a general background for a more detailed account to follow. In presenting the background I have in mind primarily ideological and political conditions, which exerted strong and peculiar pressures on the qualitative features of economic science and its methodical standards.

It seems relevant to look at this period against the background of two historical facts as moving forces of socio-political and economic change. One was the critique of capitalism in its Marxist stream. This was not confined to controversies over the manner in which surplus is utilized, but

concentrated attention on the inevitable demise of the capitalist economic order and on replacing it with a totally different one. Practical endeavours to implement this concept in Poland were influenced by the second major fact, that is the imperial position of the Soviet totalitarian state and party system. This dominated Polish history by implanting into Polish internal matters a Polish version of the Soviet system and through domination by the Soviet empire. These well-known circumstances are reiterated here because they were heavy influences on all social aspects of human existence.<sup>4</sup> The systematic changes affecting the phenomena treated by economics and other social sciences led to many peculiar features in their nature and logic.

### *Methodology*

Within an autocratic political order, the scope of enquiry and the main methodological approaches prevailing at that time in Polish economic science were quite different from the main schools existing in Poland earlier and from the approaches used in democratic countries of the world.

It seems relevant here to recall that particular schools in economics were formed in a process that started after the formerly uniform social science became divided into separate sciences: economics, political science and sociology. Opinions may differ whether borderlines between separate kinds of social sciences are justified in the world of today and will remain in future. Our experience indicates that economics separated from political science and sociology could not be used on its own to study economic processes before 1989 and it is not sufficient now.

Before 1989, political forces were omnipresent in economic reality, usually playing dominant roles. Thus, it was hardly possible to isolate an economic dimension. This destroyed efficiency-promoting forces and criteria of economic rationality. Hypocrisy and distortions in official 'political economy' of the period created, as a side-effect, a general attitude of distrust in socio-political aspects of economics (or in an integrated 'social science' approach). Such distrust seems to be an obstacle in the period of post-socialist transformation towards market economy and true democracy. The core of present transformation is concerned with questions: how to cope with the problems arising as former interdependencies among socio-political and economic dimensions are disentangled and new and different patterns come to life.

### *Language*

The language of many expressions in the past was more confused (in comparison with the non-socialist world) because scholars were thought to use a specific vocabulary and they were doctrinally expected to condemn non-socialist approaches and experiences. Nevertheless, a large part of



economic inquiry and thinking under Soviet socialism implicitly used inspiration from the non-socialist world (sometimes using misunderstood notions and arguments). It also led to unclear expressions (in some cases perhaps deliberately ambiguous).

The issue of decentralization, for instance, together with attempts of partial marketization, was treated under Soviet-type ideology in a diametrically different way from the issue of the complementary roles of private markets and the state discussed in democratic market economies. Centralism was the ideal solution for the socialist ideology, but unfortunately it was not fully feasible. Decentralization and some autonomy at the microlevel could not be avoided. In a pluralistic, democratic society there is a diametrically opposite logic, i.e. public functions are supplementary to private markets (mainly because of ‘market failures’) and the central state is limited by the principle of subsidiarity.

### *Limitations to freedom*

There were numerous institutional barriers of censorship and other limitations to freedom of scientific research. The main source of these restrictions was related to the universally repressive nature of a totalitarian system (the intensity of which was diminishing over time, although visible elements remained). Simultaneously, barriers in communication existed—gradually decreasing after 1956—resulting from a specific ideological vocabulary which was used by scholars in line with an orthodox Marxist—Leninist school and with officially promoted doctrine. In addition to the limitations already mentioned, let us remember that many texts written in the past used indirect means to express criticism and postulate changes in economic practice, putting more accent on the arguments about ‘what, why and how things should be changed’ than on diagnostic analysis of failures. In a similar vein, the formal language of mathematical modelling, of cybernetics or general systems theory could often be used because it was less likely to arouse repressive reactions. Formalized language was also useful in contacts with foreign scholars from the West.

Such cases may be considered as symptoms of the ‘quasi-codes’ employed to pass through the barriers of political taboos—unfortunately at the cost of their clarity. All this seems relevant in assessments of particular contributions to economic science from the viewpoint of complying to adequate scientific standards.

### *Arbitrariness*

If a given solution to any kind of problem in the field of systemic arrangements or in economic policy proved to be inefficient or even harmful from the viewpoint of present practice, this would not necessarily be a

convincing argument that the solution was wrong. If it was approved as ideologically correct, and presumably useful for a future socio-economic order, then the reasons for present failure would be sought in various unfavourable circumstances or in arguments indicting too many remnants from the old decadent order.

This approach was tantamount to arbitrariness. Any rules of behaviour and of decision-making based on experience and knowledge from the past could be questioned as obsolete or politically wrong even if some arguments showed their usefulness for present day practice. Empirical tests were not sufficient and could not serve as a basis for possible falsification of systemic arrangements based on the ruling doctrine. In economic thought of those years there were numerous instances of clashes between arguments for rationality and efficiency in today's practice and, on the other hand, those supposed to serve the ideological dogma or visionary aims for a distant future. Whatever the real reasons of these political constraints, their power remained.

In other words, the quality of economic science deteriorated due to enforced constraints, aprioristic judgements or taboos in choices of objects for study, in methods applied and in basic values taken implicitly or explicitly in appraisals. Arbitrary and ideological criteria were used by the ruling party to set the borderline beyond which the scientist would enter an area of unacceptable changes ('dangerous for the system').

After 1956 the borderlines became less restrictive, but there were still certain dogmas (taboo topics) which were strongly defended by the political rulers. Their list included, first of all, state ownership and centralistic control, but also the universal presence and decisive prerogatives of party officials in all kinds of decision-making, putting aside more objective economic criteria in favour of political criteria and arbitrariness in economic matters, as well as the dominant role of political criteria in foreign trade and other economic relations.

### *The holistic approach*

In general terms, the Soviet doctrine implied a methodological approach diametrically opposite to the neoclassical mainstream and to other main schools such as the Austrian and even the orthodox Keynesian. Methodological individualism was excluded from general theoretical constructions. The latter were approached with holistic and theological concepts, whereas relatively secondary and subordinate roles were assigned to microeconomic issues and to individual preferences and behaviours. The doctrine rejected the standpoint of those other schools, deduced from empirical observations, that performance is the ultimate result of multiple microactivities and their interaction. Any wishes or expectations concerning the whole economy can be justified and feasible under the condition that they will come about through correspondingly oriented microactivities.

The socialist doctrine was based on the assumption that micropreferences and autonomous horizontal interactions should not be allowed to constrain the political will to attain desired economy-wide goals. This led to systemic solutions that were meant to make individuals think, choose and behave according to centrally designed patterns, i.e. according to the doctrinal arguments of ‘democratic centralism’: to be ‘free’ in understanding the necessity of the inevitable dominance of the collective (central) will.

In fact this was meant to destroy the authentic freedom of choice at the microlevel for the sake of enlarging the freedom of choice in central decision-making, which was supposed to express collective interests. One can argue that the practice remained far from the aims of the doctrine. It was successful in destroying autonomous mechanisms of microchoices and their interactions, but was not able to force microactivities to follow centrally devised patterns. The people showed their dissatisfaction and objection to the system, although they were supposed to benefit from their obedience to collective will.

### *Scientific verification*

The situation changed after 1989, and—it is hoped—objective knowledge will be gathered in the course of time. However, certain additional conditions will have to be met because the freedom of scientific activities is more demanding than the freedom of speech. Freedom in science necessitates greater efforts in adequately justifying the substance of what is said. This adequate justification of scientific opinions must correspond to the standards formed by the academic community.

### **Economic science in Poland before 1989**

This section presents for the period 1945–89 a historical account of the main topics discussed as well as of the viewpoints and arguments presented in the discussions. It is divided into four sections. The first three correspond to the subperiods 1945–56, 1956–80 and 1980–9 which, respectively, are characteristic for: (1) implanting the Soviet-type economic system, (2) endeavours to soften some of its totalitarian features and to make it more rational, (3) radicalization of reformist concepts, growing controversies up to the demise of socialist rule. The fourth section contains concluding comments.

In referring to facts for the subperiod 1956–70, as well as to their bibliographical sources, I have used the extensive historical study prepared by Edward Lukawer (1995). All comments and opinions express my views, unless they are explicitly referring to those of other authors.

*Implantation of Soviet socialism and totalitarian rule: 1945–1956*

During the war years there were visible signs in Polish social and economic thought in exile and in clandestine structures of enemy-occupied Poland that in a post-war free Poland there would be a shift towards ideas and programmes of social democratic and peasant parties, e.g. agrarian reforms, lawful nationalization of basic industries and an active role of the state in planned processes of reconstruction and development. Immediately after the war (1945–7) the prevailing conditions of heavy war damage and human losses did not favour bright scientific activities. System views from that period were predominantly characterized by pluralistic multiparty democracy and by a mixed ‘three-sector model’ of the economic system, comprising state-owned, cooperative and private sectors. However, the practice soon departed from such concepts.

In the first two post-war years the Soviet rulers concentrated on grasping full political power and on eliminating any opposition from the people keeping up hopes for freedom and democracy. In economic matters, besides the nationalization of industry and the agrarian reform, the process of reconstruction was started and work on a three-year plan for 1947–9 proceeded. However, already in 1946–7 many pressures and political actions were started in order to implant a fully-fledged Soviet system, as outlined above.

Its essence was to reject all systemic features resembling market democracy, and its implantation in Poland was neither a response to an autonomous demand from internal revolutionary forces nor the outcome of scientific concepts of Polish scholars. It was the result of the Jalta Agreement. Thus in the first stage the communist attack was focused on all political forces near to the Polish government in exile (in London). In 1947–8 the task was to eliminate the influence of the social democrats who were participating in the government of that time. The so-called ‘battle for the trade’ (see Landau 1995:99) was waged in 1947 in publications and in political activities with the aim of taking over the trade, i.e. to absorb it into the state-dominated structures and to strengthen the political role of the communist ‘Polish Workers Party’. The point was to destroy private trade as well as genuine cooperatives which were traditionally under the influence of old-time socialists.

A decisive blow was struck by the second offensive of communist politicians and economists in 1948, waged with the intention of destroying all social democratic ideas, concepts and approaches to the economy. As direct object of attack they took the views expressed by the Central Planning Office, headed at the time by *Czesław Bobrowski* (1904–96). The documents of the Office were accused of being wrong in underestimating the necessary extent of investments in favour of consumption, in assuming too

much autonomy for the cooperative sector contrary to, presumably, the exclusive role of state orders and in using a politically wrong national accounting system, the SNA (system of national accounts) instead of the MPS (material product system), which was, again presumably, unfavourably distorting the share of the working class in national income creation (Bobrowski 1985:187–8 as cited by Lukawer 1995:4–5).

Subsequently, an all-embracing pressure followed in authorized publications and official announcements which demanded the total rejection of earlier Polish non-communist economic thought as well as non-Marxist Western economics. These demands were declared at the 1st Congress of Polish Science in 1951, followed by the postulate that science in Poland should be rebuilt from scratch, strictly according to Soviet patterns. It was declared—*inter alia*—that the ‘fundaments of economic science are lying in Marxist political economy which is the only true science of economic relations among people’. Economic science had to be proud of its consciously partisan nature, as ‘the communist party ideology is the basic source for understanding objective development laws’.<sup>5</sup>

The Congress gave occasion for fierce personal attacks against scholars and academic institutions who were not clever enough to adapt their views and writings to the methodology and vocabulary of Soviet Marxism-Leninism. Academic structures, programmes and textbooks as well as teaching staff were shaped according to these directives.<sup>6</sup> All this exerted a heavy impact on economic science for many years, in its most acute form until 1956. Most publications of the early 1950s had to follow the political instructions as indicated above or to tackle some relatively neutral topic (e.g. based on technical aspects of economic activities or on historical facts from the distant past). The issues of the socialist restructuring and growth of the Polish economy (as exemplified by the six-year plan for 1949–55) were taken up in a number of writings, but their relevance was minor from a standpoint of economic scientific standards.

Nevertheless, there remain from this period some professionally valuable studies—published before the ideological grip was tightened—by Taylor (1947), on general economic theory, and by Secomski (1947, 1950), on investment policy, as well as analytical studies giving an objective picture of real economic processes, including their darker side<sup>7</sup> even if this presentation might have implied conclusions not acceptable for orthodox politicians. There were also people like C. Bobrowski or *E. Lipinski* (1888–1986) who were inspired simultaneously by a humanist version of socialist ideas and by Polish traditions and so were trying to think and act independently, led by their own conscience.<sup>8</sup>

*Softening of the totalitarian rule: the ups and downs of economic disputes 1956–80**First attempts to make centralism more rational*

The first large wave of criticism against Soviet-type centralism was levelled in June 1956 at the Second Convention of Polish Economists<sup>9</sup> and in numerous subsequent publications. The critique of various specific features of totalitarian centralism was almost unanimous, whereas the conclusions and corrective proposals were more diversified. The critics indicated the most visible shortcomings of the centralistic economic control, which resulted from a one-sided reliance on administrative orders and ideological appeals without any usage of economic incentives. There was no room for economic choice and autonomous decision-making within particular enterprises. The whole economy was wrongly treated as if it were a single, economy-wide enterprise directly managed by the political authorities and their central planners. This was leading, according to the critics, to a proliferation of bureaucracy with wastage of resources and rigidity in the economy. Simultaneously, some critics drew attention to the politically and motivationally unfavourable consequences of arrangements which prevented the mobilization of the working masses and use of their initiatives, but—at the same time—exhibited numerous cases of arbitrary bureaucratic decisions, errors and waste.

These diagnostic statements led the authors to rather restrained conclusions. Only a few critics, in particular *S. Kurowski* (b. 1923), suggested a far-reaching shift towards a market mechanism<sup>10</sup> implying a withdrawal from the Soviet-type economy. The majority suggested only that it would be desirable to change the nature of centralistic control from a model of administrative orders and political pressure towards a model relying on value categories (i.e. by means of price control and setting as well as keeping control over enterprises in aggregate terms). These concepts would not impair adherence to Soviet-type patterns but would make it possible to increase the range of decisions available to separate enterprises within a centrally decided framework of prices and performance indicators. This seemed to be a pragmatic compromise of decentralization, i.e. of keeping centralism in a modified form, comparatively less centralized and, it was hoped, more rational.

The disputes of 1956–7 took place alongside important changes in the composition of the political top personnel as well as in essential features of Polish statehood. These changes first of all removed visible and direct instruments of Soviet rule over basic state organs of the Polish Republic (in particular the army and internal security forces, where commanding positions had been in the hands of Soviet officials). They nurtured hopes for

the removal of the most oppressive elements of the internal institutional order. In response to popular demand, the new ruling team promised increases in consumption and allowed workers' self-government bodies in enterprises. However, the changes to the economic system suggested by the economists were somewhat lower on the list of public priorities.

The authorities seemed to promise decentralization of economic control, but they were very hesitant in action. At any rate, they agreed to form an official consultative body for the government with the task of preparing a concrete reform programme. This 'Economic Council' was chaired by *Oskar Lange* (1904–65) and its permanent professional staff acted under the leadership of Czeslaw Bobrowski as vice-chairman. It soon submitted documents which were published, but their contents could not convince the rulers who, already at the end of 1957, started to revoke earlier reform promises and to block or remove some earlier concession.<sup>11</sup>

In comparison with the previous period, practical results of diagnostic studies and of reformist postulates from the period of vivid disputes of the 1950s could be seen. There was a visible decrease in the number of obligatory performance targets (only eight) and a shift towards aggregate indicators<sup>12</sup> which formed the direct dependence of enterprises on supervisory decisions. This move was presented at the time as a Magna Carta of autonomy given to the managers of enterprises!

Organizational changes in the administrative hierarchy over enterprises could also be discerned:

- The direct channel of supervision from industrial ministries to enterprises was removed as well as the ministerial units performing such tasks. Obligatory branch associations of enterprises were formed instead, initially assuming relative autonomy in coordinating and programming activities mainly in investments.
- Many smaller enterprises were moved from the scope of ministerial supervision to that of respective regional authorities.

On the other hand, ministries were endowed with more autonomy and power to disaggregate planned figures set for them in the central plan, i.e. the government ceased to be engaged directly in setting planned figures for middle-level units.<sup>13</sup>

From the viewpoint of economics, the changes had a rather superficial character, leaving untouched essential sources of systemic failure. It is true that in comparison with earlier anomalies of Soviet-type patterns they introduced at least some basic notions, measurements, performance indicators and instruments of control similar to those in market economies. However, after the decrease of detailed orders and after the introduction of less numerous aggregates (mostly in money terms) the situation did not improve. First of all, prices—fundamental to money terms—were not

exogenously neutral with respect to interlevel bargaining games. This means that corresponding indicators may have been biased. Besides, in the hierarchic control channels there was a common practice of separate, fragmentary 'monies' resulting from administrative limits for separate kinds of expenditure. Moreover, there remained numerous quantitative allocations of scarce supplies and corresponding output targets for respective producers, which in itself was a steady source of jobs for bureaucrats.

Subsequent developments showed that the expectations of improvement linked to attempts of decentralization were in practice either short-lived or illusory. The issue of decentralization was difficult not only for politicians (wishing to keep their totalitarian power) but also for many economists who were conscious of various pathologies and failures of centralism but who, at the same time, were convinced that one must keep some version of central control with consciously planned allocation as inherent to socialism. Recalling that many other pathologies and failures were present also in the capitalist market economy and democracy, they rejected concepts that would lead reforms in that direction.

#### *Disputes over the concepts of decentralization*

The search for another version of socialism, non-totalitarian and free from the other pathologies of the Soviet model, evolved along several paths with different approaches to the issue of centralism versus decentralization.

One line of thinking, exemplified by *Michal Kalecki's* (1899–1970) views, took its inspiration from criticism of some weaknesses of capitalist market economies and from the assumption that a centralist system of socialism would be able to avoid them (in particular: unemployment and recurring crises) and to ensure a steady growth scenario together with a socially desirable income distribution. These positive features, it was argued (Kalecki 1942), would convince a large majority of the population to support socialist rule. In this context Kalecki (1956) was in favour of workers' councils which, he considered, provided an opportunity to promote authentic democracy, self-government and the strife for humanist aims at the microlevel. A change in the nature of central government would also be possible making it more rational and allowing more scope for taking care of human freedom and welfare. However, according to Kalecki, some basic economic matters (such as prices, wages, investment) still had to be kept strictly under comprehensive centrally planned control.<sup>14</sup>

Critical studies of the system and the concepts of decentralization dealt with both aspects, microlevel democratization and the nature of central control, but much more attention was devoted to problems of central control than to the institutional, legal and organizational microaspects of the economic system. The former constituted a more promising and politically less vulnerable field for general considerations and disputes, even without



direct and immediate links to possible changes in existing practice. The latter, of necessity dealt with more practical suggestions of institutional changes and—as such—were blocked as politically wrong.

These issues were tackled in the 1960s and 1970s in a number of studies on the typology of enterprises (e.g. Jakubowicz 1975, 1984). They argued for decentralization, emphasizing the manifold merits of separating microeconomics from politics and of differentiating the types of enterprises, i.e. (1) increasing the roles of genuine cooperatives, (2) foreseeing a stable role for private ownership, (3) separating communal property of local self-government from an overall ‘national ownership’ pool as well as (4) making a distinction between state-owned, hierarchically dependent and self-governed socialist enterprises with an assumption that the last type would be dominant. These lines of thought were strongly criticized by orthodox followers of the Soviet-type doctrine of the ruling party. This meant they had no chance of implementation until the late 1980s.

The studies and writings concerned with central control can be grouped into two categories: (1) those that assumed a realistic framework of existing vertical multilevel hierarchies and (2) those that assumed possible extensions of a horizontal market-like regulatory mechanism of interactions among relatively autonomous agents. The latter category will be dealt with in the next part of this section. The studies belonging to the former group considered the ways and means of setting: (a) directives (tasks, prohibitions, permissions, allocations of administratively rationed items),<sup>15</sup> (b) prices and similar parameters for economic calculations,<sup>16</sup> (c) performance indicators obligatory for units under supervision, (d) behavioural rules and incentives used for motivating expected behaviour,<sup>17</sup> (e) other (non-directive) instruments, such as indicative prospective information, contracts between state administration and enterprises (e.g. in R&D activities), ideological stimuli.

An important line of studies, identified as the ‘Wakar School’ (see Wakar 1963, 1965), was oriented not on system changes but on identification of the existing system’s basic features. These studies included empirical analyses as well as theoretical generalizations of the logic presumably found in a centrally controlled economic system. They led to conclusions about relatively more efficient versions of centralism.<sup>18</sup> Processes of planning were inherently centralistic because they had to form an internally consistent economy-wide plan, whereas implementation was organized in various ways either more centralistic (through directives, without an active influence of prices) or decentralized (through other instruments, mainly parametric). The set of instruments used for plan implementation was called by this school ‘a management formula’ consisting of three interconnected parts: prices (parameters), behavioural and accounting rules, incentives. Within the framework of these notions one (decentralized) extreme could be envisaged: active and flexible prices, stable rules, a simple and clear incentive system

(linked to one synthetic indicator as, for example, profit) and another (centralistic) extreme: passive prices, unstable and ever changing rules, unclear and arbitrarily changing incentives.

The logic of the centralist system demanded that the plans of particular enterprises were fitted into the overall economy-wide plan of that period and, at the same time, expressed microeconomic effectiveness. According to the central standpoint, the latter was expected to include rational use of resources in relation to effects corresponding to a centrally set pattern. However, the managers of an enterprise were usually not interested in accepting this standpoint, trying instead to act according to their own interests. The tasks of making these conflicting motives coincide were formidable, the more so if one took into consideration the additional conflict between rigidity in microactivities (in following their possibly obsolete plans) and flexibility (at the cost of possible disorder).

The absolute dominance of central decisions, even at the cost of rigidity, was indirectly made clear in arguments that an active role of money and quasi-market relations must be limited to labour and household consumption, whereas the essence of central planning is similar in a centralized and decentralized version because it involves a similar scope of crucial decisions concerning all fundamental issues of national income distribution as well as of investments (Brus 1961:245–7). It followed that decentralization was limited exclusively to the sphere of operational, technical matters in implementing central decisions.

A limited concept of decentralization, as a somewhat relaxed approach to centralism with hopes for more, seemed to be widely shared among Polish economists in the 1960s. At the time it was considered as a desirable departure from the still more orthodox Soviet model of centralism and it had to be defended against firm adherents of that model. Besides, there was a persistent hope that it would be possible to eliminate negative aspects of centralism while implementing the socialist promise of comprehensively and correctly planned development of the whole economy.

#### *Concepts of quasi-market economic mechanisms: 'plan-market' disputes*

Some economic disputes went beyond the decentralization of some aspects of centralism. The problem in question was that of accepting some elements of market arrangements. It involved also the problem of sharing decision rights and responsibilities: how to combine central economic control in some fields and aspects of partial autonomy as well as self-regulation for lower-level economic subjects in other matters. Politically most neutral were the arguments that stated that overdoing centralism prevents central authorities from attaining their economic aims, i.e. to shape all the economic processes according to a predetermined central plan. Changing the nature and instruments of

central control (including not only changes implied by ‘decentralization’ but also by ‘marketization’) would, in fact, it was said, make this central control more efficient.

These questions were explicitly tackled in a renowned book on the functioning of a socialist economy (Brus 1961). Its arguments cleared the ground for a more systematic discussion by indicating three separate spheres: (1) macroeconomic issues falling directly under the central government, (2) individual consumption shaped by microdecisions of households, (3) entrepreneurial decisions which may be shared in various patterns between enterprise management and some people outside (central government or some ‘middle-level’ organs). Only the third decision type could be discussed in terms of options.

The practical unfeasibility and disastrous consequences of hypercentralistic concepts led to preferences for other solutions nearer to the market, but this tendency had to be constrained by two kinds of objections: the imposed necessity to observe the superiority of the central plan and the adequate quality of separate microdecisions. The latter was quite demanding. On the one hand, the outcomes of relatively autonomous microdecisions had to be coherent with central decisions related to macroeconomic matters (multilevel, hierarchic interdependencies in certain types of problems). On the other hand, there were several conditions to be met in order to enable microdecisions to work.

The quality of microdecisions depends primarily on the motivations of decision-makers and on the availability of adequate information about their economic environment, in particular the expected behaviour of co-actors within system-wide demand and supply relations. In practice, other information and constraints were also involved—centrally generated instruments of control. The sources of arguments for the latter were not only political (in the sense of preferences for centralism based on political power), but also substantially economic for this peculiar economic system.

Without liberalization and monetization of the system one could hardly expect an evolution towards autonomous regulation mechanisms. Thus proposals for liberalization were considered dangerous. In a system without a financial transmission mechanism and without endogenous regulation it was not possible to develop macroeconomic policy similar to that of market economies. Inevitably there was an on-going problem of how to find effective sets of microeconomic instruments which would not only implement centrally devised aims but also calm down fears of growing disorder.

In the literature on this, various streams of thought can be found, differing in their relative emphasis either on coherence with economy-wide and centrally prepared aims and patterns or on the chance of increasing microeconomic efficiency, especially in its dynamic, innovative sense. One extreme in a spectrum of market-oriented studies and reform proposals was

characterized by a relatively narrow scope of horizontal interactions among microagents, who would be fairly autonomous with respect to bureaucratic hierarchies but only in selected areas of economic activities (presumably less manageable from the viewpoint of enforcing central commands).<sup>19</sup> On the other extreme there were considerations of comprehensive quasi-market models for the whole economy which, it was hoped, would combine promising features of central planning and of market regulation.

This line of analysis took inspiration from Lange's (1936) well-known earlier study on the theory of a socialist economy, although the study itself did not provide a blueprint for socialist practice. In his later publications on real socialism and its economy Lange was critical of a command economy version of socialism and he argued for rationalizing reforms, but did not suggest explicitly market-oriented solutions. Thus, a single source of inspiration<sup>20</sup> led scholars in various directions: either to emphasize the rationale of a market economy backed up by economy-wide planning and adequate central policy, or to assume that something similar might evolve through a multilevel structure or multidirectional information flows based on marketlike calculations. The latter approach was based on another assumption that the actors responsible for microactivities would be genuinely interested in participating in such a structure and willing to accept common rules. This arrangement, if feasible, was supposed to utilize resources similarly effective to the standards of a market economy. At the same time, it was hoped that distributional features of these systemic arrangements could be more justified from the viewpoint of social equity criteria. The market version seemed politically unacceptable; the 'simulated market' approach seemed hardly workable.

A compromise line of thinking<sup>21</sup> suggested reforms towards a wide scope of market regulation and a restraint of direct central control in all current operations, whereas a centrally planned 'simulated market' would concentrate on development problems, including only a few current decisions having essential impact on the future. Characteristic of these disputes were the views of Pajestka (1969, 1979), who argued for strategic planning as the fundamental function of central control, instead of treating 'central planning' as a synonym for an administrative system of regulation, an alternative to the market.

It was argued (e.g. Wilczynski 1980), however, that in a centralistic economic system of directive control via bureaucratic hierarchies the quality of planning was doomed to deteriorate so that it was not able to perform its future creative service. At least two features of centralism were responsible for this failure: (1) managerial hierarchies that created heavily biased information and (2) a preoccupation with manifold current issues, which led inevitably to short-termism. Moreover, the former factor was linked not only to interlevel bargaining but also to keeping money and finance in a secondary position. Price relations were inevitably distorted, so money

categories which were necessarily used in planning must be dubious in the context of aggregation as well as in expressing behavioural and institutional interrelations.

In fact, 'central planning' had very little in common with the normal meaning usually attached to the notion of planning. This was because its goal-oriented, teleological aspects were either overwhelmed by technocratic matters of bureaucratic hierarchies burdened with bargaining and conflicts of interests within a multilevel network of information flow and decisionmaking procedures, or it was made almost useless through a high probability of errors in the substance of the plans.

There was some hope that the quality of planning arrangements could be improved<sup>22</sup> through their computerization and more flexible organization. The aim was to supply planning with more objective information and justified methods by making them less dependent on information flow organized via bureaucratic hierarchies and less susceptible to branch and group pressures. Unfortunately, the preferences for a bureaucratic version of control through hierarchic channels were too strong, so that practical progress in improving the quality of the central level's performance could not be expected.

*The quality of central planning: theoretical fundamental  
and practical issues*

Clearly, for a centralist economic system it is essential to attain high professional quality in central level performance. These qualitative issues were conditional not only on the problems described above but also on the presence of firm theoretical foundations for the contents of central plans. The most prominent and renowned studies in that context were again the works of Michal Kalecki and Oskar Lange, although similar and other aspects of the *problematique* were also tackled by other authors, e.g. *Cezary Józefiak* (b. 1932), *Józef Pajestka* (1924–94), *Marian Ostrowski*, *Zdzisław Sadowski* (b. 1925) and others.

It should be remembered here, first of all, that the theory of growth in a socialist economy, as outlined by Kalecki (1963), is usually identified as one of the two main lines of economic thinking next to studies concerned with the nature and functioning of a socialist economic system. The main message of the theory, and the reason for its importance, consists in implicit arguments against arbitrary central decisions leading to ineffective increases in investments as well as against schematism in applying pseudo-rules deduced from an ideological doctrine. It indicates to policy-makers what can be chosen and decided upon in particular types of situations, within a constraining framework formed by the necessity to comply to objectively existing interrelations. A similar line of thought was continued by *Kazimierz Laski* (b. 1921) (1965) in his outline of a socialist reproduction theory, where

new emphasis was put on consumer market equilibrium issues and on possible inflationary pressures as necessary factors to be considered in growth policy decisions. In 1964 Lange published his *Optimal Decisions. Principles of Programming* (Lange 1971) which dealt with a number of issues relevant to the quality of central planning, not only from the viewpoint of its technology but also of its methodical approaches in tackling such issues as uncertainty, heterogeneity of goals, etc.

Kalecki published several studies concerned with national economic plans and their contents (see, above all, Kalecki 1963). The feature common to all these studies is Kalecki's concern with attributes and qualitative features of central planning which should have played a primordial role but were so often neglected in practice. His interest was in long- and medium-term planning which could involve some freedom of choice as well as chances to have sufficient time to study the problems. From his arguments implicit indications could be discerned that the quality of central decisions on current issues must have been very doubtful.

Kalecki argued against fragmented, separate decisions on individual problems which tended to be made without sufficient concern for manifold interrelated questions, i.e. he argued for comprehensiveness in planning. He also emphasized the principle of maximal attainable effectiveness of planned investments, a notion explained by the task of attaining a given increment of national income with the smallest possible investment outlays under the existing conditions of trade-offs between capital and labour as well as under the premises of efficient foreign trade. Kalecki's third principle stated that plans should be realistic, i.e. any tendency towards over-bold and optimistic assumptions should be avoided. These assumptions often arose when planners assumed most convenient future levels of technical and behavioural coefficients or of certain exogenous data (e.g. expected terms of trade or demand on foreign markets). Last but not least, the planners and politicians should care for the present interests of consumers, i.e. they should restrain their zeal to promote growth by a rising rate of accumulation at the cost of consumption. This was a symptomatic warning as it referred to a source of errors which was built into the systemic logic by giving the central authorities, instead of the citizens, the right to make almost all saving decisions.

It is interesting to see how Kalecki's critical remarks and his methodological recommendations fared in practice during his employment in the government service as chairman of a committee responsible for constructing the perspective plan 1961–75 (Osiatynski 1982). Kalecki's work was attacked for its pessimism in predicting production growth targets that were too low and also for using ideologically incorrect methods by starting the whole study from a comprehensive consumption programme and a projection of external demand instead of following the fundamental rule of planning to produce as much as possible. Kalecki's arguments against

the idle efforts of 'production for its own sake' were rejected and so his participation in government planning was soon over. Of similar interest are Kalecki's unsuccessful attempts to form a strong professional team of experts charged with the task of appraising major investment projects submitted for central approval by respective industrial ministries. His approach was accused of being unnecessarily theoretical and sophisticated. In fact such a professional screening was contrary to the bureaucratic hierarchy's interests. It unnecessarily complicated the real practice of arbitrary political decisions.

Centralism prescribed tasks that were too large and complex for central politicians and planners, so that it was not possible to form generally 'true' and applicable formulae and algorithms for their implementation. Nevertheless, arbitrariness in political decision-making could not be officially admitted. There was a demand addressed to economic science for professional, theoretically justified manuals and prescriptions. Most urgent and difficult were all the time problems of decision-making on investment programmes and on individual investment projects, especially the large, expensive, long-lasting ones demanding central acceptance. The task of scholars was hopeless, because the whole economy was functioning in practice in a very haphazard manner without any stable and systematic pattern of prices or of microbehaviours and their interactions. The scholars were able to propose only a simplified approach, based on numerous assumptions (concerning the hypothetical trustworthiness of prices and of other information about conditions and circumstances of choice). Real situations never coincided with such assumptions.

Basically there were two approaches: one related to comprehensive programming models and techniques, the other related to variants of particular projects. The former was linked to a wider stream of studies on development planning models (in their mathematical optimization versions) and may be exemplified by the work of Lange and other authors working in this field.<sup>23</sup> The latter approach, to be found in Kalecki's works, was concerned only with direct effects (i.e. differing techniques and costs, including different schedules on the time axis).<sup>24</sup> Later, a 'cost-benefit' comparison was applied with formulae which extended the choice to projects differing in effects and costs.

The studies, their methodological aspects, formulae and theoretical justifications, were intellectually valuable but their utilitarian merits were incomparably small. There may have been perhaps some learning effects among people involved in decision making procedures, but 'the correctness' of decisions remained unattainable because of distorted prices and otherwise biased information. The scholars could not invent something similar to a 'philosopher's stone', but under pressure they presented 'hypothetically correct' solutions.

Socialist systems could not accept the strong impact of unplanned and unpredictable links with abroad. This implied autarchic preferences, a

predominance of links with similarly governed socialist countries and the rule that all contacts and transactions with other countries had to be kept under strict and direct centralistic control. Manifold rigidities and inefficiencies inevitably followed and it was evident that such an approach could not be applied in transactions with market economies and was generally unacceptable from the viewpoint of efficiency. Many scholars, in particular W.Trzeciakowski (1962), were engaged in the attempt to rationalize this field. An important branch of studies was concerned with extending the scope of economic choice in foreign trade, effected within a centralistic command but trying to maximize the economic effectiveness of transactions.

*Disillusionment of the 1970s: the case of sheer arbitrariness*

The second half of the 1960s was characterized by growing socio-political unrest, but the top authorities were not inclined to look for therapies in the domain of system reforms. They defended the official doctrine with its bureaucratic and hierarchic centralism, staying firm and even becoming more actively anti-reformist: 'revisionist advocates of market socialism' were often attacked in official enunciations. In 1968 personal struggles among top party officials led to the regrettable anti-Zionist campaign. Solutions for economic problems were sought in the field of central decisions which were ordered, by directives of the party issued in 1969, to start a fundamental turn in economic policy towards an intensive and selective development scenario aimed at export-oriented restructuring.

According to this concept, the economic system was supposed to back up the new policy through much more demanding conditions for wage payments by making them more dependent on increased labour productivity. The new rules issued in October 1970 tried to tackle an essential and controversial issue, but the approach remained within the logic of the bureaucratic command economy and it did not even try to consider the viewpoint of the workers. In fact, the whole project was never implemented because of vehement workers' protests in December 1970. After bloodshed in suppression of these protests and after a general reconstruction of the party top authorities, there came a new wave of promises and of hopes for decisive changes in the economic system.

In 1971 it seemed that at last a comprehensive reform of the economic system would materialize. The top authorities of party and government formed a joint commission—presided over by J.Szydlak, a new influential member of the Politburo—with the task of preparing a programme for 'modernizing the functioning of the economy and of the state'. The community of economic scholars took an active part in this initiative and quite soon, near the end of 1971, the professional teams within the commission were ready with a comprehensive document comprising a



critical appraisal of the existing system and proposals for far reaching changes. The substance of these proposals resulted from earlier critical studies of the existing centralist system, as discussed above. The document prepared officially within the commission was neither accepted nor rejected by the political leaders of the commission and, consequently, it was practically neglected by the top authorities of the country. Its full text was not published but its contents were described later (see, for example, Kuczynski 1981).

According to the proposals, the economic system had to be changed in three areas:

- Centralism had to be weakened and to become more rational; the role of the centre had to be changed from central management in all aspects of current economic activities to general central surveillance and control, with an emphasis on future creative strategic functions.
- The state-owned enterprises had to be endowed with much more autonomy, so that they would act according to their own motives, aims and plans, having only to observe a number of rules and parametric instruments of regulation (set centrally, but stable for several years). Directives were to remain only in exceptional cases, such as the defence industries, output directly related to international obligations of the state, non-profitable but socially desirable output.
- Prices had to be made more economically justified and trustworthy from the viewpoints of market relations between supply and demand, as well as by limiting the extent of arbitrariness in respect to costs, i.e. curtailing subsidies and monopolistic profits.

It was emphasized that the reform would need a prudent policy, oriented on stabilizing and equilibrating forces.

Kuczynski (1981:29–30) rightly drew attention to the fact that the politicians in the new ruling team started to lose interest in systemic reforms as soon as they realized that the reforms would change the scope and style of their autocratic rule, diminishing the extent of arbitrary directives and putting objective constraints to the omnipotent central management of the whole economy. They might have been interested in reformist endeavours to increase economic efficiency and innovational drive in enterprises but not at the cost of giving away some of their prerogatives of autocratic rule. Such self-restraint was generally alien to the rulers, but this time it was particularly strengthened by the *idée fixe* of the top authorities to accelerate growth through a massive central investment programme backed by imports and foreign credits.

In comparison with the initial range of suggested system changes very little was put in motion in practice. Only one element of the whole package was introduced at the beginning of 1973. It was concerned with the

organizational framework (in the form of 'large economic organizations') and the behavioural rules for industrial enterprises, but even here the move was partial. It was introduced on an experimental basis, referring to a chosen set of enterprises and leaving others within the old system.

Clearly, performance depended in practice at least on whether the new mechanism really promoted efficiency. Unfortunately, the practice did not provide positive answers to such a question. In 1976 the new systemic rules were practically suspended, and in 1977 they were revived in unsuccessfully modified versions. The whole concept was falling to pieces so that the practice was becoming increasingly undefinable (expressing haphazard disorder, resembling neither the traditional command system nor the symptoms of its fragmentary reforms). A new round of reformist attempts started in 1981 after the crisis of 1980 and this time under essentially different political conditions.

According to analytical studies of the unsuccessful reforms (e.g. Mujzel 1978, 1984, Beksiak 1982) the rules devised for the 'large economic organizations' could be considered as relatively more justified and offering better potential for efficiency than all earlier systemic solutions. However, the system was doomed to fail because the worst possible conditions formed for its implementation. The main reasons for this inevitable failure were the following:

- The horizontal ties between enterprises inherent to a market mechanism could not develop because of heterogeneity in their systemic arrangements and because of unchanged bureaucratic attitudes within government and party hierarchies.
- The traditional setup of central planning and control was neither reformed nor observed. It was not reformed in the sense of decreasing the scope of control and replacing allocative directives by general rules and parametric instruments, so that the enterprises would learn self-responsibility. Nor was it reformed in the sense of decreasing the extent of central investments and of making their programme more stable within a medium-term plan horizon. On the contrary, even traditional consistency in central planning was neglected. In fact, the ministries were motivated rather by branch interests and promoted their 'own' branches in the fight over the shares in public expenditures. This process expanded total expenditure above any sensible level.
- The enormous extent of investments<sup>25</sup> soon resulted in barriers and disproportions which could have been foreseen in the light of earlier warnings in Kalecki's writings. Because of far reaching discrepancies between a comprehensive five-year investment plan and annual packages with many new projects there was no hope for internal consistency and effectiveness. In view of a large back-log of unfinished projects the decision-makers had to choose the lesser evil between

whether to accept the loss of already sunk outlays or to risk the potentially worse consequences of putting more resources in visibly doubtful projects.

Expansionary central policy coincided with similarly expansionary pressures from below as normal for state-owned enterprises, which resulted in inflation and at the same time blocked attempts to rationalize prices. A vicious circle evolved leading to a decrease in an already low microeconomic efficiency and in the notoriously unsatisfactory competitiveness of Polish exports. This in turn created dangerous obstacles to servicing growing foreign debts so that harsh import restrictions had to follow. With these restrictions the situation changed from dangerous to hopeless, because output growth was slowing down and then becoming negative. Similar regression in consumption and real income led to social protests. Export possibilities decreased, and a downward spiral was the inevitable result. This was probably the background for the leniency of the political rulers in August 1980, who—seeing the extreme gravity of the socio-economic crisis—may have been more inclined to accept not only economic concessions demanded by the workers but also political and systemic changes promising some elements of democracy and human rights.

### *Disputes over system changes and experiences in the 1980s*

#### *Critical appraisals of the past: controversies over conclusions*

At the very end of the 1970s, and still more distinctly in 1980–1, the diagnostic studies and disputes became increasingly frank in critical appraisals of manifold errors and pathologies of the existing economic system and of futile reformist endeavours in the previous decades. Simultaneously, various disproportions, barriers to growth and crises emerging from the past were pointed out as the background for a deep concern about the acute crisis, indebtedness trap and recession which showed up at the end of the 1970s.

Generally, there were two approaches used in the diagnostic studies (referring to the past). In the first approach interest focused mainly on the notoriously faulty systemic arrangements of the past as well as on their role in the negative performance of the economy. This approach usually led to reform-oriented conclusions, with accents on necessary radical system changes which would have to be more effective and to go farther in comparison with previous concepts. The scope of these conclusions depended on the views of respective authors, but generally they had an evidently market orientation (see, for example, Wilczynski 1980).

Another approach concentrated attention on alleged unfavourable exogenous circumstances and/or personal errors of the people in charge of

economic matters. In this approach it was assumed that under more favourable circumstances it may be possible to achieve success by attempting again reform similar to previous concepts of partial decentralization. This might be combined with granting some autonomy to state-owned enterprises, but within the unchanged logic of centralism. The argument for this approach was not necessarily orthodox but often pragmatic, treating more radical concepts as perhaps promising but unfeasible in the existing institutional framework. In this manner the existing institutions of socialism, and their rationale, were not questioned. Such an approach, more agreeable for the ruling doctrine, prevailed in the officially accepted systemic policy.

The main elements of the new proposals presented in the early 1980s by several groups and by individual authors will be outlined in the next section of this chapter. Here, I wish to recall several observations resulting from the past experiences, which formed a kind of historical background for new assessments.

#### DISPUTES OVER CENTRALISM AND ITS PERSISTENCE

Not only market-oriented proposals but also a parametric version of decentralization seemed doctrinally suspicious to orthodox politicians and its implementation seemed in practice to have little chance of success within a centralist political framework. Wishing to overcome doctrinal obstacles against parametric control and a wider use of monetary categories several authors (e.g. Pajestka 1982) proposed changes under new historical conditions. The highly centralized system of a command economy was thought to be the most effective arrangement for the initial decades of socialism in a non-developed, primarily agricultural and war-damaged economy. According to these arguments, which were similar to Kalecki's (1942) emphasis on growth of employment and physical volume of output, the main problem consisted initially in central, direct mobilization of savings and in centrally directed investments for new employment and additional output. Particular investment decisions can be made without much concern for economic efficiency as long as total employment, output and growth aims are attainable and adequate relations secured between the outputs for consumption and for investment respectively (in terms of Marxian schemata). The approach was inherently autarchic.

As time passed, it was argued, this simple approach of extensive growth promotion was no longer adequate so that an arbitrarily directive version of centralism was no longer feasible. New conditions and problems demanded calculations in value terms because allocation problems were becoming much more complex with a growing differentiation and increasing role for qualitative factors in the field of labour and of technology, as well as a growing role of external economic relations. This complexity demanded

workable ways of comprehensive evaluation and choice between feasible variants of output and input mixes. It also demanded a diversity of approaches and flexibility in decision-making procedures at ground level that was not attainable in the central planning office or in administrative organs.

Leaving aside the question of whether earlier historical conditions justified a non-economic emergency approach, it was clear that the legacy from this earlier period was exerting a strong conservative influence, obstructing and distorting newly devised solutions of decentralized parametric control. As long as autocratic political centralism and hierarchic control channels were preserved, very little could be changed through the introduction of parametric decentralization or quasi-market forms because: (a) these apparent changes could not restrain the supremacy of an arbitrary 'political will' of someone higher in hierarchy, (b) nothing would prevent those at lower levels from distorting information and trying to shape decisions in accordance with their own interests, (c) prices and other price-like parameters were not exogenous in respect to those engaged in particular calculations and thus they could not be immune from strong biases. Altogether, monetary integrated criteria of appraisal and choice could be and often were distorted, misused and just neglected or overruled by political preferences.<sup>26</sup>

Such findings implied a fundamental question to be tackled in the new round of assessments. Was it enough and feasible to try such system changes again, when they would just rearrange some internal features of centralism? Or should the problem be seen in a wider context of changes towards a distinctly different market-oriented arrangement with priorities for autonomous microeconomic efficiency and innovational drive, supplemented by central government with a complementary and relatively subsidiary role? The scope of this role and its interpretation were a matter for dispute but within a logic entirely different from that of existing centralism.

The most important controversial issue seemed to be the mutual relation between the central authorities and the arrangements characterizing the economic system. Under a strictly centralist concept of socialism the central rulers are entitled to the final word in setting economy-wide societal goals and the pattern for their implementation, including the arrangements for the economic system. Thus the structure, behavioural patterns and the mechanism of regulation of the economic system are considered as instrumental to the central political will (with an implicit assumption that the centre would be strong or clever enough to succeed in imposing its political will).<sup>27</sup> Declarations by political rulers of their decentralizing intentions would not be practically binding within the existing autocratic centralism because it would be easy to pass them by in practice.

The other approach would limit the extent of arbitrary choice at the centre because the economic system and the extent of central functions

would both have to be subdued to certain superior rules of a democratic constitutional order with genuine institutions to ensure adherence as well as to certain constraints of feasibility in the choice among feasible and not arbitrary societal goals. In comparison with the former this approach meant a considerable decrease in the presumed prerogatives of the centre and the ruling party. So, it was opposed by those representing the centralist doctrine and the interests of ruling groups.<sup>28</sup>

Although the economy was sinking in the late 1970s into an increasingly grave socio-economic crisis, the general framework of the existing socialist economic system had to be taken as exogenously determined, because it was supposed to be best suited to attain the above-mentioned merits of common advantage. Consequently, emergency measures and more fundamental therapies for system ailments discussed and presented by economists faced a choice: whether to remain within the framework of the presumably socially progressive and politically acceptable interpretation of socialism or to propose its more or less extended reinterpretation which unavoidably implied manifold, not only purely economic, institutional changes. In view of all earlier experience the latter might have been judged unrealistic<sup>29</sup> and at any rate their chances depended on autocratic assessments of top politicians, the outcomes of which could not be predicted with certainty.

#### DEBATES OVER SOCIETAL RATIONALITY AND RELATED ISSUES

In view of the above-mentioned experiences, it was unlikely that the controversy over systemic reforms would be brought nearer to a solution in a scholarly debate. Instead, something else took place: the issues being discussed in the guise of much more abstract terms of rationality, its meaning and implications as well as its role in positive and normative economics and in economic practice, especially in a socialist economic system.

These issues were implicitly present in many studies but explicitly they were tackled in 1978 at a conference of the International Economic Association on 'The Relevance of Economic Theories' in the papers presented by Sadowski (1980) and A.Lukaszewicz (1980; see also Kaminski and Lukaszewicz 1980). The argument included: (a) direct deliberations over rationality and its role in the general logic of an economic system, in particular a socialist system, (b) contributions which used other terms but referred to the relations between central planning and more autonomous socialized enterprises, the former presumably oriented on macrorationality and the latter on their own microrationalities.

In retrospect it seems that this discussion was intended to exert an essential influence on the traditional socialist system and its expected reform and evolution. The main point was to address and to appraise critically some theoretical fundament used to justify centralism as an untouchable feature of a socialist economic system. It was hoped that sufficiently strong

opposite arguments could change the rulers' views inclining them to understand that at least 'in principle' less centralism would not harm the essence of socialist ideas but would contribute to their revival.<sup>30</sup>

Several authors objected to Lange's (1961) definition and interpretation of an overall, societal concept of rationality, characteristic for socialism, which was derived from a general praxeological principle of rational behaviour. According to the critics, this approach was not satisfactory as it did not pay attention to the unavoidable heterogeneity of qualitatively diverse societal aims and to the practical impossibility of expressing the extent of their attainment in comparable terms. Consequently, the question of choice among structural variants of the aims (as a vector) remained unsolved and the praxeological principle was not sufficient because it did not help to distinguish which structural variant would be preferable to another. Lange seemed to be satisfied with an approach that expressed the aims by GNP as a composite scalar measure, but this approach was criticized as being too narrow and leading in practice to discrimination of many fields deserving the rank of important societal aims although their effects were not measurable in monetary terms.

The principle of rational economic behaviour seemed to fit better into microeconomic conditions, although even here similar problems with heterogeneity of aims are present. At any rate, the meaning of an overall societal rationality cannot be personalized as if referring to phenomena similar to personal behaviour. The notion of societal rationality must be linked to a complex term of common advantage, i.e. to a holistic concept whose relation to individuals was a difficult issue. According to the socialist doctrine, it was remarked, societal advantage could not be defined as resulting from individual advantages because the latter were supposed to be by-products of the advantage of society and not vice versa. Thus the doctrine implied a holistic interpretation of a common advantage but it provided a rather unconvincing doctrinal assumption that central political rulers' true ideological foundations somehow endowed them with prerogatives and abilities to specify the contents of this term.

In the IEA conference volume (Pajestka and Feinstein 1980) there were many arguments justifying public planning in various cases characterized by an inadequacy of markets or by their failures. These views were expressed not only by the authors and delegates coming from the centrally planned economies, but they were also voiced or shared by prominent scholars from other areas of the world. The main point for public planning consists in supporting and supplementing independent microeconomic decisionmaking. In other words, one could assume that public planning would be meant to gain richer premises for microdecisions by means of drawing adequate conclusions from an interplay of the societal aims and probable constraints expected for the future. Leaving aside the objection of a tendency to centralism (or trying to explain it by some peculiar

country-specific reasons), some justification could be seen for the proposition that public planning—in its idealized version—was becoming one of the most essential societal innovations of the twentieth century, and would eventually contribute to universal socio-economic progress (Pajestka 1979, Lukaszewicz 1979).

*The reforms in the 1980s*

This section consists of two parts. The first presents controversial issues implied by a number of empirical studies, which led to more radical approaches to reform challenging some of the foundations of the ruling economic system. The second part contains short characteristics of the reform concepts discussed in 1980–1 and of the variants officially accepted and introduced under the dramatic conditions of newly reigning Martial Law.

CRITICAL DIAGNOSTIC STUDIES: THE BACKGROUND FOR DEEPER AND MORE RADICAL CONCEPTS FOR SYSTEM CHANGE

This section starts with retrospective comments on the extensive and growing evidence against centralism inherent to the socialist doctrine. It appeared from some general remarks in the disputes that market-oriented changes would necessarily lead to growing social costs and a lower probability of attaining desirable societal aims, whereas the monocentric system was presented as the indispensable condition of keeping the economy in order and in harmony with an adequate concern for equity. Together with a growing body of arguments against centralism and for market-oriented reforms, the focus of controversies was moving to more pragmatic questions: (a) What kind of a mixed or hybrid control would be feasible and desirable for practical implementation? (b) How should we envisage the scenario of decreasing centralism and extending the scope of market regulation and its time sequencing?

Some new contributions were concerned with a critical appraisal of the alleged superiority of centralism in the sphere of savings and investing. According to Lange or Kalecki before and after 1945, and many other scholars after that date,<sup>31</sup> central planning was supposed to cure the macroeconomic weaknesses of capitalism, i.e. to be comparatively more efficient in collecting the surplus by means of its direct appropriation from the stateowned enterprises as well as being more rational in its allocation in consciously chosen directions.

In Lange's view it would be possible within a socialist framework to simulate the rules of competitive markets and to obtain a similar economic efficiency of allocation together with more desirable social effects. Kalecki assumed that the new practice of allocation would follow another logic and



therefore would reach aims unattainable in the market: full employment and steady economic growth. Both seemed to implicitly assume that the new logic of macroallocation and central planning would not exert any negative influence on microeconomics.

In the light of experience these expectations were false, because central economic planning was tantamount to an overall centralism and the manifold institutional arrangements of centralism created a totally different socio-economic system. Most structural and behavioural features of this new system, following totalitarian patterns, did not allow the preservation of positively appraised elements of capitalist market economies such as high factor-productivity, flexible adaptation and entrepreneurial innovation. The new system was characterized by incomparably lower microeconomic efficiency and by various conflict-breeding symptoms in the fields of human motivation and interpersonal relations.

The central approach created conditions clearly unfavourable for intensive increases in factor productivities. Temporary growth effects were possible through centralized investment decisions, which created new productive capacities for formerly unemployed people. Later on, the overall productivity of labour could be increased through more capital-intensive techniques and products. The system was much less able, however, to generate additional autonomous increases in total factor productivity. Besides, the system was inherently not able to promote higher total factor productivity through foreign trade and other economic relations with the rest of the world. Consequently, there was a sharp and unavoidable contradiction between the human welfare aims and the potential macroeconomic advantage of a centrally managed socialist economy (Lipinski 1981). This tendency was also emphasized by Beksiak (1982), who indicated that in the long period between the late 1940s and late 1970s the investment/consumption ratio increased from a level of about 20 per cent to nearly 60 per cent.

Ostrowski and Sadowski (1977) argued that together with a relatively high average consumption growth rate in the period 1960–75 a dangerous contradiction could be seen, because the ‘maximal’ feasible rate was falling while the desired ‘minimal’ rate was rising so that the feasible was falling below the level of aspirations. This point seemed crucial as it indicated the dual nature of crisis-breeding tendencies: on the one hand a better identified and discussed tendency of decreasing growth capacities reflecting the inefficient economic system and socio-economic barriers for continuing the extensive growth strategy, and on the other hand a less known and less discussed sphere of factors determining a relatively high and growing level of aspirations.

Libura (1979) showed the depressive tendencies in the utilization of capacities (i.e. in the motivationally conditioned productivity of labour) which could be observed when an enforcement of additional investment

led to curtailments in the supply of consumer goods and services and also to shortages, black-market operations and open inflation. The author concluded that ultimate effects would have been greater without excessive investment outlays. An excessive propensity to invest in the Polish economy was analysed in many studies (in particular by Kotowicz-Jawor 1979). All such negative features took catastrophic forms in the 1970s with huge outlays frozen in unfinished big projects. A number of studies explicitly showed 'a vicious spiral of disproportionality', i.e. the tendency of the top decision centre to augment the inherent inconsistency of any central plan by trying to cure mistakes, imbalances and inconsistencies revealed in the process of plan implementation by means of *ad hoc* decisions (see Sadowski 1982).

Winięcki (1982) published a study of destabilizing forces which consisted of mechanisms of investment cycles and their impact transmitted to cycles of demand-driven inflation as well as to various dangerous consequences for the cost of living. The same author (Winięcki 1983) analysed pathological aspects of foreign trade structure and of the so-called export orientation in centrally-planned economy. Notorious foreign exchange shortages enforced increasing exports in view of their falling prices and decreasing profitability. Similarly, due to the generally low competitiveness of Polish industry in highly manufactured products, exports consisted mostly of raw materials, standard consumer goods and food products, which in turn increased shortages of supply in respect to internal demand. Consequently, due to the rigidity of centralism and to manifold obstacles for innovation, foreign trade was far from being a growth-promoting force. Symptomatic were popular protests in 1981 against exports of basic consumer goods.

Another group of contributions was concerned with the crucial issue of the system's effectiveness in the fields of welfare, of satisfying needs, and of meeting popular expectations. Sztanderska (1988) closed her analysis of manifold shortcomings in this field with the statement that the economic role of consumption was seen mostly in the context of an obstacle to economic growth rather than its aim. Practice did not confirm declared priorities for societal aims—presumably concerned primarily with personal and collective consumption as a satisfaction of human needs. Under a short and medium time horizon they were of second order importance, i.e. the rate of consumption growth was relatively slower than that of national income, with the exception of periods of stagnation or recession when consumption was relatively more stable. Sztanderska also indicated that the structure of household incomes was changing in a motivationally unfavourable manner, with a steadily growing share of social benefits and an opposite trend in remuneration for labour (from 76.2 per cent in 1960 to 65.4 per cent in 1980). Many analytical studies in that field showed that there was no systematic relation between wages and labour productivity.

Similar critical conclusions were presented by Piotrowska-Hochfeld (1984). She argued that a communist-inspired shift to one-sided growth promotion, which persisted after 1949, was mutually interdependent with bureaucratic centralism and with coercion as the main characteristic in relations between state and society. Under such conditions the tendency for growing discord between public opinion and the ruling authorities (the well-known expression of 'We—They' in Polish parlance) was inevitable, leading to protests against shortages and hardships and claims for higher wages and lower prices. The claims may have been often unrealistic, but the citizens were not endowed by the system with any other effective way of participation in public matters. The author's proposals took the direction of self-government, genuine cooperatives and self-organization as well as increasing the influence of public preferences on central government choices.

The issues of general welfare aims and their implementation were tackled by Morecka (1981) from the standpoint of social justice within the economic system. Morecka argued that in contemporary Polish society several postulates could be discerned. These included: (a) a universal application of uniform principles of differentiation (i.e. against special privileges), (b) a worthy living standard of a family based on labour input of its members (current and past), (c) the elimination of conditions which allowed unsocial behaviour to be rewarded (e.g. in the form of enrichment at the expense of others or of the whole society). Particularly high consumption and living conditions, conspicuously differing from the average, were critically noticed in general, even if they did not result from doubtful sources (i.e. from particular privileges or asocial behaviour). Morecka analysed further two kinds of difficulties encountered in practice. One of them resulted from differences between individual preferences and those supposed to express collective wisdom and to reflect socialist ideas. Another was caused by the wide gap which continued to exist between an ideal pattern of welfare standards, presumably attainable some time in the future, and its present pragmatic counterpart which reflected arbitrary political choices made under heavy constraints. These difficulties led to crucial controversial issues: Who was entitled to define the collective wisdom without reliance on an objectively defined sense of individual advantage? Was it feasible without threatening adequate individual freedoms and human rights?

Possible solutions were sought in the sphere of more reliable scientific justifications of choices and in popular consultative procedures (Pohorille 1980). The point was to open to the public the most relevant central planning decision procedures (e.g. Józefiak 1981, 1984). This was supposed to happen through certain obligatory mechanisms of consultation and negotiating basic criteria for central planning with the society through various channels of trade unions, professional and social organizations and

also in more direct universal forms.<sup>32</sup> In practice, the popular consultations for certain options to be made in central planning, introduced after 1982, proved to be virtually useless.

Sulmicki (1981) presented an interesting report on the basic strategic principles of the economic system implanted in Poland from the Soviet Union. The most relevant element in the approach of Sulmicki was the primordial role attributed to the behaviour of the people. He remarked that behaviour cannot be changed in a short time. In general—as Sulmicki argued—it is shaped through the prevailing system of basic values (in families, at school, at the workplace and leisure). These issues are supposed to be dependent largely on non-economic factors such as tradition, natural and written law etc. In the case under examination other factors exerted a heavy impact, that is, there were unpredictable human reactions to the coercive methods used to impose rapid changes in many fields of economic and social life.

*P.Sulmicki* (1909–80) argued that the notion of ‘economic mechanism’ often used in systemic discussions had a somewhat wrong connotation, as if a socio-economic system was a construct which could be composed in different variants out of deterministically defined submechanisms. The nature of the whole problem was much more complex because of the primordial role played by human behaviour and its interactions. He pointed out that the main factors of economic development consisted of capabilities and propensities to save and accumulate, to invent and innovate and to preserve and cherish professional ethics.

Of particular relevance were Beksiak’s (1982) considerations on the practice of shaping interrelations between the centre and the microsubjects, enterprises and households, as well as on practical characteristics of the rules of behaviour (attributed to the subjects) and of their interactions with the variable instruments of regulation (commands, parametric, financial instruments, other non-command and non-parametric instruments). The conclusion reached indicated that, notwithstanding various reform concepts, the economic system was drifting inevitably towards an arrangement dominated by manipulatory interrelations among subjects, by arbitrarily changing rules of behaviour and an asymmetrically distorted set of regulatory instruments with a relatively negligible role of parametric and financial instruments and a primordial position of their bureaucratic non-parametric counterpart. *J.Beksiak* (b. 1929) argued that within the existing political system one could envisage a relatively higher efficiency of regulation if it could be founded on sufficiently flexible, but generally stable prices together with a high degree of stability of money and financial instruments.

Such studies led to a growing apprehension of contradictions between the feasibility of economic system changes promising higher efficiency and rationality and, on the other hand, the rigidity of the political foundations and of institutional arrangements of real socialism that were seemingly untouchable within the bounds of the Soviet domain.

In 1980-1 a multitude of diagnostic opinions and therapeutic concepts emerged concerned with the failures of the existing economic institutions and other aspects of the system's performance (see the collective volumes edited by Krawczyk (1981) and by Libura-Grzelonska 1981).

Libura-Grzelonska (1981) drew attention to a striking resemblance between contemporary reformist concepts and those expressed twenty-five years earlier by the reformers of 1956. This similarity indicated that in general terms no new ideas for 'right' solutions had emerged. Criticism was levelled, all the time, at similar features. However, the time was not lost because system-oriented studies and disputes eventually started to show essential progress in understanding the prevailing economic arrangements' resistance to change. Thus, although the practical merits of scientific essays were small, the explanatory value of their results was essential. This gain in knowledge would remain as a contribution to science, even if the strife for systemic change undertaken in 1981 was to prove futile again.

According to the editorial comments of Krawczyk (1981) the blueprints prepared by the officially sponsored commission for the economic reform and by the Polish Economic Society (in particular by J.Pajestka, J.Mujzel and M.Misiak) had much in common, whereas the most representative opposite view was a comprehensive alternative project presented by a team from the Central School of Planning and Statistics headed by *L.Balcerowicz* (b. 1947). The former expressed a progressive but pragmatically realistic approach trying to remain within the bounds of seemingly unsurmountable barriers. The latter's approach was more radical in the strife for really essential institutional changes and 'romantic' in the sense of a quest for the seemingly unfeasible.

In this context, the characteristic differences were in tackling the crucial issue of mutual relationships between central decisions and managerial decisions in particular enterprises. Within the former approach the problem of increasing the field of autonomous microdecisions was treated by enumerating a relatively restricted set of prerogatives and control instruments for the centre. According to the latter approach the centre would no longer be entitled to a continuous and arbitrary usage of any directive control instruments but would have the prerogatives to intervene only in strictly defined cases. The centre, it was assumed, would operate exclusively by means of universal instruments in order to influence demand and other elements of the market, precluding in general instruments destined to influence separate enterprises. Consequently, the emphasis was put on devising institutional administrative commands and pressures including the rights of enterprises to oppose such commands in the courts or to sue the state organs for damages.

Similar differences between the two approaches were to be found in the field of investment. The first approach assumed a growing scope for decisions made by the enterprises but it enumerated types of investments that would remain within the scope of central decision rights. There were ample possibilities for arbitrary extensions in the central prerogatives through classifying more projects as falling within the categories attributed to central decisions. The approach of Balcerowicz's team was more explicit in assuming that central investment decisions would cover the infrastructure, together with projects pertaining to enterprises of extractive industries, whereas with respect to all other kinds of enterprises the investment decision remained with the enterprise management. Exceptions were foreseen, if indirect regulatory measures could not bring adequate effects or were otherwise unfeasible, e.g. for creating new enterprises.

All reform concepts wanted prices to play an active role in matching supply and demand, but the role of central organs in price formation was the widest according to the official commission and relatively small according to the team of Pajestka, whereas Balcerowicz and his collaborators proposed autonomous price-setting mechanisms together with elements of governmental price control provisions (against monopolistic, rent-seeking, shortage-breeding practices).

With regard to the constitutional supremacy of the ruling communist party, Balcerowicz's report put the emphasis not only on the authentic strengthening of the parliament and regional self-government bodies in their relations with central and territorial administration, but also on a genuine democratic manner of electing representatives of the population in contradistinction to the practice of filling these posts with designated political and administrative officials. It was also essential to make fundamental changes in many aspects of the existing legal order and in the manner of its functioning. The main thrust of the proposed changes was the introduction of adequate safeguards against arbitrariness in shaping legally binding regulations and in the activities concerned with their implementation. In the past, many regrettable abuses resulted from the practice of issuing arbitrary regulations for various fields of economic and social life by separate administrative organs, or else of unjust manners of interpreting such regulations discriminating against those who were not sufficiently supported by political officials.

In general it seemed that the majority of reports under review had many similar features in verbal descriptions of the economic system's ailments and in the concepts of desired therapeutic behavioural changes from centralism to strategic control over markets or quasi-market interplay of microeconomic agents. This similarity was superficial because underneath there were, in fact, different viewpoints on the expected new role of economic freedom. On the one hand, it was asked whether a genuine motivation for efficiency could be attained by partial decentralization together with a shift of certain decision

rights from the centre to the microagents. On the other hand, it was held that the system logic had to be just reversed, such that the rights and responsibilities of the microagents would become primordial and system-wide functions for the centre supplementary.

The options were not stated explicitly, but it could be seen through quite different assessments of necessary conditions for implementation. On the one side there were arguments for a general rearrangement of institutions and of political practices according to a vision of a democratic self-government kind of socialism, whereas the other side seemed to believe in positive learning capacities of the existing so-called 'democratic' centralism, i.e. in a gradual path towards a paternalistic version of autocracy which would not bar progress in economic efficiency. According to the former viewpoint, the rearrangement had to start with a rapid restructuring simultaneously changing many elements of the existing system in order to attain 'a critical mass' to counteract unavoidable backward pressures. Balcerowicz's report was fully aware of the tensions and conflicts that would emerge. It contained a list of probable dangers and of proposed counteracting measures (Krawczyk 1981:364–6) with arguments that such dangers in general resulted from the critical situation of the Polish economy so that they were bound to accompany any other feasible scenario. According to opposite views, the scope and speed of changes had to be constrained because otherwise the outcoming disorder would intensify various strains and conflicts and thus would be too dangerous for the existence of society and state.

In retrospect it seems that this controversy was both unsolvable and unavoidable, although detrimental in its consequences. It was impossible to judge how the controversy should have been resolved because the two sides represented diametrically opposite world views. Unfortunately, practical experience implied that within a constrained, stepwise and prudent approach reforms were drifting in practice<sup>33</sup> to negligible and illusory actions. Thus, it was suspected that—notwithstanding all seemingly convincing warnings against too radical changes—this alternative was ineffective because a limited scenario of politically prudent and acceptable reforms would fail again. The old practices would continue to dominate and there would be no improvement in the system. If one accepted the political possibility of a move towards democratic solutions, then the situation would change radically. The arguments for prudence in the central reform policy would become pointless because of another institutional position of the central authorities in a reformed system. This would mean a major shift into a diametrically different social order, based on cooperation, self-government and responsibility of the people, assuming, however, that the majority would adhere to the ideas of socialism. The validity of the last-mentioned assumption could not be proved, so there was a possibility that autonomous forces within the society would be soon pushing towards a quite different, non-socialist economic and political order.

Notwithstanding substantive arguments for a higher economic efficiency and the higher welfare prospects of the proposed new system arrangements, the radical concepts for system changes proved to be politically unacceptable, and in 1981 there was no opportunity to start their implementation. Strong autonomous tendencies in the society to build self-governing bodies and to start the construction of self-organized institutions were stopped in December 1981 by force of Martial Law. However, the government declared its will to promote economic system changes and went on to introduce them according to the officially accepted programme in a verbally progressive but institutionally and politically restrained version.

*The final stage of economics debates within the socialist system*

DISCUSSIONS OVER THE IMPLEMENTATION OF THE 1982 REFORM

The appraisals published in 1983 indicated that the main problems with the new reforms implemented in 1982 under Martial Law were related to two kinds of conflicts. One of them followed from a contradiction between the prevailing autocratic institutions based on the technocratic and political bureaucracy and the reforms' pretended emphasis on genuinely autonomous forces and cooperative attitudes in society.<sup>34</sup> The other resulted from the poor state of the economy and was expressed in conflicting opinions on the emergency measures: either consistent with the pretended orientation of reforms, or including solutions from a directive war economy approach. Both were mutually interdependent, because arguments for directive instruments in emergency measures were used to justify the necessity to keep up traditional institutions of central control and planning. On the other hand, within an unchanged institutional framework one could hardly hope to attain efficiency-oriented changes in the allocative and equilibrating features of the economic system, which in turn was a major obstacle to improvements in the economy's performance.

Four lines of argument concerned with these issues could be discerned. An official line, expressed in the reports of the governmental office responsible for the reforms,<sup>35</sup> put emphasis on the determination of the authorities to proceed with the progressive reform, notwithstanding grave obstacles resulting not only from the objectively difficult economic situation but also from strong pressure in favour of old-time rationing. Another line of thought used various arguments to counteract the adopted direction of reform considered as unfit to cope with the economic crisis and as deviating from socialism because of its declared preferences for more liberal and quasi-market system arrangements. The next line, exemplified by Pajestka (1983), did not generally differ from the principles of the official reform concept, but it went deeper into the analysis of



motivation and socio-political factors as conditions relevant for the success (see also Lipowski 1988 and, on self-governed enterprises, Błaszczuk and Dąbrowski 1985). The fourth line of thought was distinct in its emphasis on real democratic changes in socio-political and institutional arrangements not relying on a doubtful hope for an idealistic harmony between the autocratic centre and society. This stream of opinion argued that the chances for reform would be enhanced by returning to the more radical reform concepts of 1981.

The most in-depth appraisal of reform endeavours in the period 1982–6 was offered by Wilczyński (1988b), whose approach to the economic system and its changes in Poland resulted from an emphasis on its Stalinist origin and nature. *W. Wilczyński* (b. 1923) argued that it did not deserve to be called ‘socialist’ because it was disqualified by its manifold features from being able to serve as the economic basis for any modern society. Attempts to reform the system would be hopeless as long as ‘the roots of evil’, i.e. the features of pathologically distorted centralism and of a political monopoly of power, remained intact.

Centralism is responsible not only for enormous material losses but also for damages in the moral infrastructure of the society. Dynamism and initiative of individuals are replaced by common opportunism and servility, taking unfair advantage of the loopholes in the law and of personal connections. Civic virtues, such as reliability, punctuality, tidiness and responsibility are degraded.

(Wilczyński 1988b:4)

#### SECOND STAGE OF THE REFORM DECLARED IN 1987 AND ITS DILEMMAS

Baka (1988) who represented a progressive line within the ruling party’s top authorities, presented a report indicating several positive changes in the economy, which were made possible by relative improvements in productive performance. He also quite explicitly indicated essential failures and deviations in the economic practice as compared with the goals and rules of the reform. The main barriers resulted, in his opinion, from the practical impossibility to obtain adequate popular support. The changes in the status of state-owned enterprises, towards autonomy and financial self-responsibility, were superficial and could not promote efficiency because their economic, political and institutional environment remained under the direct control of bureaucratic hierarchies. In this context, Baka stressed that the scenario of 1982–5 had certain similarities to the history of unsuccessful reformist endeavours in the past, i.e. in the periods 1956–9 and 1973–6, but he also indicated a major point of difference. This was the fact that the reverse move towards centralization was stopped. In other words, sufficiently strong political forces existed at the top, backed by progressive

social forces from the bottom defending the reforms envisaged in 1981 in a new second stage proclaimed in 1987.

*W. Baka* (b. 1936) analysed in particular the moves meant to increase the active role of money.<sup>36</sup> He indicated the primordial importance of combatting inflation and its sources. In this context it was suggested that the sovereignty of the central bank should be increased and the whole banking system adapted to the standards of a market economy. Baka reflected an inevitable dilemma linked to attempts to combine several difficult tasks: to rationalize prices through reducing subsidies, to reduce inflation and to improve market equilibria in a manner and time sequence which would be socially acceptable. The question of what to do first was crucial and controversial. Should the government concentrate on harnessing inflation or start with restructuring prices, incomes and equilibria at the cost of accelerating inflation and of suffering growing differentiation in income distribution? Baka's arguments were in favour of the former whereas the latter was what was started in practice. The chances of the former approach remained unknown and the latter did not work because the initial steps of its implementation provoked such strong protests, even of loyal, procommunist trade unions, that the whole executive government team had to be replaced by other officials. According to Sadowski (1991a:29) the operation failed because the government was politically too weak.

Wilczynski (1988a) indicated that at the turning points of severe sociopolitical crises in the past (in 1956, 1970–1, 1980–1) the top authorities of the ruling party were always strongly reluctant to make any political concession which could help to reintegrate the society on a self-government basis, whereas they preferred to accept economically unfeasible social claims. Notoriously low efficiency inevitably constrained the level of economic feasibility more than the intensity of social claims, whereas the latter were growing with a widening rift between society and rulers. The option taken up in the 'second stage' programme of 1987 resembled the line of the radical reformists from 1981, who argued that the policy controversies would remain unsolvable if the reforms stayed short of transforming the whole systemic logic of centralism and autocracy.

A basic dilemma resulted from the contradiction between far reaching expectations attached to a growing role of entrepreneurship driven by personal interest and, on the other hand, a much less clear probability for such prospects, especially in the context of a cool and reserved attitude to private ownership (see Rutkowski 1988). The official line was ready to accept private enterprises but only in small doses and in some 'secondorder' areas, such as catering, the retail trade or personal services. Would private entrepreneurship over a much larger area be legally feasible? Otherwise, one had to assume either another round of wishful thinking or a 'third way' approach with other non-private ownership forms (analysed by Dabrowski 1988).

The next dilemma resulted from a vicious circle preventing postulated changes in the roles assigned respectively to central planning and to the markets as self-regulatory mechanisms. Most discussants and government policy seemed to agree that positive contributions from central planning would be attainable if planning tasks were concentrated on strategic issues. In comparison with the current practice this would mean a major change, in the sense of giving up one of the basic socialist ideas which engaged central authorities and central planning into all kinds of current allocative and distributive issues. In other words, one would have to accept a widespread deregulation combined with correspondingly wide liberalization. These conditions were not met, and the current economic practice continuously produced a mass of problems addressed to the centrally controlled administrative and political hierarchies. Implicitly or even explicitly it was argued that decentralizing reforms can be blamed for most negative symptoms and even anarchy.

The third and most urgent dilemma concerned the question of how to cope with the combination of inflation and notorious shortages. The operation of 1987 devised to improve market equilibria did not work and shortages even increased because changes in prices did not induce producers to supply. According to Rutkowski (1988) the official intentions in 1988 were far from being clear and academic circles seemed to opt for a policy variant which was supposed to balance consecutively separate segments of the market and to apply a restrictive monetary policy. Price controls in respect to currency rates were also supposed to stay. This concept was tantamount to continuing the existing administrative and bargaining version of parametric centralism. So the probability of its effectiveness was extremely low.<sup>37</sup>

The developments of 1988–9 led to fundamental changes in the socio-political internal and external conditions of the Polish state and economic system. The immediate economic results included a new fall in total output and hyperinflation by mid-1989. Simultaneously, however, increasing pressures for political change, exerted by the opposition forces, proved to be effective this time. The spring of 1989 brought a ‘round table’ agreement between the ruling party and the Solidarity opposition, and soon, in June 1989, the electoral success of Solidarity started the transformation process which ended communist rule in Poland.

### *The roots of failure and remaining problems*

This section is meant to serve as an intermediate evaluation between the earlier parts of this chapter, which were concerned with economic thinking on systemic issues under socialism and the final part devoted to contemporary economic thought on post-socialist transformation. Here, I wish to concentrate on selected issues considered in the past as the roots of

the system's failure and of the recurring socio-economic crises. Their identification may be relevant in the context of present difficulties in economic practice and transformation.

*The roots of crisis*

Probable reasons for the failures and notorious obstacles encountered before 1989 in the endeavours to improve economic performance were put forward by many scholars. Two studies of this kind are used here as references for the initial part of this section. One of them was offered by Pajestka (1982)<sup>38</sup> and contained the author's conclusions of 'The Polish Crisis of 1980-1' (with comparative remarks on its earlier counterparts). The other study, published by Eysymontt and Maciejewski (1983) presented a report on research conducted at the University of Warsaw with the aim of identifying crisis-breeding mechanisms by means of time series data from a twenty-six year period (1955-80). These two studies are characterized by different approaches, but in general they may be considered complementary.

J.Pajestka implicitly assumed that the fundamental institutional framework and ideology of existing real socialism (in its Soviet version) was incontestable. At any rate, these issues were assumed away as presumably not relevant for the study in question.<sup>39</sup>

The whole analysis was concentrated on the naturally primordial role of the state and its top authorities. The roots of crisis were seen mainly in the obstacles the authorities encountered on the way to perform their task and also in their failure to be sufficiently wise and efficient. The position of the authorities in relation to society (in particular declared obligations and factual prerogatives) were not discussed as probable suspects because their base of power and political ideology were taken as unimpeachable. On the other hand, the superiority of the authorities was supposed to go hand in hand with their all-embracing responsibilities for enforcing growth, for introducing adequately effective system arrangements and, finally, for the welfare of the population. The mechanism of recurring crisis was presented as being generated by an unjustified overemphasis placed by the authorities on the growth mission, especially under unfavourable conditions resulting from the failure to improve the economic system's efficiency and to mobilize social effort. In other words, according to this line of argument the crises were supposed to be caused also by the people, who proved to be too individualistic and not socialized enough. Mass protests of the workers, as the most visible and decisive symptoms of crisis, were considered tantamount to a lack of support for collectivist social values. In particular they rejected the central authorities' policy of sacrificing current consumers' aspirations in favour of growth targets with vague promises of probably higher benefits in a more distant future.

In Pajestka's view, the mission of the authorities called for the mobilization of economic resources and of social effort, including sacrifices on the part of those who would be inclined to other, less growth-oriented preferences. Success depended on the possibility of keeping the social effort adequately mobilized, which could be done by means of coercion (of an economic nature or by state power) and by means of autonomous ethical attitudes and preferences (as in Puritan ethics or through national integration around development aims).<sup>40</sup> As time went on, it could be seen that none of these methods proved sufficiently effective in Polish practice.

We can summarize Pajestka's line of argument by saying the crisisbreeding conflicts in Poland resulted from two kinds of contradictions: (a) between differently directed aspirations of the authorities and of the population and (b) between the intensity of aspirations and the constraints reflecting the objective feasibility of their satisfaction. Pajestka used words of criticism when describing the manner in which these issues were treated by Polish authorities. Particularly in the 1970s the policy of quantitative growth promotion was accompanied by rapidly rising debts and by constant declarations and promises of welfare gains for society (presumably provided by the authorities as the sole 'benefactor'). There is no room here to describe the mechanism of false pretences hidden behind such declarations, called 'a syndrome of voluntaristic degeneration' by Pajestka (1982:150–1). The syndrome included censorship, blockage of information inconvenient from the standpoint of the adopted policy, distortions of information and propagation of false information, weakened staff functions in decisionmaking, call-off of real disputes on decisions, degeneration of personnel selection, break-down of social participation, degeneration of representative bodies, etc.

Eysymontt and Maciejewski took another approach by explicitly stating that the roots of growing conflicts and of ultimate socio-economic crisis were to be found in the political sphere, in particular in the questionable nature of the mechanisms designating and removing the political and administrative rulers of the country. The most relevant changes were not dependent on electoral procedures but happened when enforced by occasional (recurring) crises. Within the existing monopoly of power, there were no regular and normal channels which would enable society to exert an effective influence on public matters. Mass protests at times of acute crisis seemed to be the channel of communication with a relatively higher chance of being heard by the rulers. The autocratic system of monopoly political power and of centralism prevented any effective institutional arrangements (and innovations) which would decrease new conflicts and help to avoid recurring crises. From the authors' arguments it could be seen that the basic reasons might have been the reluctance of the rulers to allow real autonomy in the activities of microeconomic and local

agents, as well as any objective criteria of evaluation and of choice. The authors stressed the unchanged propensities to expand through investments, without due concern for a realistic appraisal of expected effectiveness, which characterized both the state authorities and the managers of the state-owned enterprises. Such attitudes were also known as ‘growth mission’ but the crux of the matter seemed to lie in systemic arrangements which were notorious for allowing political illusions and arbitrary choices to prevail. In other words, as a consequence of arbitrary and economically unsound decisions there was a host of inevitably unforeseen phenomena which extended the gestation period of investments, increased previously scheduled outlays and decreased real effects to incomparably low levels in comparison to original assumptions.

The most important factors seemed to be the deeper systemic features which allowed such syndromes and pathologies to develop and to stay in force, or—in other words—which were responsible for the never ending story of notorious failures and aberrations together with their similarly ineffective criticism and reformulated versions of fruitless reformist conclusions. Although the symptoms were evident, the mechanisms and roots were so complex and deep that they were difficult to make out, in particular for those who were looking from within the existing institutional setup and implicitly assumed that it was impossible to remove its ruling monoparty anti-democratic ideology.

In the example of Pajestka’s study (as in many others concerned with systemic issues) one can see the implicit assumption that it would be futile to question the superior position of the seemingly almighty authorities. There seemed to be no chance of removing the autocratic foundations of political power. So, the only hope remained in the possibility of improving the qualitative features of autocracy, of enlightening it, as well as continuing attempts to limit the scope of its direct executive rule by shirring some decisions from the domain of arbitrary ‘political’ criteria into the sphere of economic calculation or of genuine self-government.

### *Scenarios for the 1980s*

Opinions characteristic of the early 1980s were discussed in 1982 (i.e. less than one year after Martial Law was established) within the Prognostic Committee ‘Poland 2000’ of the Polish Academy of Science.<sup>41</sup> Consensus seemed to prevail among discussants that of the four scenarios of future development presented the most likely was scenario (A)—continued fully autocratic rule (based on Martial Law) combined with economic reforms directed towards a parametric mode of central control—or scenario (B)—a return to the orthodox type of centralism (i.e. to neo-Stalinist arrangements). Scenario (A) was generally considered as more probable, but the regress to (B) could not be excluded.

A third scenario was considered less likely, but more desirable. It was based on the hypothesis of social and political changes towards a social consensus between the ruling communist party and genuine representatives of the society. Two versions of such a scenario were described: (C-1) progressive but limited changes evolving from scenario (A), which could include some new institutions of public participation in the manner of ruling the country and also new forms of limited social control in economic policy matters; (C-2) major systemic changes towards self-government and towards wider market-oriented arrangements in economic matters.

The scenarios were characterized as follows:

	Scenario A	Scenario B	Scenario C-1	Scenario C-2
1. Central political power	Autocratic	Fully autocratic	With public participation	Central power reduced
2. Economic system	Central parametric control	Strong centralism & commands	As in (A) with elements of public control	Self-government institutions & market
3. Expected efficiency	Medium, not sufficient	Low	High	Unpredictable
4. Societal attitudes	Apathy & negation probable	Negation & resistance	Wide public participation	Spontaneous, unpredictable, social process
5. External aspects	Mainly CMEA [tensions with the West]	Only CMEA	Wide contacts CMEA & the West	Unpredictable [tensions with the East]
6. Probable appraisal by the centre	Stability of rule; low chance of progress	Threat of confrontation; no chance of progress	Stability of rule; high chances of progress & of public cooperation	Stability, unpredictable, high chance of progress
by society	Negative	Very negative	Positive	Highly positive

In the discussion J.Strzelecki raised the important point that the features characterizing any desired scenario of consensus, and the conditions of its success, seemed to set out postulates similar to those expressed in 1980–1, which did not work in practice. The point was that both sides of the conflict, the authorities and the opposition forces, had very diverging ideas about the terms of consensus. The representatives of society were arguing that for the country's renewal and development much more human and economic freedoms, self-government and public participation were necessary. On the other hand, according to the authorities the concession should not go too far. One could not be sure whether and how the concrete limits were defined. The authorities did not like the idea of any scenario which (as C-2) predicted 'spontaneous actions of the society, with unpredictable effects (or turbulence)'. They argued against destabilization which would endanger the situation of many people and thus could prove worse than the existing scenario (A)—claiming the name of 'martial law with a human face'. Finally, there were the political criteria—the importance of not jeopardizing the ruling position of the communist party, nor the country's allegiance to the Soviet Union.

#### *Socio-political dimensions of economic reforms*

At any rate, in 1982–3 the prospects for any desirable scenario of consensus were not bright and the crux of the matter lay in how to bridge the wide rift between the two opposite standpoints. The socio-political dimension seemed to be of crucial importance, much more so than academic arguments of economic theory concerned with purely economic aspects of reality.

At the Congress of Polish Economists in 1987 the issue was raised by T.Kowalik who complained about an asymmetrically one-sided approach by most economists who dealt mainly with economic calculations for diagnostic and decision-making purposes, as well as with normative prescriptions for planning. Unnoticed by most economists remained the very scarce sociological studies, concerned with the practice of bureaucratic hierarchies in systemic arrangements, with structures of power and conflicting interests.<sup>42</sup> T.Kowalik (b. 1926) referred to the issues of: (a) the domination of normative economics over much less frequent positive studies, as well as wishful thinking in accepting utopian future ideal systems as feasible propositions, (b) concentration of theorizing on purely economic aspects of rationality and efficiency, with a relative neglect of behavioural, social and institutional dimensions of systemic issues, (c) excessive separation of research programmes in economics from those belonging to the fields of sociology and political science, (d) excessive engagement of economists in utilitarian aspects of economics, which in the



framework of real socialism meant a one-sided emphasis on appraisals and pieces of advice addressed to the authorities. Kowalik supported his criticism with citations from J.Szczepanski, a prominent Polish sociologist, blaming the economists for their illusory belief that the authorities would be motivated by any criteria other than the preservation and extension of their power.<sup>43</sup>

The monopoly of power, emphasized by J.Szczepanski, was never denied nor concealed by the communist doctrine or by the state officials. It was praised as the best way to optimize the social order and the most efficient economic system. Not only was the ruling party supposed to know all the best answers in public matters, but also the Constitution of the Republic written in the 1970s determined that this party's leading role could not be questioned. It was evident that strict adherence to the doctrine would exclude any chances even for bridgeheads of genuinely democratic institutions, as well as of microeconomic entrepreneurship, and thus there would be no chance for higher efficiency. The available route included ambiguous, inconsistent 'hybrid' concepts which would keep the symptoms of political autocracy, whilst allowing some features of economic practice to get out of the grip of central control.

Most Polish economists were not engaged in attempts to justify and develop the ruling doctrine. They may have been utopian or inconsistently selective when accepting the aims for more equity in social welfare, full employment and 'societal rationality', but at the same time they rejected obedience to implanted principles of arbitrary political rule and tried to extend the field of human and economic freedoms. In this context they were a long way from accepting and following the ideological principles of collectivism and its foundations in hatred to potential 'class enemies', and they took every opportunity to argue for democracy and self-government in internal system arrangements as well as to renew their academic contacts with Western social sciences as soon as the direct oppression of foreign (Soviet) rule was eased after 1956 (see Lukaszewicz 1997).

Therapies in the economic system could not be effective without far reaching changes in manifold institutions of real socialism. But suggestions in that direction were useless, even if they were not persecuted, because any changes of institutions were institutionally dependent on political authorities and on bureaucrats who were hostile to basic institutional reforms. In other words, potentially effective therapies for economic ailments involved essential institutional changes which were unacceptable from the standpoint of the socialist doctrine. Politically feasible therapies were ineffective because they expressed futile hopes that qualitative features of an efficient market economy would evolve within the framework of entirely different institutions—not only different but also hostile to the basic notions of private markets and democracy.

### **Transformation towards democracy and market economy**

This part consists of two sections. The first reports on the opinions and the disputes which took place in publications of 1989–91, in the period of initial steps towards a democratic state. The second contains a retrospective overview of the main topics of differences and of disputes on system changes among Polish economists in the years 1990–6.

The initial period was characterized by an almost unanimous realization of the dramatically difficult problems facing Poland. The urgency of the problems induced the economists to concentrate mainly on relatively short-term policy matters. The differences in concepts of therapies were interconnected with implicitly or explicitly specified wider concepts for structural system changes, their extent and scenarios. The latter were couched initially in fairly general terms but later on they became a matter for more concrete discussions. Being concerned in this chapter with the *problematique* of system changes I am devoting less attention to current policy matters.

#### *The initial period of post-socialist transformation: 1989–91*

##### *The feasibility of transforming socialism from autocracy to democracy*

The problem of a reformed socialism was tackled by Nasilowski (1989) in a paper presenting the comparative characteristics of three schematic models of socialism: (1) an orthodox, monocentric type of autocratic socialism, (2) a hybrid version of a partly changed autocratic model, (3) a postulated version of democratic socialism, following radical reform. The models were supposed to differ in four basic fields:

- the political system,
- ideology,
- aims and features of socio-economic policy, and
- the economic system.

The fourth field was analysed by *M.Nasilowski* (b. 1929) more thoroughly than the others. Characteristic and relevant for our purposes are certain symptoms of a conflict between an optimistic perspective of a future ‘democratic socialism’ and doubts about the feasibility of the perspective’s chances, which troubled the author. He seemed aware of the fact that a future model of reformed, democratic socialism was a somewhat mechanical mixture of the retained name of ‘socialism’ and numerous features taken from a general model of Western democracy and a well-developed market economy. There was no other justification for retaining the notion of ‘socialism’ than a (at that time) still valid constitution determining the

leading role of the communist party. In substantive terms one could see a similarity to socialist ideas in the postulates of societal merits (e.g. of strategic planning, of respecting the criteria of social welfare and justice etc.) but although these merits were declared verbally in real socialism their occurrence was disputable in practice.

Similar conclusions might have been drawn from the book on perspectives of Polish economic reforms by Goscinski (1989). Goscinski's arguments indicated an evident contradiction between the impossibility of improving the existing (socialist) system without radical changes and the parallel impossibility to obtain such changes while remaining within the same system. In other words, his arguments implied that no social and professional group interconnected with the existing system (belonging to the 'establishment' officially and through common interests) would push through radical reforms, radical in the sense of transforming fundamental structural features of the system.

It could be inferred that a workable breakthrough reform would be successful if it found enough support on the part of sufficiently powerful social forces, who would have strong motives to develop and back up desired changes in institutional arrangements and behavioural patterns. The main benefits expected from changes were in the fields of economic efficiency as well as of human rights and democratic values. Political power would follow from free elections instead of usurpation. Distribution of economic power and benefits would follow from competitive advantages in efficiency<sup>44</sup> instead of being vested in the arbitrary political will of the authorities.

For such conditions to be met in practice one would need either a revolutionary change, opening more chances for power to those formerly deprived, who presumably would support genuinely new arrangements, or an evolution bringing about a separation of the economy from arbitrary politics. This would raise the role of economic power, which would neutralize resistance to reforms on the part of formerly established influential groups by giving them opportunities to get an adequate share of power and of benefits within new arrangements. At any rate the direction of system change implied by the new socio-political environment and evaluation criteria of 1989 must have been much more dependent on autonomous processes of social change than in the past practice of reforms as centrally regulated corrections of centralism.

#### *Autonomous processes of social change*

Kolarska (1988), using results of sociological research, reported on essential changes taking place in the attitudes towards the existing economic system which prevailed in Polish society. The observations were no longer consistent with the earlier hypothesis of an unwritten social contract supposed to express mutual trade-offs of society (giving up political aspirations for

sufficiently acceptable benefits of a social welfare state) and the authorities (getting social acceptance of full political power and economic control and giving in exchange to the population a relatively low, but stable standard of living and security of employment).

It seemed that this tacit 'contract' had broken down, but the reasons for this were not clear. If one were to assume that prevailing preferences did not change and the crucial reason was in the economic failure, it would follow that a market-oriented cure for the economy was hardly feasible because the logic of an efficiency-oriented market system would be inconsistent with the motivations justifying the old social contract. Kolarska's research indicated that formerly prevailing egalitarian preferences were decreasing, assuming at first another meaning (social protest against unjust criteria of differentiation in income distribution and living conditions) and accepting in the 1980s a wider difference in benefits if the higher level was conditioned by a correspondingly higher economic performance. However, a large part of the population was not inclined or able to engage in an active self-sustained manner of living. Many people showed growing symptoms of frustration. There was an intensive migration abroad (induced by various motives, partly economic) and, finally, the sphere of the black and grey economy was expanding.<sup>45</sup>

Evidently, nobody could deny the gravity of the unstable economic situation in the late 1980s nor a high probability of difficult turbulence in a period of major system changes. Nevertheless, the issue was controversial because of convincing arguments and evidence that a stepwise and longer lasting intermediate phase of transition would not bring the desired effects. The chances for a stabilizing therapy within the old system were highly doubtful. Similarly to the experiences of the 1980s, it was likely that programmed scenarios of system changes for the 1990s would not proceed to new structural shapes but rather would get stuck or pushed back, if the critical mass of initial changes were not sufficiently strong in promoting efficiency-oriented microbehaviour and in removing the former structures of centralism. The extent of such a critical mass remained a matter of controversy for the years to come.

#### *The transformation programme of 1990 and its background*

The transformation programme was created on behalf of T.Mazowiecki's first democratic government by L.Balcerowicz, the deputy prime minister, and his team in a very short period (the three last months of 1989) and passed through parliament just before New Year 1990. Its contents took inspirations from the radical version of economic reform prepared by nearly the same team in 1981 (see above), but the concept had to be updated and revised in many respects. The programme had to tackle the 1989 situation by finding a cure for the severe macroeconomic

destabilization (open and hidden inflation together with widespread shortages, described earlier by Kolodko and MacMahon (1987) as a 'shortageflation'). On the other hand, its contents were no longer constrained by former political 'taboos' in internal matters and in the field of international relations.

The main thrust of the adopted programme was for macroeconomic stabilization together with almost universal liberalization and deregulation of economic activities as well as with far reaching steps towards convertibility of the Polish currency. In fact, the priority for stabilization was not directly concerned with the desired system change, but with an urgent cure for severe ailments of the economy that were not a universal feature characteristic of all socialist countries, but a consequence of errors and specific circumstances in the Polish case. It was evident that deeper transformations would take more time, but it was hoped that their stepwise implementation would provide valuable gradual improvements in economic performance in subsequent years.

According to Balcerowicz's (1992) retrospective comments, the authors of the 1989 programme were faced with several difficult options. The sequence of aims could have been envisaged in a different manner, starting with deep institutional changes and waiting with a decisive offensive for stabilization and liberalization until adequate results of institutional change were visible. This alternative scenario could be justified by the argument that an earlier introduction of market-oriented institutions would presumably allow the programme to get through the difficult operations of stabilizing and deregulating the economy after the attainment of somewhat more favourable conditions in terms of higher economic efficiency and stronger entrepreneurial motivations. However, this alternative concept was rejected as illusory because the prolonged period of roaring inflation would endanger any positive effects from institutional changes and besides it would strengthen obstacles to deregulation as the way to rationalize prices and to approach convertibility. This could mean that the whole project would boil down to a replica of earlier ineffective essays of reforms.

Similar criteria seemed to be decisive in the case of another basic option, the issue of the speed and the extent of stabilizing and of liberalizing actions. The controversy was known to take place between supporters of 'shock therapy' and their opponents, in whose opinion a more gradual therapy was preferable. Here the choice was certainly much more difficult because the main arguments for gradualism shifted the focus of interest and extended the nature of evaluation criteria from the area of purely economic efficiency and rationality into the area of distributive justice.

The programme accepted at the end of 1989 was rather vague in describing the aims for a more distant future concerning the desired pattern of the system's arrangement or the aims and structural patterns of desired economic development. Balcerowicz's retrospective comments leave the

reader with the impression that the authors of the 1989 transformation programme were relatively less sure in matters of strategies and scenarios for deep institutional transformation, in particular of privatization.

In the basic programme of late 1989 it was made clear that the future ownership structure in Poland should resemble that of developed Western countries. The path for so-called 'small privatization' was opened (for housing, trade, communal property), but there remained the most important problem of the future fate of the state-owned enterprises, i.e. the manner and speed of their ownership transformations. The problem was certainly controversial but there were convincing arguments for its urgency. First, institutional uncertainty was impeding the desired innovative, structural and technical adaptations of the enterprises to new challenges of demand. Second, it was difficult to tolerate various doubtful symptoms of autonomous transfers of state property into the hands of private companies formed by former state managers and officials (within the so-called *nomenklatura* privatization intensified after legal regulations of February 1989). On the other hand, it seemed contrary to general privatization aims to restrict such practices without legally better alternative ways. Third, clear and transparent rules for privatization were urgently needed from the social and political viewpoint of public attitudes towards the whole process of transformation, in particular in trade unions and among workers, in the face of hardly avoidable employment and welfare losses caused by stabilizing and efficiency-oriented system changes.

Two aspects of this *problematique* were most often a matter of controversy. One was the commercialization of state-owned enterprises owned exclusively or mainly by the treasury. This approach was supported by many economists as a useful temporary solution on the way to privatization through the capital market. It was opposed by others as a recipe for continuing public ownership and enabling infiltration of politics into business decisions. The other question was whether and how the people employed in respective enterprises should be entitled—and somehow financially assisted—to become co-owners of the firm in question. The fairness of such a solution and its motivational consequences in matters of potential conflicting interests of the firm and its employees were at the centre of disputes.<sup>46</sup>

A related, but more specific issue was the regulations constraining enterprises in their freedom to determine wage increases. This was done through a special repressive tax which was levied on any enterprise paying 'excessive' wages. The regulation was not consistent with a general deregulation policy, but it was considered an indispensable tool against inflationary pressures, in particular in the state-owned enterprises where managers were in many cases helpless when faced with strong wage claims. The enterprises were promised to be relieved from this constraint after an

adequate advancement in their privatization (which in turn was criticized as a symptom of discriminating against state-owned enterprises).

In 1989 the politicians and economists who were engaged in economic reforms and in economic policy issues might have been aware of the essential and growing role performed by genuinely autonomous economic motivations and preferences as well as really observed modes of economic behaviour in society. However, these aspects were seldom discussed in economic publications (but see, for example, Stanek 1988), whereas the sociological studies were practically inaccessible to a wider circle of readers. Consequently, it was not well understood that microeconomic motivation, individual preferences and behaviour would gain in importance. Formerly, this was a subordinate field in the context of carrying out orders creating principal-agent problems to the leading central authorities. Now, there are decisive factors which are shaping the economic process. This also may have been the reason for a relative lack of interest among economists in the field of reforming the whole sphere of social service and social insurance, as well as in the field of extending the role of local and regional self-government.

### *Main issues of concern in Polish economic thought 1990–6*

This section is organized into two parts concerned, respectively, with the above-mentioned context of system changes in the disputes

- on the immediate consequences of the New Year 1990 stabilization programme on the causes of, and feasible cures for the ‘slumpflation’ (recession plus inflation)<sup>47</sup> observed until 1992 with afterwards a considerable growth of GDP but a slowly decreasing and still persistent inflation; and
- on the accessible factors and conditions for keeping and strengthening the economic growth observed since 1993, including the assessment of institutional transformations as already implemented or suggested for the future.

### *Controversies over the extent of inevitably recessive consequences of transformation*

The attitude towards the programme and the manner of criticism, expressed in the early 1990s seemed to differ among the critics depending on their explicit or implicit appraisals of the socialist system and of the earlier reforms. One of the approaches, characteristic for its realistic and critical assessment of past experience, can be exemplified by the contribution of Rosati (1991)<sup>48</sup> with its emphasis on the lessons to be learnt from unsuccessful earlier reform attempts in Poland. Rosati’s analysis of detailed

solutions adopted within the 1990 governmental programme in respect to its manifold elements and to its whole structure was clear in indicating controversial and weak points. However, this was done in the sense of showing the extremely complex set of difficult conditions which could explain the source of weaknesses and also of hardly avoidable mistakes, while on the other hand the arguments did not imply that better solutions were obviously accessible.

Referring to the sequencing dilemma Rosati argued that the differences in nature between the two kinds of changes and policies necessarily implied much longer delays between policy measures and probable effects in the institutional sphere than in the sphere of stabilization policies. In other words, stabilization measures had to be implemented in very unfavourable conditions, behavioural, legal, organizational, which were still tailored according to the old style and routines.<sup>49</sup> The controversial option of 'shock therapy versus gradualism' was analysed by Rosati mainly in respect to the sphere covered by the stabilization package because of the inherently gradual nature of other system changes. His arguments seemed to indicate that the basic intention to concentrate stabilization endeavours in a short time span may have been more justified than a gradual and long-lasting alternative, but in practice there was no clear answer, any option could be questioned and the choice of shock therapy remained very risky. The stabilizing measures were correctly aimed against excess demand and inflation, but were overzealous in this direction while neglecting a necessary strong drop in domestic demand, output and employment. Together with the delays in desired institutional changes this was also a cause of insufficient adaptive abilities for structural adjustments.

All these developments were increasing the relevance of some inevitable contradictions between the criteria of economic efficiency and of social equity, the latter being considered in terms of an acceptable threshold for the social costs of stabilizing therapies and of the transition as well as of their equitable distribution among social groups.

The last mentioned two items of criticism, the recessive side-effects of stabilizing therapies and their excessive social costs, were also to be found in other studies (e.g. Sadowski 1991a,b, Kolodko 1991a-c, 1992a). The old system's weaknesses and failures were evident, Sadowski (1991a) claimed, but the performance of the economy in the 1980s was already showing some improvements. In the author's eyes the economic challenges of 1989-90 were not so formidable and there was no need to engage in such a tremendous and troublesome rearrangement of so many aspects of economic practice. Certainly the task of continuing an earlier process of stepwise pro-market system transformations remained on the agenda. Moreover, there was the new additional challenge of harnessing the destabilizing turbulence of 1988-9 caused by 'a series of adventurous policy moves' (Sadowski



1991a:29) of the last communist government. However, there was no need to assume, it was argued, that all these tasks must involve such harsh deprivations for a large part of society.

According to Sadowski (1991b) the strife of the governmental programme to equilibrate markets was generally right, but handicapped because the microeconomic subjects, in particular the state-owned enterprises, were not prepared to engage efficiency-oriented adaptations in structural and technological matters. In short, without parallel transformations in microeconomic matters the haste and determination of the government in forcing macroeconomic stabilization and in introducing market-oriented deregulation, including rational prices, were futile or, at least, much less effective. The main obstacles were seen in the persistence of old time non-market attitudes and routines in state-owned enterprises, as well as in more general uncertainty and inflationary expectations discouraging potential investors from longer term strategies.

Several conclusions were drawn by Sadowski from the arguments: (1) deregulation and stabilizing measures ought to have been slowed down, (2) some feasible institutional changes, e.g. commercialization, should have been introduced in state-owned enterprises as a kind of 'privatization in management', (3) the state agencies should have been more active in promoting structural and technological adjustments as well as development-oriented projects.

The general line of *G.Kolodko's* (b. 1949) criticism and conclusions was similar to Sadowski's, but their views differed with respect to some particular issues. In his earlier studies (see Kolodko 1992b) the emphasis was mainly on the acute economy-wide ailments: inflation, shortages, stagnation. His arguments were not against market and democracy, but they reflected the view that stabilization policy instruments should not be based on a 'futurist' logic, presumably correct in general, but probably wrong in pragmatic terms of feasibility as reflecting an unrealistic assumption that Polish economic subjects would already in the very near future behave according to the desired patterns of a market economy and a democratic state.<sup>50</sup> Later, in 1991–2, Kolodko's appraisal differed from the above views in that he gave much smaller weight to the unavoidable implications of transition and maintained that the unsatisfactory results, i.e. the excessive welfare regress and other hardships, were caused primarily by policy errors. In other words, according to his views, the ailments were avoidable, the results might have been better, and policy-makers should be blamed for unnecessary failures.<sup>51</sup> His main conclusions and proposals for therapy were presented in the outline for a 'New Economic Policy' (Kolodko 1991c), emphasizing the support of productive performance under inclusion of state-owned enterprises. A major role was attributed to their commercialization and to disentangling the growing hangover of mutual indebtedness (between enterprises, banks and

fiscal organs). Another key issue of the new policy proposals concentrated on strengthening public finance and promoting savings.

Some additional light may be shed on the issues that the critics raised by the retrospective appraisals of Balcerowicz (1992) as well as by the arguments of other scholars supporting the government programme.<sup>52</sup> Balcerowicz's identification of the main costs of the stabilization and transformation programme was in some ways similar to that of his critics (recession, unemployment and the fiscal crisis of 1991). However, his judgements concerning the reasons for the ailments as well as the prospects for therapy were entirely different. Balcerowicz was not satisfied with the extent and rate of privatization nor with the changes in behaviour and structures within the sector of state-owned enterprises. However, he was neither convinced by the arguments for active state interventionism and protectionism, nor had he forgotten many earlier futile attempts to reform the behavioural patterns of state-owned enterprises which raised doubts whether they would ever learn entrepreneurial efficiency and innovative strategies.<sup>53</sup> On the other hand, there were convincing arguments (see the contributions in Kolodko 1991b) for a small real chance of quick privatization and, in particular, for achieving more efficient performance immediately. Besides, the whole issue of privatization and of its procedures was burdened by a variety of political preferences and biased by political struggles, so that any concept or scenario was bound to arouse controversial emotions. Anyway, the fate of state-owned enterprises and their chances to master higher efficiency were becoming recognized as the crucial issues of transformation by a growing number of the economists in both camps, i.e. supporters and critics of the governmental programme of the early 1990s.

The economic situation was probably most difficult in 1991 because the recession continued and the economy did not show any signs of recovery. In 1992 there were the first, still feeble signs of recovery which strengthened in 1993. But this was already the year of premature general elections and of the majority takeover by the post-socialist parties. These circumstances are relevant for the assessment of the ensuing recovery and growth. Opinions were split in a new controversy: one group of the economists argued that the positive effects resulted mainly from the earlier policies of 1990–3, while the other held that the recovery and growth would not have been possible, or sufficiently sustained, without the shift in government strategy started late in 1993.

The most relevant lines of assessments and disputes over the experiences in economic transformation policies for 1990–3 were discussed in two publications which also shed some light upon the role in the debate of Polish economists living abroad. These were the report of studies carried out by the Polish Policy Research Group (PPRG) (Okólski 1994)<sup>54</sup> and the proceedings of a conference organized in September 1993 by the Institute of Economic Sciences of the Polish Academy of Sciences in collaboration with the Vienna Institute for International Economic Comparisons (Rychlewski 1994).<sup>55</sup>

The first of these reports contained characteristics of the main problems of the transition period (1990–3) in Poland and of the corresponding issues facing policy-makers. The authors were critical in respect to many particular issues but they seemed to share the general line of policies chosen by the governments in the period under review. They were far from underestimating the ailments and shortcomings, but, at the same time, they were equally far from pretending to have possessed knowledge of optimal policies which would have prevented the ailments from arising. This seemed to follow from the authors' perception of a limited role for the state as a source of economic success and welfare for society.

The studies presented in the latter report are valuable as a theoretical reference for finding out the substance of controversies and for identifying the reasons for a persistent wide rift in opinions. According to the arguments of K.Laski and his collaborators from Vienna (Laski, Bhaduri, Levčík 1994), the designers of the stabilization policy would not have caused such a deep recession, and at least would have been able to foresee it, if they had tried to evaluate (a) the expected changes of the global demand and its main elements, and (b) the probable changes in output induced by demand through corresponding multiplier effects. The critics acknowledged that there was a need to remove the excess demand, but they blamed the implemented programme for having overdone the task through decreasing the real volume of demand and output flows.

C.Józefiak, in his comments on this view, drew attention to its disputable arguments for a more expansive policy mix of fiscal and monetary policies and deficit spending, which were supposed to be safe from the viewpoint of stabilization and to promote higher output instead of inflationary pressures, because an additional demand would allow a higher utilization of capacities inherited from the past. His doubts about the underlying overoptimistic assumptions were justified, he argued, in the light of practical experiences proving that (a) a large part of the formerly used capacities was tailored to arbitrary or political criteria and proved useless when confronted with more objective market conditions and price structures, (b) there were no effective forces in the enterprises accustomed to the inherited routines to promote efficiency through competitiveness and not to indulge in inflationary practices, and (c) the state was deprived of any means which could be effective in implementing expansionary and restructuring policies.

The study of Gomulka (1994) contained quite different appraisals and conclusions. The reasons for deep recession were seen primarily in the extent of formerly prevailing distortions. The scope of transformation tasks was so wide that they must have led to grave turbulence, among others to recession and welfare losses in comparison with the somewhat artificial reference plane of the earlier performance, which at the time (1989–90) proved already unviable and could no longer be considered as a real alternative. Under these conditions, it was argued, the quality of government policies

could not be a decisive factor, neither as a main cause of recession through policy errors, nor as source of successful prophylactic measures and therapies against unavoidably dangerous side-effects of transformation.

*Ex ante*, according to Rychlewski (1994:84–6) in his introductory comments to the discussion, the probability of output loss was recognized as a shock response to the breakdown of the former system. The main problem consisted in the unavoidable structural maladjustment of the supply potential to demand which would cause a decrease in output and employment, followed by a fall in demand and further output losses. But the intensity of that process was *ex ante* unknown. *Ex post*, one could acknowledge that output loss was caused not only by the above-mentioned process, but also by policy errors bringing additional restrictions to demand. But their impact could not be distinguished from those of shock responses to structural maladjustments. The critics of the adopted policy package considered the former forces as relatively negligible such that policy errors were blamed as mainly responsible for recession. The supporters' approach was just the opposite, in that they emphasized the former recession factors and the objective difficulties in *ex ante* and *ex post* identification of the influence exerted by erroneous policy measures. The recession of 1990–1 was, in their opinion, a temporary byproduct of the past. Considering the upward turn of GDP in 1992–3 they could argue that the policies applied in 1990–1 were ultimately effective contrary to the catastrophic predictions of the opponents.

Rychlewski also remarked that the authors of the studies (i.e. K.Laski c.s. and S.Gomulka) represented different schools of economic thought, in particular with respect to the functions of the state in a market economy. Rychlewski's comments were certainly justified in that they warned against the practice of transforming professional discussions and their instruments of substantive arguments into political disputes, which often used rhetorical and objectively dubious arguments and imputed personal faults to the opponents' intentions or deeds. However, one should remember that the problems of the state in the period of a post-socialist transition towards democracy and market economy are quite specific and different from those encountered in countries without earlier totalitarian experiences. In other words, economists inspired by Keynesian or other interventionist approaches arguing for a relatively stronger role of the state could be underestimating the distorting impacts of post-socialist conditions.

J.Beksiak (Rychlewski 1994:125–7) raised the interesting question, whether the key to understanding the issues under discussion was to be found in the extent and the quality of the state functions or rather in spontaneous processes. In his opinion, most of the contributions were somehow biased by being asymmetrically concerned with the state and by assuming the viewpoint of its central organs. It was not justified, he said, to talk about the tasks of reforming the economic system as if they could be programmed and implemented from the top.

*The prospects for economic and social development*

Since 1993 the publications and disputes of economists were becoming less concerned with the recent recession and issues of stabilization and liberalization. The focus of attention was shifting to the processes of institutional transformation and to areas considered of strategic importance for the future of Poland and its economy.

Z.Hockuba and R.Kokoszczynski, the authors of the introductory chapter in the above-mentioned PPRG Report (Okólski 1994), argued that the chances of achieving self-sustained growth by means of traditional tools of macroeconomic policy were rather small. The initial few years of transformation changed the economic system by monetizing it, but its characteristics still remained a long way from a market economy. The chances of development were seen in improving the institutional and legal system foundations:

- in a far reaching reconstruction of the state and all its agencies, restraining and streamlining their structures according to the scope and pattern of functions which were prevailing in modern market economies,
- in privatization as a major condition for progress towards a market economy,
- in a legal order which is equally binding for all citizens and institutions, i.e. excluding any dependence of economic processes on the arbitrary will of a person or a collective body of government,
- in extending the capital market and other institutions of the financial system such as to enable free access and effectiveness in reallocation of capital assets,
- in limiting the functions of industrial, trade and agricultural policies to such features that would neither discriminate any sectors nor contradict other principles of effective markets.

In the initial transition period these problems were found to be heavily exposed to various conflicts of interests. In many cases inevitable and hardly measurable trade-offs could be seen between criteria of economic efficiency corresponding to market principles and socio-political criteria of relative weights given to various group interests. Domination of the latter was leading to an overall decrease in economic efficiency as well as to discrimination against less influential social groups. On the other hand, one-sided emphasis on economic efficiency and on neglect of socio-political criteria was leading to various symptoms of political instability and to insurmountable barriers for those aspects of transformation which were meant to increase economic efficiency and to strengthen the market system. These issues were tackled in many publications<sup>56</sup> considering adequate

relations between 'efficiency' and 'equity'. In general, it seemed that no concrete conclusions could be found besides a warning against the extremes ('populism' and 'fundamentalism'). This message was correct, but not useful if one was looking for some point in between the extremes. Polish social scientists tried to monitor and analyse these views in some joint research projects of political scientists, sociologists and economists (see, for example, Grabowska and Wnuk-Lipinski 1994, Morawski 1995).

In 1994 a new wave of future-oriented suggestions emerged for an economic programme and for more distant system goals. After the change of government, caused by the results of the premature general elections of autumn 1993, the critics of earlier governments' policies suggested alternative approaches and priorities (see, for instance, Kaleta 1994). In June 1994 the government of W.Pawlak published a document 'Strategy for Poland',<sup>57</sup> the authorship of which was attributed to G.Kolodko who took the post of deputy prime minister in this government. Interesting critical appraisals of the issues tackled in this document and of other problems facing the Polish economy were made successively, at monthly sessions, by a newly (in June 1994) formed Council for Economic and Social Strategy chaired by *J.Mujzel* (b. 1923).

Many economists were active in research and disputes on the necessary adjustments of the Polish economy, its institutions and policies, to the challenges of its expected integration with the European Union. The earlier government policies were blamed for not having assisted the business activities of the state-owned enterprises, enabling them to survive and to develop even in the difficult period of turbulence. They were blamed for not having provided enough public financing for infrastructure, social service and welfare, as well as for having pushed forward privatization, privileged private firms and discriminated against state-owned enterprises. These failures were supposed to be replaced by an intensively active and efficient state which would fulfil its welfare obligations and would engage also in numerous sectoral policies and interventions in order to support ailing industries and to promote those with the best chances for success.<sup>58</sup> It seemed that such suggestions must have reflected considerable 'wishful thinking', assuming that all the problems and conflicts generated or left unsolved by weak and inefficient autonomous mechanisms of regulation should be taken over and put in order by the state.

The 'Strategy for Poland' programme did not follow the rhetoric or 'wishful thinking' prevailing in much of the radical criticism levelled at the earlier policies. Its aims and instruments were relatively moderate in their intention to widen the functions, obligations and capacities of the state. In large part it was rather concerned with institutional and other measures to be applied in order to promote economic growth and to counteract poverty through a scenario of improving the self-regulatory market mechanism and of promoting horizontal processes of negotiations and partnership. The

strategy covered a three-year period and concentrated on the interconnected goals of accelerated growth, macroeconomic stabilization, economic system stability and a gradual improvement of living conditions. Implementation of these goals was considered essential for a more distant aim of integrating the Polish economy with the European Union.

The whole concept of the 'Strategy for Poland' met with diverse appraisals, the differences resulting partly from diverging professional views on the substance of the main current economic issues, partly from alternative approaches to the desired basic values, principles and aims for system transformation, and partly from differences in political interests. The more questionable and less convincing elements of 'The Strategy' were considered to be those that seemed to rely too heavily on the state, in particular believing in its abilities to control the commercialized state-owned enterprises and to provide an effective management and entrepreneurial dynamism for them.

This was discussed in many publications and could be considered to be an objectively controversial dilemma, because even those economists who shared the conviction that private ownership is more efficient had to acknowledge the existence of numerous obstacles to universal privatization. Besides, the potentially higher merits of private enterprises were often disputed in practice, since their efficiency in striving for profitability was quite often concentrated on various forms of rent seeking as well as on taking advantage of deficiencies in the existing legal order. These pathological deviations contributed, in turn, to relatively unfavourable appraisals of privatization in public opinion polls. As a result, the net contribution of the growing private sector to overall growth was deprecated because of the ever increasing transaction costs and income distribution discrepancies. The conclusions drawn from this diagnosis diverged into diametrically opposed options: a continued large scope for state ownership and control over enterprises, or an emphasis on privatization, but with simultaneous endeavours to counteract or neutralize the above-mentioned negative aspects so that the private sector would be more interested in development strategies and in business ethics.

In the past, government and the ruling political party dominated individuals and all microstructures, they even destroyed any real self-organization as potentially dangerous for autocratic rule. Under the new conditions the promotion of development requires public institutions to concentrate on servicing functions, i.e. on taking care of social services and of all kinds of infrastructure. This has to be achieved in a manner which does not involve excessive tax burdens, but is tailored according to the principles of subsidiarity and efficiency. Hence, a deep reform of the social service sector and of the whole public finance was needed, aimed, first of all, at achieving more efficiency in the utilization of the taxpayers' money (see, for example, Belka 1995).

The chance of successful implementation depended on the qualitative features of existing microissues in economic and public matters, i.e. also on evaluation criteria, motivations and expectations of the people. Sociological research (Morawski 1993) indicated doubts and controversial problems which came from several apparent contradictions between the vision of development and of the desired socio-economic system chosen by the policy-makers (presumably considered by them to be the best feasible vector of economic and social effects from the viewpoint of professional standards) and, on the other hand, dominant views in public opinion and in the attitudes of the electorate opposing some of the political choices and reflecting other popular preferences.

Morawski pointed out that the majority of Poles did not approve of the sequence of changes related to state functions in the neoliberal strategy of transformation. The concept chosen was criticized for its asymmetric emphasis on preventing the state from direct interventions in matters of everyday concern for the people: ensuring legal order and counteracting welfare losses. There was an apprehension for positive changes achieved in the field of civil and political rights, but not for the deterioration of safety in its other aspects. The arguments for an inevitable delay in implementing social rights and for a patient acceptance of losses were not convincing for people who did not understand and approve of large welfare gains achieved by others in the same society, in particular those of doubtful sources, in the ethical and legal sense.

Popular criticism of the adopted neoliberal strategy was also to be seen, according to Morawski, with respect to a general rejection by the ruling politicians after 1989 of direct democracy concepts for the political and social mechanisms which would give much more prerogatives to the citizens. These concepts, which earlier had been popular with the anti-communist opposition, seemed to have been considered after 1989 as unacceptable from the viewpoint of a private enterprise orientation in the adopted strategy of system transformation. However, the rejection was made unilaterally by the new central élites without any visible concern for the scenario of linking economic system changes with their social and political counterparts, in particular at the fundamental micro- and mesolevels. The scenario for such a process remained an important challenge for the future.

The dilemma identified by Morawski can be considered as a historical inheritance from the period of socialism which had been restricting the role of a genuinely autonomous citizen in all matters, economic, social and political alike. An active citizen was assumed to take over the fundamental position in the social order to be achieved by transformation. However, the implemented strategy of transformation was much more conducive for new active attitudes to develop in the field of private economic matters, much less for the social and political roles of the citizen. Moreover, there remained a visible asymmetry between the citizen's rights and his obligations. In the



prevailing approach the average citizen expected a great deal from the state or the community, but would not like to offer much in exchange. In this context the issue of social rights was generally seen in the distorted light of bargaining with a paternalistic autocracy and not in the light of an acceptable extent of transfers to be democratically decided by representatives of the society.

### *Final remarks*

The experiences discussed in this chapter seem to indicate that thinking about the future in general and particularly about the future-oriented strategies of a large socio-economic system must necessarily involve a multidimensional approach, comparing and confronting at least two points of view: professional premises reflecting a system-wide notion of idealized rationality and behavioural premises and preferences of the citizens in their various roles and social forms of organization. Besides, it seems essential to remember that the elements of future-oriented strategies can be effective at present only in such arrangements that build the strategic impulses into the present institutional and behavioural conditions, trying to induce evolutionary changes of the latter. Altogether, Polish experiences from two transformations seem to indicate in this context at least four wider issues extending over the borderlines of a strictly economic system which seem particularly relevant in analysing the present nature of our system changes in the 1990s:

- The qualitative features of the state and its institutions: the scope of centralism and its consequences as distinct from the principle of subsidiarity, the extent of state versus private ownership, the independence of the pattern of ownership rights and the extent and quality of state functions; the borderlines between the fields and kinds of issues dominated respectively by the premises of economic and of public choice; various aspects of the consequences of politics and its arbitrariness permeating economic practice (efficiency loss, unproductive rent seeking, qualitative losses and dangers of corruption in public service and politics, etc.).
- The quality of institutions fundamentally important for all markets, which are serving law and order in all kinds of horizontal interactions among economic subjects including contracts, negotiations, etc. This includes not only written official law formation and execution, but also citizens' self-organization as well as factors contributing to a basic role of natural law together with respective influences of ethics and of fundamental societal values (freedom, justice, safety, progress).
- The interrelations between moral criteria of ethics, together with their role in shaping the above-mentioned institutions, and the field of

family life, social bonds in families and local communities, qualitative features of education and the wider context of human capital formation in the context of linking respective professional criteria with universal human values. The feedback between the above-mentioned areas and purely economic systemic features and economic policy issues.

- Inequalities of conditions of life and of chances; their sources; the nature of their dynamics; their influence on individual motivations; their mutations enhancing economic and social progress or, on the other hand, breeding conflict and forming barriers to progress.

### Notes

- 1 Editors note: This chapter is a shortened version of a longer and more detailed contribution by Professor Porwit. Consequently, it represents a selection made by the editor of the book.
- 2 It would be an evident oversimplification to consider the first transformation in terms of ‘capitalism versus socialism’. Soviet socialism made all the difference. On the other hand, an inevitable criticism of ‘real socialism’s’ failures and of its negative impacts upon economic science does not necessarily lead to an unconditional praise of capitalism. This is a separate problem, which becomes relevant for the present (second) transformation, where one should not forget those features of democratic capitalism *cum* market economy which were and are justifying criticism as well as pushing many scholars towards a search for possible remedies: notorious unemployment, ‘underclass’ poverty zones, together with growing transaction costs of the system (especially the signs of the proliferating Vice industries’).
- 3 See J.Lipinski and T.Kowalik on the occasion of an Honorary Doctorate Degree granted to J.Drewnowski by the Warsaw School of Economics in April 1994 (*Ekonomista* 1994, 3:422–3). The issue of ‘Sovietism’ as a system different from ‘socialism’ was tackled in Drewnowski (1982).
- 4 In the initial chapters of their study Brus and Laski (1989) were dealing with a wide divergence between the historical conditions and qualitative features of socialist transformation originally assumed (and discussed later e.g. by Schumpeter) and those prevailing in the Soviet doctrine and practice.
- 5 ‘Conference Papers of the I Congress of Polish Science’ of 1951, cited in Zarycki (1996).
- 6 Lukawer (1995:5) recalls, as a remarkable fact, that Poland in 1951 was the place where the first academic textbook of socialist political economy, by Brus and Pohorille (1951), was written and published.
- 7 Secomski (1950) is cited by Roszkowski (1995:239) as the source of early accounts of negative aspects in systemic reconstruction policy which were already seen in the late 1940s: the almost complete expropriation of the private sector, increasing centralization and bureaucratization of management, deterioration in the consumer market, declared concepts for collectivization, an increasing isolation and autarky of the Polish economy, destruction of a socially authentic self-government, etc.
- 8 See, for example, Bobrowski (1946) justifying the adopted strategy with a warning that the plans cannot and should not be so ‘progressive’ as to become unacceptable for the people (‘the masses’).

- 9 The main convention papers were published in *Ekonomista* 5, 1956: Lange (1956), Lipinski (1956), Brus (1956).
- 10 The opinions of S.Kurowski and of J.Popkiewicz, published in several papers in 1956 and 1957 in the daily press and in periodicals, are usually considered most characteristic.
- 11 Already in October 1957 earlier promises began to be withdrawn. In December 1957 workers' self-government bodies in factories were de facto closed down, in January 1958 a new directive ordered to stop experiments in the economic system. Soon afterwards the Economic Council ceased to be convened. (Landau 1995:116).
- 12 The specification of the obligatory eight indicators was published in *Gospodarka Planowa* (Planned Economy) 1957, 1:6.
- 13 This move to increase the control of ministries was criticized afterwards as a superficial and controversial example of apparent decentralization, because it decreased the coherence of central government without increasing the real autonomy of enterprises (i.e. managerial functions at microlevel); see Karpinski (1986:84–5).
- 14 Kalecki's views were presented in several publications (particularly Kalecki 1942, 1956, 1957a). Additional information was published in the footnotes and appendices included in volume 3 of the 1982 edition of Kalecki's collected works, edited by J.Osiatynski. Excerpts of previously unpublished conference materials and official proceedings of meetings of government committees and councils are illuminating. They show Kalecki's support for the centralist concept of economic control as well as his evidently critical attitude to the proposals of market-oriented reforms, which attempted to follow patterns from the capitalist system. M.Kalecki did not want to revive these patterns and warned against the illusory belief in a free competitive market, especially in the case of a retarded and war-damaged economy such as Poland's. He was convinced that through central planning and control it would be possible to correct grave shortcomings of capitalism—notorious unemployment and an unacceptable income distribution. He did not defend the existing version of centralism, with its various errors and aberrations, but without central control—in his opinion—a still worse alternative would emerge. Consequently, his arguments concentrated on the ways and means of making the centrally managed economy more efficient—through more reasonable central price setting, combined with some allocative directives, with a more effective system of incentives, as well as through improved quality of central planning and decision-making. Kalecki's sceptical views about successful autonomous regulation (after loosening of centralism) may have been justified under the institutional and political conditions of that time. On the other hand, it was unrealistic to expect that Kalecki's proposals to improve central control would have been successfully implemented. They seemed to underestimate numerous information gaps and distortions inherent to vertical hierarchies. Besides, they were often implicitly based on too optimistic assumptions of adequately high qualitative standards of professionals in central control hierarchies, Kalecki's views were never popular among politicians of the time, because they were based more on substantive arguments of scientific origin than on ideology and politics.
- 15 Comprehensive studies of all the kinds of instruments used by the state organs in exercising control were published by Mujzel (1978, 1984). Quoting and analysing many empirical studies performed in the 1970s Mujzel argues that directive instruments, although fundamental for the system, were an important source of notoriously low economic efficiency. In particular, it was evident that

these instruments exerted a strongly unfavourable influence on the creativity of the people, blocking adaptive abilities in the enterprises. The practice also showed an evident contradiction between individually differentiated directives (usually numerous and unavoidably arbitrary) and, on the other hand, the postulate of objectively conditioned methods of motivation. In other words, the proliferation of directives destroyed correct, efficiency-oriented motivation. At the same time, empirical studies also proved that the practical effectiveness of central control was decreasing along with the growing scope and number of directives.

- 16 Two different approaches were presented in the dispute on price formation. A centralist doctrine assumed a highly restricted role of prices in economic choice (mainly for aggregation and partly for comparative cost calculations). Relative prices were not supposed to serve as output mix choices. The other approach wanted to change this doctrine, by changing the nature of centralism through the active role of prices and money. The first group defended the method of average costs and a profit mark-up, opposing suggestions that raw material prices should be linked to world market prices and opposing the argument that prices should reflect relative scarcities everywhere, not only for consumer goods but also for investment and intermediate goods. The second approach argued for marginal cost and rate of profit mark-up pricing, for taking world market prices as a reference for raw materials as well as for taking relative scarcity of all kinds of goods into consideration. The second approach was found in Mujzel (1957, 1966), Lipinski (1958), Lange (1958) and Wilczynski (1965). The issue of world market prices was raised by Kalecki and Polaczek (1957).
- 17 In the field of incentives three kinds of approaches were seen. One was in favour of uniform, general and simple arrangements of incentives linked with a synthetic indicator of net effects (profit, value added) (e.g. Mujzel 1966, Madej 1963, Popkiewicz 1968). The second argued for a composite set of indicators, combining either various synthetic measures of performance (e.g. Brus 1957, Kalecki 1957a) or other elements, such as relative decrease of costs, extent of utilizing productive potential, etc. (e.g. Melich 1963). The third version was a critical analysis of all types of suggestions and practical attempts assuming that a general synthetic indicator would have to be supplemented by different indicators in individual enterprises (Jedrychowski 1963).
- 18 Lukawer (1995) indicated the difference between Wakar's concept of decentralization and that of Brus. The former seemed to be concerned with making centralism somewhat more indirect and rational in implementing central plans, whereas Brus was concerned with a kind of 'division of labour' between the centre and hierarchically lower levels. The line of thought of the Wakar School was continued and extended later in the interesting studies of J.Beksiak and U.Libura (see subsequent sections).
- 19 In this context Brus (1961) indicated that in the fields of individual consumption and employment the potential extent of directive central control was limited. More general aspects of restricted information and uncertainty in hierarchic procedures of planning and decision-making were discussed by Ostrowski and Sadowski (1978). Józefiak (1984) presented a comprehensive review of shortcomings in traditional central planning procedures. Moreover, there were arguments (e.g. Kalecki 1956) for releasing state-owned and cooperative small-scale industries from the control of central directives. Unfortunately, the top politicians were more often in favour of opposite changes, i.e. integrating small-scale industry into larger entities, to make central supervision and control organizationally easier.

- 20 Pajestka (1987) recalled Lange's straightforward statements published in the late 1950s that the centralist command system implanted in Poland in the late 1940s was a war economy arrangement very distant from the essence of a socialist economy so that systemic reforms should replace non-economic coercion by the influence of objective economic laws which should also lead to a separation of economic control from a direct influence of political power (Lange 1959 vol. 2:330–1). At the same time, as Pajestka noted, Lange did not explicitly favour market-oriented reforms and he seemed rather to be in favour of trying to simulate the market by means of a decentralized centralist system of a parametric control. Pajestka indicated also that in Lange's writings one could note a symptom of weakness, characteristic of much of the contemporary Polish economic literature on socialism, i.e. the omission or very vague treatment of institutional aspects.
- 21 The elements of this approach were initially outlined by Pajestka (1967) and developed from another angle by Porwit (1969, 1972). Similar directions for the reform of central planning were worked out by a working group within an official government commission in 1971–2, but they were not accepted.
- 22 The concept was meant to improve the quality of information available for planning at the central level through introducing computerized information systems and data banks (the outlines for this project were published in the series *Prace Instytutu Planowania* (Working Papers, Institute of Planning), 1973, 26). This modernization of planning technology was supposed to bring some relief from the distorting pressures of vertical hierarchies.
- 23 Maciejewski's (1996) contribution to the present project includes some comments on this part of the literature concerned with formalized models.
- 24 The first round of studies in this field was started in the late 1950s under the leadership of Kalecki (see Kalecki 1957b, Kalecki and Rakowski 1959). Other contributions in the same line of research were published by J.Czarnek, Z.Knyziak, W.Lissowski, M.Ostrowski (see Rakowski 1961, Knyziak and Lissowski 1967).
- 25 In 1970 investment outlays in the period 1971–5 were planned to increase moderately by 37 per cent (in relation to 1966–70). This increase was revised in 1971 by the new government up to a rate of 45 per cent. In fact investment outlays were twice as big at 91.5 per cent (Kuzynski 1981:100). The share of imports in investments of machinery and equipment doubled from 25.7 per cent in the late 1960s to 51.0 per cent in the first half of the 1970s (Kuzynski 1981:105).
- 26 In many publications on the economic system there were various observations and comments on implications and problems arising around unavoidable bargaining in inter-level procedures of planning and control. A comprehensive study and a sound critical appraisal of these issues was made in the 1980s and published in 1990 by Balcerowicz (1990).
- 27 According to orthodox Soviet doctrine this problem should not exist, because those who do not obediently accept the central political will were automatically considered as (a) political enemies deserving repression, or (b) social illiterates in need of indoctrination, or (c) mentally insane. The literature concerned with reforms was based on different assumptions. It acknowledged some genuine, 'politically legitimate' and mutually conflicting interests, so it was concerned with the possibility of weakening or resolving conflicts of interests between individuals and microeconomic organizations on the one hand and the central authorities on the other. The main suggestions implied some workable ways to 'internalize' societal goals at the microlevel and also to find effective incentives which would make individuals interested in complying with respective performance targets.

- 28 I refrain from quoting any particular source because, until the late 1980s, such opinions widely prevailed in Polish economic writings, either as an implicit background or an explicit element in deliberations on other issues. Often they were generalized to a supposedly obvious overall superiority of a centrally planned system in terms of its potential for economic and social progress.
- 29 The substance of the most representative and, in 1979–80, prevailing opinions within the Polish Economic Society were presented in two reports to the National Congress of Economists (March 1981, published in *Ekonomista* 1981, no. 6). The reports dealt respectively with the questions of overcoming the acute and growing socio-economic crisis, and with finding—at long last—some way to reform the failing and inefficient economic system. The former was signed by seventeen well-known Polish economists (C. Bobrowski, J. Pajestka, and others), the latter by Jan Mujzel, Marek Misiak, Michal Malicki, Tadeusz Smuga (with about forty more names of authors contributing fragmentary proposals or comments to earlier versions). The reports indicated that: (a) all earlier attempts were unable to change the essence of centralism with its two notorious hallmarks—command control system as if for a quasi-war economy and a treatment of the whole economy as one giant enterprise, and (b) the persistence of purely political and orthodox ideological pressures effectively blocked all earlier attempts to reform this strictly directive and bureaucratic version of centralism. The reports suggested rather radical rearrangements of the economic system. They were criticized as being too moderate by a large fraction of the economics profession, but proved to be unacceptable either for the authorities or for a conservative opposition among people with vested interests in bureaucratic hierarchies. A concise English translation of the reports was published by Pajestka (1981).
- 30 As a participant in this debate I thought it more appropriate to give an account of it based not on my own views but on those of Lukawer (1995). The main sources are to be found in Kaminski and Lukaszewicz (1980). I have also included in the text my additional remarks.
- 31 See Lukaszewicz (1980). Pajestka (1975) argued that Kalecki's growth formula was transformed in official doctrine and prevailing opinions into a simplified rule that there is a straightforward and infallible cause-effect relation: increasing the rate of investment would give a correspondingly higher rate of economic growth. It was a highly simplified belief forgetting numerous assumptions and specified conditions. In fact the expected effects were notoriously overestimated so that there was no justification for the declared expectations that giving up present consumptions would be richly compensated by much higher consumption in the future. The crucial question was whether all the conditions for possible highest effectiveness of savings and investments could be created under the existing centralist system or whether they would need an entirely different set of systemic arrangements.
- 32 The suggestion that arbitrary bureaucratic choices should be replaced by 'socialized' procedures in central planning was formally accepted by the authorities in 1981 in a limited sense of consultations. The issue remained, however, a controversial problem which was reflected, for example, in a discussion at a scientific conference in January 1983. According to the report (Wilkin 1983) L. Balcerowicz argued that the whole idea could not work as long as the state did not accept independent partners for 'socialized' procedures of participative planning. Alleged consultations resembled a kind of 'talking to oneself.'
- 33 The mechanisms of 'drifting' of the system arrangements back to centralism and arbitrariness of political supremacy were shown and analysed by Beksiak (1982).

- The symptoms of imminent dangers of such backward drifting movements were emphasized in many studies of Mujzel.
- 34 I am reporting here an analytical study on economic reforms prepared by the Institute of Economic Sciences of the Polish Academy of Science headed by Pajestka (1983) as well as opinions of Trzeciakowski, Mujzel and Lipowski in Kuzynski (1983). The governmental report was published in *Ekonomista*.
- 35 These issues were discussed in detail in Pajestka (1983). Let me add here that, from the viewpoint of a utilitarian concept of science, the approach exemplified by this study seemed at the time convincing as an attainable perspective for combining political feasibility with more rational and ethically acceptable systemic solutions. Some of my own publications contained arguments based on similar assumptions.
- 36 Baka drew attention to the persistence of a passive understanding of the role of money, as being only a secondary reflection of processes taking place in physical terms. The detrimental consequences of this approach were seen up until the 1980s in a total disintegration and fragmentation in the accounts of incomes and expenditures resulting from various norms according to a logic of 'money according to the needs'. Initial changes were started after 1982 in three directions: integrating wages with the financial performance of enterprises, relative liberalization of prices and some steps towards unification of turnover taxes, and, finally, curtailing the number of separate funds. Simultaneously, the banking system underwent reconstruction and modernization towards independence of the central bank and the separation of commercial banks. These tendencies were strongly extended in the programme of 1987 (see Polanski 1995).
- 37 Several reasons may explain why the notions 'vicious circle' and 'unsolvable dilemmas' were used in discussions on past failures and on future chances of system changes. One may mention here socio-political and international dimensions. Besides, it should be pointed out that with passing time there were growing stocks of unsolved problems. Moreover, there were growing rifts, symptoms of mismatching between desired features and existing systemic and structural features, which were pragmatically justified within the existing constraints. Consequently, many economists were inclined to advise prudent scenarios of gradual change, i.e. a rather long intermediate period of hybrid systemic arrangements. Such views were opposed by arguments that too much prudence may turn into the dominance of old-style systemic arrangements, without fair chances to implement comprehensive and effective system changes. Evidently, these controversies involved different value judgements.
- 38 The text was an English translation of excerpts from the book by Pajestka (1981).
- 39 Pajestka (1982:130) argued: 'No socio-political system can automatically guarantee superiority over others in all aspects; it may only create a better or worse potential for progress. This also applies to socialism... One may "ruin" a country with a capitalist economy...[and also]...a country based on the principles of socialist economy.' It seems that there was no need to shift and extend the focus of analysis from the issues of Polish experience to a general appraisal of socialism or to comparative systems studies. Let us remember, on the other hand, some valid arguments that the totalitarian systemic foundations implanted in Poland in the late 1940s were a continuous source of pathologies in the fields of Polish political, social and economic life (see, for instance, Wilczynski 1988a:295).
- 40 'Socialism tends to weaken motivation in the struggle for existence because its policy of full employment and...of the wide-scale welfare functions of the state. Socialism

has also repudiated motivation in the competitive struggle which is a form of the struggle for existence of economic organisations. These motivations should be replaced by others which are typical of socialist social relations...to give free play to human talents by establishing social quality, to give greater importance to man's creative role in the socio-economic processes, to make use...of a harmonious cooperation between economic organizations, etc.' (Pajestka 1982:137).

- 41 The text 'Hypothetical scenarios of economic, social and political transformation in Poland—1982/1983' was presented to the Committee 'Poland 2000' in July 1982 by a team of sociologists and economists including: B.Gotowski, R.Kapuscinski, S.Nowak, J.Regulski, A.Zielinski, W.Trzeciakowski. Publication of the material was not possible before 1989. A chapter from the original text, the comments and excerpts from the discussion were published quite recently as appendices to the volume of Committee Studies: *Swiat* 1995:285–306.
- 42 Kowalik mentioned several studies forming a stream of economic sociology in Poland, the books of Szczepanski (1973) and Narojek (1973) and three mimeographed studies (with limited circulation): Staniszki (1976) on organizational antinomies, Rychard (1987) on authority and interests in the Polish economy, Morawski (1993) on democracy and economy. Very soon a new important contribution was added: the mimeographed collective volume edited by Morawski and Kozek (1988) on the breakdown of the etatist order. In the 1980s censorship could be avoided by a drastic reduction of circulation (as mimeographed working papers for internal use within the academic community). So, the impact of such valuable studies for science remained restricted.
- 43 Szczepanski (1973) reminded scholars interested in the socialist economy of the fact that its first and foremost function was to serve the autocratic rulers, i.e. the ruling communist party, as an instrument to preserve and to strengthen their power. The essence of power came from the prerogative to arbitrarily use the whole socialized property for the interests of political authorities. That was done through the exclusive right of the communist party to decide about filling all sufficiently important governmental and managerial positions.
- 44 The arguments for a general shift towards a market economy showed a qualified option for that type of systemic arrangement as a chance for decisive improvement in comparison with the concepts and practice of socialist centralism. Authors were conscious of weaknesses and pathologies known to occur in market economies which would have to be tackled in Poland. They were also conscious of difficulties and obstacles that would arise while transforming arbitrariness of political decisions and softness of paternalism into efficiency-oriented strife for competitive advantage as the condition for survival. The deepest analysis of these problems was presented by Lipowski (1988).
- 45 Bednarski and Kokoszczyński (1988) drew attention to the unofficial economy, its forms, causes and consequences. The motivations of the people involved, and also their image in the eyes of the community, were influenced by the prevailing conditions of excessive state and political bureaucracy together with restricted individual freedoms. Leaving aside the ethical or legal aspects, *one* should note that such hidden phenomena were considered quasi-ennobled as attitudes of resistance and of outwitting the representatives of the state as well as of considering state-owned items as a kind of free goods.
- 46 Balcerowicz's (1992) comments indicated his own preference for commercialization and against employees' co-ownership, whereas M.Dabrowski, his deputy in the Ministry of Finance at the time, had the opposite view.
- 47 Kolodko (1991a) drew attention to 'slumpflation' as a characteristic feature of the Polish transition period of the early 1990s. In his opinion its exceptional intensity was caused mainly by significant errors in governmental policy.



- 48 Characteristic were the comments on pro-market reforms of the 1980s which were inevitably biased and conceptually unworkable because of their authors' belief that the market mechanism could be introduced without actually removing the so-called fundamentals of the socialist system. As a result these policies were in fact supposed to pursue two mutually inconsistent aims: to establish bridgeheads of an efficient market economy and to retain maximum control over the economy. In Rosati's (1991:210) words: 'The result was that pro-market reforms, even though introduced formally by parliamentary legislations, in practice remained on paper.'
- 49 Institutional transformations were considered in three groups: (a) liberalization of the foreign exchange regime, (b) large-scale privatization, (c) other changes, introducing market economy institutions and mechanisms (capital market, large sales of state-owned 'non-productive' assets like apartments, real estate, hotels, shops), enhancing competition and curbing monopolistic practices, modernizing and developing the commercial banking system, developing labour market infrastructure and introducing a fundamentally changed Labour Code, radical and comprehensive tax reform.
- 50 This view may appear inconsistent with opinions that the Polish economy had departed already in the 1980s from the old system of central command and advanced on the path of market reforms (compare the views of Sadowski and also of Kolodko and Rutkowski 1991). It was clear that the capacity of the centre to enforce its policy had deteriorated. A hypothesis of effective autonomous markets, however, would have been doubtful. The practice corresponded rather to descriptions as 'no-plan no-market' or 'system vacuum', so that in 1990 it was unlikely that an effective microeconomic pattern of competitive and innovative entrepreneurial adjustments would be achieved rapidly.
- 51 In Kolodko's opinion the errors of governmental policy resulted from the doctrine which he called 'neoliberal—monetarist'. He described it by means of basic rules for system changes, which may have been justified under different conditions, but proved wrong in the case of Poland. Their abruptness choked too many productive activities. First, the shock therapy of macrostabilization was badly implemented, although generally it was considered appropriate. Second, the massive and instant deregulation as well as the immediate exposure of the economy to foreign competition created unabsorbable turbulence, although they could have very positive effects if applied moderately and spread over a not too long period. Third, swift privatization was an illusion, in particular as a way of quickly obtaining desired effects in terms of a more efficient allocation and a higher rate of economic growth.
- 52 Examples of scholars supporting the basic lines of the stabilization and transformation programme in the years 1990–2 are Cezary Józefiak, Adam Lipowski, Waclaw Wilczynski (see, in particular, Wilczynski 1992).
- 53 Balcerowicz (1992:169–70) drew attention to the human relations within state-owned enterprises inherited from the past and characterized by a remarkably high influence of political motivations in microeconomic and social matters. Economic and social motives, traditionally prevailing in trade union activities, were closely interrelated in Poland with those of protest against oppression of human freedoms which led to a mixture of radical forms of strike with patriotic symbols of a struggle under national colours. The lastmentioned forms remained after 1989 although their justification was less understandable under the new conditions of a democratic and independent state.
- 54 The Polish Policy Research Group (PPRG) was formed in 1990 at the University of Warsaw in continuation of seminars and informal discussions with several

- Polish economists from Western universities (Z.Fallenbuchl, S.Gomulka, H.Kierzkowski, P.Mieszkowski, J.Ordovery, S.Wellisiz) who formed in 1989 the 'Study Group of Polish economy' (SGPE) with the aim of assisting universities and policy-makers in Poland in the difficult period of transition. Their activities contributed to modernizing teaching programmes and methods at the University. The PPRG research programme was made possible by a grant from the Ford Foundation. Results were published in 22 issues of *PPRG Discussion Papers* and in the final report on economic policy in Poland.
- 55 The Rychlewski (1994) volume contains two main papers by Laski, Bhaduri and Levcik of the Vienna Institute and by Gomulka of the London School of Economics as well as contributions of the discussants.
- 56 The issue of 'efficiency and policy' was tackled, for instance, by Sadowski (1993) and Trzeciakowski (1993). Sadowski criticized the 'efficiency first' approach of the programmes implemented in the early 1990s, but the alternative of 'equity first' would not be feasible under conditions of a very low efficiency. His arguments were for a combined approach supplementing the one-sided emphasis on efficiency by more visible and effective elements of protecting the most vulnerable social groups. Trzeciakowski considered the programmes of the former Solidarity-led governments as 'economically successful, but socially unfeasible, hence politically unsuitable' (Trzeciakowski 1993:66). The dilemmas visible in that experience were hard to solve in an economy which could not afford a welfare state. As possible remedies one could see two essential lines concerning: (a) internal, social and political conditions for negotiating solutions finding new forms of participation in problem solving, and (b) external economic relations of Poland, in particular opportunities for Western assistance to transition.
- 57 The text of 'The Strategy for Poland' can be read, together with analytical and critical comments, in Council for Social and Economic Strategy (1994). The roots of the logic visible in 'The Strategy for Poland' could be seen in the final part of Kolodko (1993b). Essential arguments are those concerned with the autonomous forces and system conditions which would promote growth through the mechanism of synergetic feedbacks between a high propensity to save, macrostabilization and high expectations of effective and profitable investment projects. Many policy measures of the state as well as adequate institutional rearrangements are demanded in order to attain such growth conditions. But this approach differed from other proposals which, in case of insufficient autonomous market forces, wanted the state to enforce higher investments and savings as well as to shape investment structure.
- 58 The interventionist practices and the arguments used to justify them in contemporary market economies were presented by Karpinski (1992). But the usefulness of these experiences would be another issue.

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# ECONOMICS AND SYSTEMIC CHANGES IN HUNGARY, 1945–96

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## PART I. ESTABLISHMENT AND EROSION OF THE SOVIET MODEL AS REFLECTED IN ECONOMIC SCIENCE IN HUNGARY, 1945–78

### The ideological ‘Gleichschaltung’ of economic science (1945–9)

Any comparative study of the history of economic thought of the former centrally planned economies (CPEs) of Central and Eastern Europe (CEE) would, no doubt, reveal many similarities and parallels. One such common feature of economic science was a certain discontinuity, a *caesura* between the pre-1945 past and the newly established ‘Marxist-Leninist’ economics. In all countries the communist takeover of governments was followed by the reorganization of academic life according to the Soviet pattern. In Hungary this restructuring was accomplished around 1948–9. At that time a separate Budapest University of Economics was founded where the curricula were based on the Leninist and Stalinist interpretation of Marxian theory. The alumni of this university (which in 1954 was named after Karl Marx) were to form in the following years the body of managers and experts of the centrally planned economy.

### *The disappearance of continuity in economics*

Although there is much in common in the above-mentioned processes in all CEE countries under Soviet dominance after World War II, it is nevertheless surprising that in Hungary there was a total lack of personal and/or intellectual ties between the pre- and post-1945 community of scholars in economics, for this was not the case in other social sciences (e.g. history, law). Of the 72 people elected to the managing bodies (presidium, auditing

commission, board) of the Hungarian Economic Association on its general assembly of 9 August, 1945 (*Közgazdasági Szemle*, October 1946), only about 12 were able, as a rule after a long interruption, to do scholarly work later (teaching, research, translation). However, even out of this dozen, three people were occupied outside the field of economics (one was a lawyer, another a philosopher, the third one a historian). This lack or disappearance of continuity with the pre-1945 academic world can be explained by reference to two probable reasons.

- 1 *The radical change of political élites after World War II.* Hungary was the last ally of Nazi Germany and belonged to the group of defeated countries. The removal of the former ruling élite—both of its fascist and pro-German wing and of those who simply collaborated—was radical and rapid just as in the former axis countries. Economists—due to their profession—always have a strong involvement with business and government. Therefore, it was inevitable that those who had been compromised during the war would be forced to leave public life. However, the fact that the circle of persecuted people became wider and wider was quite unnatural and unexpected, a tragic development that caused severe losses to science and social life. Besides fascists and collaborators there were distinguished scholars belonging to the prewar academic establishment, democrats and anti-fascists, resistance fighters and social democrats, finally Marxists and communists who were included in this crazy and devilish circle following the well-known Soviet pattern. This development, however, was not a Hungarian phenomenon alone, it was, alas, common for all communist dictatorships of CEE.
- 2 *The relative weakness of economic science in Hungary.* The removal of people representing the scholarship of the pre-communist period cannot entirely explain the total lack of scientific heritage available to influence intellectually the new generations of Hungarian economists. It is a remarkable fact that Blaug's (1986) much acclaimed dictionary of major economists of the last three centuries includes the names of sixteen scholars born in Hungary. This number is larger than that of any other CEE country except Russia, yet only one of the scientists included in the dictionary was active in Hungary. He is János Kornai, who belongs to the new post-war generation of Hungarian economists. All others made a name for themselves working abroad, mostly in Britain and the USA.

By the relative weakness of economic science in pre-1945 Hungary we mean just and only this fact—the absence of 'names', i.e. of internationally well-known scholars with major scientific accomplishments, original thinkers, the existence of native, autonomous schools of economic thought. This does not imply a lack or low level of economic education nor absence of good scholars, professors with a wide intellectual horizon. Otherwise one could

not explain the scientific careers of such economists as Béla Balassa, Lord Thomas (Tamás) Balogh, John (János) Harsányi, Tibor Scitovsky or John von (János) Neumann, who attained their diplomas or degrees at the Budapest University but left the country for various reasons.

Perhaps the main reason for the lack of autonomous schools can be given by an accidental factor, namely, the geographical and cultural proximity of Austria. It was quite accidental from the point of view of Hungarian development that in the field of economics Vienna just happened to be a powerhouse of new ideas at the end of the last century and in the first decades of the present. The role and the lasting influence of Austria in economics rivalled only that of Britain and the USA. (It is noteworthy that the same can be said about so-called Austro-Marxism and its role in the evolution of Marxian economics after Marx's and Engels' death.) Hungarian scholars were bound to comment, interpret and teach the theories of Austrians (and Germans). The best professors of economics of that period, such as *Wolfgang (Farkas) Heller* (1877–1955), *Akúsius (Ákos) Navratil* (1875–1952), *Karl (Károly) Balás* (1877–1961), *Theodore (Tivadar) Surányi-Unger* (1898–1973), did just this (cf. Mátyás 1994). On the other hand, it explains the relatively high standard of economic education in Hungary.

However, even without major theoretical accomplishments, Hungarian economic science (and education) had some strains that in an indirect way influenced the approaches and qualities of later generations of economists. One was a certain eclecticism of Hungarian economics that can be traced back to the efforts to reconcile the abstractions and deductivism of the Austrian school with the historicism and descriptive approach of the old and new German historical schools. All these schools of economic thought had formative influences on Hungarian scholars. Perhaps a kind of pragmatism and empiricism that is a trait of the Hungarian approach can be attributed to this controversial influence.

### *Main currents in economic thought in the first post-war years*

After World War II Hungary was—apart of Czechoslovakia—the only CEE country which had for a time a working albeit limited system of parliamentary democracy, with multiparty pluralism, free elections, etc. The limitations were established—as in Western Europe—by the victorious allied powers: only anti-fascist parties were allowed to run for power; both central and local governments had to be formed by coalitions of these parties; screening commissions for denazification were established, etc. In Hungary, as in many other CEE countries, the occupying power, the Soviet Union, not only set the rules of the game but directly secured—sometimes by brutal means—its outcome. This is why the Hungarian Communist Party, even though it had not won any of the general elections, exerted a decisive influence on all coalition governments.

Nevertheless, the three years of 1945–7 were a period of short-lived democracy when various political forces, apart from right-wing extremists, could freely express their beliefs, doctrines and aspirations. The number of publications was enormous. A great many of them dealt with economic issues but almost exclusively in terms of current politics. It is obvious that this epoch of fundamental socio-economic changes was not a time for theoretical studies. Therefore, although different currents in economic thought can be discerned, mostly on the basis of political programmes and similar documents, they can only be grouped and judged approximately. A presentday analyst familiar with the history of the following fifty years may be surprised to find that a kind of consensus or at least a number of common points did exist in the programmes and/or attitudes of different politico-ideological currents (cf. Pető-Szakács 1985:26–35). These common points include:

- the recognition of a need for a break with the semi-feudalistic past, i.e. a need for radical modernization/democratization;
- the acceptance of a kind of mixed economy, i.e. the recognition of the existence of both private and public property and the support for various forms of co-ops;
- the recognition of the need for a managed economy, whatever it meant.

The existence of a partial consensus or—to be more precise—the lack of open clashes on issues of theoretical importance, somewhat blurred the contours of different currents in economics. Even the dividing line between Marxist and non-Marxist theories was not always evident because of different interpretations of Marxism. All in all, we can discern three main currents in the economic thought of that time.

*Soviet-type orthodox Marxism—Leninism*

This was represented by the Hungarian Communist Party. As the official line of its policy at that time was a gradualism in the progress towards socialism and the observance of the rules of a multiparty democracy, it propagated the Soviet model of a centrally planned economy as an ideal to be established in an indeterminate future. A rosy picture of Soviet society and economy was presented not only in the rather primitive propaganda booklets but also in some more scholarly journals for intellectuals and/ or economists, like *Társadalmi Szemle* (Social Review), *Fórum*, *Gazdaság* (Economy). In 1947 a special economic periodical devoted to Soviet economy was started under the title *Magyar—Szovjet Közgazdasági Szemle* (Hungarian—Soviet Economic Review). It published mostly Hungarian translations of Soviet publications and review articles on Soviet economy and economics. These journals, published by the Communist Party or its

fellow travellers, established the pattern of how to deal with the experience of the Soviet Union. This pattern became common for all Hungarian publications at least for the next twenty years. Otherwise nothing remarkable was left to posterity in economics by these publications.

*The social democratic approach*

At that time, Hungarian social democrats were also orthodox Marxists but of Western type. Historically they were very close to German and Austrian social democracy. In the post-war years they established a close relationship with the British Labour Party, Swedish social democrats and French socialists. Their programmatic goals were similar to those of the Western parties: nationalization of big business, particularly in mining, energy, metallurgy, banking; a welfare state; and national planning. However, being close partners of the communists in the coalition government of a country under Soviet dominance, Hungarian social democrats—at least publicly—stood to the left of their Western comrades in their attitude towards communists and Soviets. This is particularly true for the so-called left within the Hungarian Social Democratic Party, which in the end drew the Party into a union with the communists in 1948. This in fact, led to its total absorption.

One aspect of the social democratic economic programme deserves special attention. This is the idea of the lasting existence of a mixed economy, borrowed from Western social democracy, i.e. the idea of the coexistence of different forms of property, including cooperative and private ones. This also implies the preservation of the market economy, market relations under socialist conditions. Even if it would be a gross exaggeration to ascribe to Hungarian social democrats an early elaboration of a theory of market socialism or the start of the ‘plan and market’ debate, it was, perhaps, not by chance that some of the active proponents of a market-oriented reform of the 1960s, like Imre Vajda or Rezső Nyers, had earlier been social democrats.

*Non-Marxist, non-socialist economics*

This was represented by the remnants of pre-1945 academic life. On the political scene this current was represented mostly by the biggest bourgeois party, the Smallholders’ Party, which won the absolute majority of seats in Parliament at the general election of November 1945. In its economic programme it pursued the modernization of the country according to the Western capitalist, mainly Anglo-Saxon pattern. Some leading economic experts (like István Varga, Jenő Rácz) were involved in governmental activity on the part of the Smallholders’ Party. However, because of general (mostly external) conditions, the whole posture of this Party, including economic issues, was rather defensive and not very articulate.

The same can be said about the revived activity of the old institutions of academic life, like the Hungarian Academy of Sciences and its sections, the Hungarian Economic Association and the university departments. Under strained political and meagre financial conditions the traditional (and from time to time only) Hungarian journal of theoretical economics, *Közgazdasági Szemle* (Economic Review) reappeared only in October 1946, and its publication remained irregular. However, besides high-quality issues of *Magyar Statisztikai Szemle* (Hungarian Statistical Review), the journal of the Central Statistical Office, business surveys and analytical studies of the Hungarian Institute of Business Research (headed by I.Varga), publications of the National Bank of Hungary and some occasional booklets, the thin fascicles of *Közgazdasági Szemle* of this period are the best and almost only authentic sources of information on this current of economic thought. What were its characteristic features?

First *Közgazdasági Szemle* demonstrates the high level of professional knowledge available. Compared with later periods of history of economic thought in Hungary the openness of academic science towards the world was striking. The journal devoted considerable space and attention to the discussion of the latest developments in the international economy and economic science. It is surprising how up-to-date and informed its scholarly authors were about the newest books and studies published in the USA or Britain during the war (books of Schumpeter, Hayek, John von Neumann and O.Morgenstern, etc.). The journal is the best evidence that Hungarian scholarship in economics formed an integral part of international science before the fall of the iron curtain.

The theoretical stance of this non-Marxist current was an openly proclaimed eclecticism, as expounded in two major methodological studies by Theiss (1947) and *Istvan Varga* (1887–1962) (1947). Both scholars believed that econometrics, the new branch of economic science of the time, should be extended and merged with institutionalism and sociology. They hoped that such a synthesis would bring about a new, ‘value-free’ economics. According to Theiss (1947:154) this ‘objectively exact’ social science would determine the ‘real and non-real elements in the competing social ideologies’ and chart a proper economic policy that could gradually ease grave social troubles. Behind the efforts to stress that the value-free and objective position of the new economics was reconcilable with different ideologies, there was clearly a strong desire to adapt non-Marxist economics to the new socio-political environment, to make it acceptable and useful within the new political framework.

On the other hand, a barely hidden distrust and a cautious criticism of socialism was also present in the writings of the non-Marxist economists. This was honestly expressed by Nemény (1948) in his study on Schumpeter’s famous book *Capitalism, Socialism and Democracy*. Nemény agreed with Schumpeter’s conclusions about the decline of capitalism and its inevitable



replacement by socialism. He was afraid, however, that if this happened prematurely, it would hardly be acceptable to 'European people brought up in the spirit of the last two or three centuries'. Nemény, seemingly, shared the view that the world that was to come according to Schumpeter 'wasn't one he himself would have liked to live in'. (Nemény 1948:128).

An excellent piece of cautious—or what later would be called 'constructive'—criticism of the governmental economic policy was produced by *J. Judik* (1891–1951)(1947), one of the leading experts of the National Bank of Hungary, in his study on the communist and social democratic drafts of the Three-Year Plan that started on 1 August of that year. Judik found that the concepts and numerical targets of both drafts were essentially similar despite the fact that they were separately prepared by the experts of two parties.<sup>2</sup> The object of his criticism was not the feasibility of the plan drafts. (This is a noteworthy fact as the recurrent problems of later national economic plans in Hungary and other socialist countries were mainly caused by their overstrained and exaggerated character. The first Hungarian Three-Year Plan was quite moderate, at least in comparison with later ones.) One of the main targets of Judik's criticism was the proposed enlargement of the share of the engineering industry and of the energy sector in the Hungarian economy. In connection with this he raised a fundamental question that stayed in the limelight of the discussions on the preferable strategy of economic development during the following decades. This was the issue of the choice between import substitution and export orientation. Judik (1947:24) warned against the 'one-sided autarkic mentality' of the planned economy in the making (p. 24). He also raised the very touchy issue of the need for the participation of foreign capital in the Hungarian economy. As he pointed out, if this was not dealt with the plans of economic development could turn out to be overextended. Judik's warnings, alas, couldn't be but a voice crying in the wilderness. However, even if Judik's voice and study remained almost totally forgotten, the issues brought up by him would later become hot potatoes in Hungary.

### *The cessation of economic research*

The 'Sovietization' of academic life after the great turn of 1947/48 meant its reshaping according to the Soviet pattern. Sweeping changes were carried out very rapidly. The Hungarian Academy of Sciences was 'reorganized' in 1949. All economists who had been ordinary or corresponding members lost their titles and positions, as did almost all professors of economics, who lost their chairs and their right to lecture (*venia legendi*). Fate took a turn for the worse for many of the former scholars in the early 1950s as a kind of *Berufsverbot* (the ban of professional activity) was enforced (in formal or informal ways) on them. Some were imprisoned or deported to the countryside. At universities and other institutions of higher education,

departments of ‘Marxism-Leninism’ or Marxist political economy replaced the old departments of economics. Their staff were recruited from the activists of the Communist Party (called the Hungarian Workers’ Party after 1948). As a rule these people did not have proper academic qualifications in economics. Quite often they did not even have university degrees. As their main function was ideological—to propagate the ‘Marxist—Leninist world-view’—they did not need academic qualifications. During their whole forty year period of existence, these ‘departments of world-view’ were generally lost places for any research in the social sciences.

It is interesting to note that no new research institutions were founded prior to the mid-1950s in place of the dissolved ones. Economics thus did not share the fate of other sciences in which, following the Soviet pattern, large networks of state-run research institutions were established under the aegis of the Academy of Sciences or different governmental offices. It is anybody’s guess why the Hungarian leadership did not imitate the Soviet model in this field. The lack of politically reliable and/or ideologically well-grounded scholars is not a sufficient reason as the situation was similar in other sciences.

The most probable reason why economic research was completely stopped can be found in the sheer voluntarism of the economic policy conducted by the Rákosi leadership after the great turn. As already mentioned, economics is always involved somehow with governmental politics. The government perhaps tried to exclude the possibility of observance and/or analysis of its policy by outside experts, no matter how reliable or loyal they were.

As a result, 1953 found Hungary in a situation that was very strange for a civilized country with long-established cultural and scientific traditions. No economic research was carried out, no original economic journals or weeklies were published (apart from a monthly on statistics and a few periodicals on industrial economics), no regular statistics were available for the public.<sup>3</sup>

### Hopes for a new start (1953–7)

#### *Awakening of society and resuscitation of economic research*

As in many cases during the post-war decades, a new turn in the fortunes of Central and Eastern European nations was caused by an event that occurred outside the region. In this case, the death of Stalin heralded a period during which the Stalinist nightmare began to fade. Changes in Soviet internal policy were soon followed by new foreign and economic policies. According to Soviet instructions the omnipotent party leader, Mátyás Rákosi was replaced as prime minister by a less-known official, Imre Nagy. And it was Nagy who in his inaugural speech on 4 July 1953 at

the opening session of the newly elected (one-party) parliament expounded a programme of sweeping changes. He announced a revision of the economic policy, abolition of all discriminative, oppressing measures against well-to-do peasants (*kulaks*); permission for members of agricultural producers' co-ops to leave them freely and even to dissolve them; the abolition of internment camps and the system of forced deportation, and other liberalizing steps. It emerged later that Nagy only revealed the main points of a secret decision of the session of the Central Committee of the ruling party held on 27–28 June 1953. As the decision harshly criticized and condemned the whole policy of the previous period, the Committee decided to keep it secret.

The tricky way in which history is sometimes made should not overshadow the real importance of the decisions of June 1953. Indeed, they opened up a new stage in the life of Hungarian society, proclaiming and bringing renewal in almost all areas of political, economic, cultural and scientific activity. They were especially important for economists, since the main attention was directed at the burning questions of economic development in the country. To promote a systematic analysis of these issues (which in a short time turned into a systemic one), the Nagy government began to restore institutions of economic research and scholarly discourse. A new Institute of Economics attached to the Hungarian Academy of Sciences was founded at the end of 1954. A little earlier, in October the first issue of the traditional economic journal, *Közgazdasági Szemle* (new series) appeared. However, it inherited only the title of the old periodical, as it openly proclaimed itself to be a journal for Marxist economics. Both the institute and the periodical occupied a central place in Hungarian economic science, particularly in the 1950s and the 1960s.

As early as the end of 1954 the first analyses that may be considered to be objective and scientific examinations of a functioning planned economy were published. In the first, October, issue of *Közgazdasági Szemle* a study by Liska and Máriás (1954) was published on a sore point of the Soviet-type centrally planned economy, namely, its weak competitiveness on the world market and the low profitability of its foreign trade. For the very trade-dependent Hungarian economy this was and still is an issue of crucial importance. Liska and Máriás showed how harmful the policy of economic autarky (import substitution) was as well as the implementation of a pricing system totally isolated from the external prices. Both their study and two other publications—by Balázs (1954) in the November issue of *Többtermelés* and Péter (1954) in the December issue of *Közgazdasági Szemle*—raised a very important question. This was the question of the rationality of the way the then-existing economic system functioned. Later in Hungary it was called the problematic of the 'economic mechanism'.

*Development of the broad concept of a market-oriented reform*

*Sándor Balázs* (b. 1927) (1954), who then belonged to the youngest generation of economists, made a proposal in the periodical on industrial economics which did not seem to be of great importance. He proposed that instead of the gross output value prescribed as the main indicator of enterprise plans, the net value of output should be applied (i.e. the indicator of the performance of the enterprise should not be the total value of goods and services turned out by the enterprise, but only the part remaining after deduction of the materials used by the enterprise, semi-finished products supplied by others, as well as the depreciation of building and machinery). Of course, had his proposal only contained the substitution of one plan indicator for another, it would have been a characteristic and respectable example, and considering the time of its publication even the forerunner, of the superficial approach aimed at ‘perfections’ of the economic mechanism. This approach would become general in almost all centrally planned economies in the later decades.

However, the fact was that under the pretext of ‘narrowing’ the range of the centrally approved plan targets, Balázs proposed that the central prescription of the output plan to the enterprises should be abolished, i.e. the very essence of the directive planning system, the obligatory ‘breaking down’ of output plans in kind on to the enterprises should be eliminated. As a compulsory basis for rendering account, the enterprises would receive only two indicators: the net value of output and the absolute value of the accumulation to be paid into the state budget, i.e. the gross income to be achieved and the fixed amount of the profit tax. (There are cursory references in the article also to the introduction of a profit-sharing system.)

The study by *György Péter* (1903–69) (1954), the president of the Central Statistical Office, which has an outstanding place in the history of the Hungarian reform idea, was published in the December 1954 issue of *Közgazdasági Szemle*, almost simultaneously with Balázs’s article. His message and the substance and direction of his proposals coincided with those of Balázs, but the way he handled his subject was characterized by a broad macro-economic approach, an attempt at theoretical and ideological generalizations that went beyond the solution of momentary economic problems.

In fact, Péter recommended in his article the changeover to a regulated socialist market economy, although the word ‘market’ hardly occurred in his article. (The term market economy was used in the Hungarian literature of the 1950s only in a pejorative sense.) The argument runs right through his study that the control bodies cannot duly control and evaluate the activities of the producers, this control can only be carried out by the buyers, the consumers. Péter saw two preconditions for the operation of

this market control: (1) the existence of adequate reserves and stocks, namely that supply should somewhat surpass demand, i.e. the existence of a buyers' market, and (2) the functioning of a cost-proportionate price system in which supply and demand are reflected. He did not challenge the mechanism of pricing by the authorities, but emphasized two principles of pricing. The first was that the price should contribute to creating a balance between supply and demand, viz. that it should be an equilibrium price, because it is only in this way that the continuous emergence of 'goods in short supply' could be stopped. The second one was that the relative prices should be adjusted to the cost ratios, i.e. prices should cover the production costs; the wide range of articles which were constantly losing or were made expensive artificially, should disappear. Although Péter did not go into detail about how the 'average cost' should be calculated, yet from the fact that in one place, in connection with the 'corrective factors' used in the correct formation of relative prices, he mentioned that the industrial enterprises should be debited with 'some kind of charge ("interest") on the circulating and fixed assets used by them' (Péter 1954:58), it can be concluded that already at that time he no longer thought of maintaining the traditional cost-plus price system.

Péter thought that economic efficiency and increase of social welfare were achievable not by suppressing personal or group interests, by creating some kind of apparent harmony, but by 'contrasting the various particular interests'. He wrote about a 'healthy competition' among the enterprises, which would lead to the satisfaction of the consumer with cheaper goods of better quality.

In a short time Péter's study became the object of ideological criticisms. The apologists for the command economy berated Péter by enumerating where and how his ideas deviated from the accepted views on socialist economy, as if the fact of difference itself was the proof of fallacy. As in almost everything that happened under the conditions of the party-state, the appearance of these criticisms was directly connected to the changes in politics. In the political infighting between Rákosi's and Nagy's groups the latter was defeated, and its line in economic policy was condemned as a 'right-wing deviationism' at the Central Committee session of 2–4 March 1955. The prime minister was ousted from his office. (Later, Imre Nagy was also expelled from the Party.)

However, irrespective of the turns in politics, between the autumn of 1954 and the summer of 1956 Hungarian economic research ran—very rapidly—a course which placed the debate about abstract theoretical questions into a different professional medium. The empirical economic research that started at the beginning of 1955 in the Institute of Economics proved to be especially fruitful. In addition to investigations by András Bródy, Péter Erdős and others, the work of a young scholar, *János Kornai* (b. 1928) had internationally outstanding importance. It was completed in

the summer of 1956 under the title of *Overcentralization in Economic Administration* and was published in book form in Hungarian in 1957. The nature of the monograph was clearly reflected by the subtitle: *A Critical Analysis Based on Experience in Hungarian Light Industry*. Kornai's book (1959) was the first economic sociography in post-1945 Hungarian literature. It was at the same time the first work in the entire international literature on socialist economy which did not explain what the mechanism of a centrally planned economy ought to be, but described how it operated in reality, and why it did not achieve its expected planned development and efficiency.

Kornai set out from the same point as Péter, Balázsy, and others before him. But no one before Kornai had carried out a point-by-point factual analysis, and had given a comprehensive description of the chain of interconnections. Against Balázsy or Peter, critics could claim (without any foundation, of course) that they had grasped the particular, individual or casual phenomena instead of the typical, but with Kornai's book this could not be done. Kornai's reasoning carried through with scientific circumspection and consistency, and proved that the contradictions existing in the directive planning system could not be solved by the 'fine tuning' of the indicators, their 'more exact' prescription, or through their eventual replacement by others. Kornai's warning (1959:229–33) proved to be almost visionary in retrospect. He said that even the introduction of profit as the main plan target could not solve the problems if it was not accompanied by the creation of such conditions as (1) a price system which correctly orientates and reflects the relationship between supply and demand, i.e. market-clearing prices; (2) the bringing about of a buyers' market, competition among the enterprises; (3) a system of incentives for managers which truly reflects their accomplishments; and (4) the increased use in the control of the national economy of indirect instruments (investment system, financial and credit system, price policy, etc.) which ensure that enterprises operating on the basis of profitability should fit into the framework of economic planning.

It is noteworthy that thirty-three years later, in his foreword to the second Hungarian edition of his first book Kornai (1990b) again stressed the importance of these four points. According to him, these principles had been formulated for the first time in Hungary by Gy. Péter, and his (that is Kornai's) sole contribution was the idea of a radical change of the *whole* economic mechanism. This implied that the change should be carried out at a stroke, in a coordinated way. Benefiting from hindsight, Kornai also pointed out the deficiencies and insufficiencies of a possible 'reform package' based on the principles proposed. These deficiencies, however, were characteristic of the whole approach of the reformers of the 1950s, Kornai added.

*Culmination and ebb*

The revolution of 1956 proved to be the most important milestone in the post-1945 history of Hungary up to the systemic change of 1989–90. Historians will judge why the carnage of the October revolt, its cruel suppression by the Soviets and the subsequent period of large-scale terror led after all to the establishment of the least oppressive political regime within the Soviet bloc (a ‘soft’ dictatorship, as it is called in present-day Hungarian parlance). There are a number of possible explanations. An important one is the leadership’s effort to legitimize the unpopular regime. To achieve it, the Kádár government could really only use economic factors, such as raising the standard of living, etc., because other means of legitimation, such as fanning the flames of nationalism, were excluded by the situation. However, in order to attain economic improvement, the failed economic system had to be reformed and the goals of economic development had to be revised. This is why the issue of economic reform was on the agenda almost continuously during the three decades of the Kádár regime.

Towards the end of 1956 nine commissions of experts had already started work on proposals for the consolidation of the shattered national economy. Each commission dealt with a particular sector of economy. In order to coordinate their activities and to prepare a draft of the governmental programme on the changes in economic control and the strategy of economic development, an Economic Commission was established in February 1957. This was chaired by Professor István Varga. Among its thirty members could be found both high governmental officials and academics. Besides high officials of the Communist Party (then called the Hungarian Socialist Worker Party—HSWP) some leading personalities of the then defunct Smallholders’ Party, Social Democratic Party and Peasants’ Party were also invited. (The social democrats had been set free from imprisonment just a few months earlier.) This composition of the Economic Commission showed the original intention of the Kádár government to pursue some form of consensual economic policy.

However, a feeling of ambiguity towards the working of the Commission was also evident on the side of the government from the very beginning. Almost simultaneously with the establishing of the Economic Commission the party leadership launched an economic weekly *Gazdasági Figyelő* (Economic Spectator), edited by László Háy, an old party hand, which from the first issue onwards attacked with ever-growing vehemency the idea of any change in the economic mechanism, condemning in advance the proposals of the Economic Commission which were still in the making. In this way the Kádár government indicated its uncommitted stance in the case of reforms: it ran with the hare and hunted with the hounds. Such a situation would occur repeatedly in the following decades.

No wonder that in the summer of 1957 the work on the preparation of a reform ended. The Economic Commission handed its elaborated proposals to the government by 1 June 1957 and got no answer.<sup>4</sup> It could not get one. As is known from the documents published in Berend's study (1983), the reform plans were practically not discussed by any governmental organ or political leading body. The reasons for this negative attitude could be found within the sphere of international politics. The Soviet leadership, scared by events in Hungary and Poland began its new campaign against the Yugoslav and other 'revisionisms'. It also urged the Kádár government to harden reprisals in Hungary. At the same time the Soviet Union gave a substantial aid to Hungary. This enabled the Kádár government to stabilize the national economy in a very short time without implementing the expected reforms. The system of central mandatory planning was restored and saved, albeit with some not insignificant modifications. In agrarian policy the system of compulsory deliveries was abolished and a changeover was made to voluntary contracting and free procurement. The other change was the introduction of a profit-sharing system in 1957. Of course, the profit-sharing system operating in 'otherwise unchanged' economic conditions could not transform the economic mechanism, as had already been pointed out by Kornai, but it aroused the interest of employees in the profitability and economic efficiency of their enterprises.

#### *Some comments on the reform concept of the mid-1950s*

What model of the economic mechanism was reflected in the writings of economic researchers and in the drafts prepared for the government? Was it in fact a rejection of the directive planning model and a changeover to the decentralized market model?

The answer is not easy for two reasons. First, such a question could not be raised at the time because the theoretical categories mentioned above spread and became known in Hungary only in the 1960s, after the 1966 translation and publication of Brus (1961), a theoretical work of immense influence, and because no socialist alternative existed to the directive planning system that had been developed in the Soviet Union. The Yugoslav market economy and self-management system—although the mere fact of its existence undoubtedly stimulated Hungarian social research and during a very short period (in 1955–6) could also serve as a point of reference—had to be ignored in the best case, and condemned in the worst for political and ideological reasons for a long time. Second, in all important written documents of the period we find reference to the permissibility of central instructions concerning the quantity or assortment 'in exceptional cases' (Varga 1957:1233), 'transitorily for the production and utilization of some (very few) materials or products' (Péter 1956), etc. However, this does not decide the issue, because the essence of the matter is not in the number of the



‘cases’ or the length of the ‘transitions’. And in addition, these ‘permissions’ are often only beauty spots on the proposals of the authors. The fact is that the arguments of all proposals and ideas were directed against the system of ‘breaking down the plans’, proving that it was superfluous, costly and inefficient. The reformers of the years 1954–7 did indeed want to abolish the compulsory central prescription of quantitative and assortment plan targets, as a universal system. But what did they propose as a substitute?

According to Varga (1957:1001): ‘The aim is that the *centrally administered economy* which has existed until now, and which is characterized by the frequent change of enterprise plans during the plan period, should be replaced by a more real “*planned economy*”, i.e. a system where the originally conceived plans are *better implemented*.’ What Varga meant will be understood from the witty parable by which he tried to explain the purport and the way of rational functioning of a planned economy. He put it forward during a debate at the 2nd session of the Economic Commission on 8 March, 1957. He compared the role of the central planning and controlling bodies to that of a magician who offers a pack of cards to a person from the audience and asks him to draw a card at will from the top or the middle or the bottom of the pack. The cleverness of the magician is in his ability to ensure that the chosen card will always be the one he wishes to be drawn, meaning, according to Varga’s formulation, the following: ‘Thus, planned economy is when we say: companies, do what you wish, but if you consider your own interests you will do what I wish’ (Szamuely 1986:206). Varga could have added that the central bodies would make no secret of their wishes. According to the reform draft, even if the national economic plans were mandatory only for the organs of central control but not for the companies, the latter ‘would have been informed in due time by the controlling organ about the relevant particulars of the national economic plan and other data’ (Szamuely 1986:259).

In the end, the competency of the enterprises would have covered only a very narrow area. The authors of all the published reform ideas all agreed upon one question, namely that investment decisions and means should stay in the hands of the central state bodies. Through this the enterprises would not have been responsible masters of the extended reproduction process, not even of the simple one.

The proposals of the Hungarian reform-minded economists fully fit into the common standpoint of the reformers in some CEE countries of the time. These are aptly summarized by Brus (1986) as follows:

It was generally accepted, in the first place, that it was necessary to devolve some decision-making to lower entities (enterprises or groups of them) and to reduce the role of vertical hierarchical links in favour of horizontal relationships. Secondly, it was common ground that the number of detailed plan-indicators should be

reduced, even to zero, and that the direct physical allocation of factors of production should be replaced by financial indicators, above all of profitability, at least partially linking the use of materials and labour with financial results. There was, thirdly, agreement that incentives be associated with the economic results of enterprises, if not exclusively at least to a degree which would make the work-force respond to them.

(Brus 1986:53)

From all this we can conclude that in 1954–7 the Hungarian reformers wished to carry out a rationalization of the model of the planned economy within the framework of which the complete and smooth realization of centrally elaborated plans would be attained by regulating the interest of the enterprises in performance, possibly without a formal breakdown of plans.

### In search of an alternative model of planned economy

#### *Revival of the reform idea*

In 1956–7 not even a shift away from the system of directive planning could succeed, let alone a shift to some kind of market economy. The nature and objectives of economic research in the following five or six years were characterized by efforts at rationalizing the system of directive planning which had not ceased, but had only become lost in the troubles of October–December 1956. Efforts were moving along several tracks. The first was to bridge the functional deficiencies of the system of directive planning with the aid of reorganization, changing the size of enterprises and their organizational framework. This approach was revived in Hungary in the late 1950s (not independently of the reorganization campaigns then ubiquitous in socialist countries). Beginning with 1958, this manifested itself, almost continuously, in the amalgamation of state-owned companies, establishing monopolistic large enterprises, finally taking wing in the industrial reorganization of 1962–4. Although this process has not been discussed much by Hungarian economists, it is an interesting feature of the few relevant theoretical writings that their authors conceived the amalgamation of industrial enterprises essentially as a substitute for the absent reform.

A second track followed analysis of the various methods of material stimulation and financial enterprise incentives—somewhat modified after 1956—and their more active use in implementing the centrally established plan tasks.

A third was the attempt to improve the quality of central planning with the aid of modern mathematical methods and computers. In a sense, the late 1950s and first half of the 1960s may be called ‘the golden age’ of

mathematical economics in Hungary, but not on account of any widespread knowledge of mathematical procedures and much less so because of the available computer capacity. It was a 'golden age' in respect of the hopes and illusions attached to the use of mathematical procedures. This happened voluntarily and sincerely, but also under duress. It seemed that the possibility of a comprehensive change in the system of management had been put off for a long time, therefore a considerable number of economists expected an improvement in macroeconomic efficiency, and a solution to economic evils and deficiencies, by methods of linear programming, input—output analysis, econometric modelling and other mathematical procedures—but at the same time essentially maintaining social and economic relations unchanged. There was good reason why the most heated debates of this period—not only in Hungary but in other CEE countries as well—were on methodological subjects, more precisely on the principles and methods of economic efficiency computations which then ramified in various directions: efficiency of foreign trade, of investment, of technological development, etc.

It was logical and unavoidable, however, that both attempts to rationalize the system of directive planning, reorganization and the use of incentives, should run up against the same problem: the role of instruments and measures in economic life, i.e. the problem of prices. Therefore, in the final analysis, the whole period may justly be called the period of price debates. It seemed that the difficulties of both central planning and material stimulation could be averted; if the price system correctly reflected and expressed both inputs and the results of efforts, making possible an undistorted comparison of the two, then not only the troubles in the rational operation of the economy and in accurate accounting and rational allocation, but even factors hindering cooperation among the Council for Mutual Economic Assistance (CMEA) countries would disappear. Thus, it seemed that the objective was to create a system in which prices would secure economic transparency, that is, they would exactly express the social cost (i.e. value in Marxian terms) of goods and services. Thus the debate was not about the role and function of prices in the regulation of economy since this function had to be fulfilled exclusively by the central plans compiled on a physical basis ('plan targets' for individual enterprises were derived from them). It was about the mode of defining the social cost of goods, that is, how the centre of prices—to use the Hungarian technical term—should be worked out.

Since up to then the principles and methods of official pricing no doubt had comprised a great many irrational elements and distortions, the debate indeed promoted clarification of the substance and components of social inputs, above all the consideration of the engagement of assets (interest on capital) in price and other calculations, and in its wake the introduction of the charge on assets in 1964. Two fellows of the Institute of Economics, T.Nagy and Zs.Esze (1963) explained why pricing according to the pattern

of the Marxian ‘price of production’ was preferable to other proposals in CMEA countries. At that time Hungarian experts officially proposed to apply this pricing principle to establish independently of world market prices what was called the own price base of intra-CMEA foreign trade prices (cf. Csikós-Nagy, Jávorka and Schmidt 1963). But let us stress again that, originally, the price debate did not intend to change the role of prices in the operation of the socialist economy, it did not intend a revision of the conditions of management. The intention was to set prices that would ‘help’ the central agencies to make ‘proper’ (i.e. more efficient) economic decisions.

Quite different was the logic of a stirring article by *Tibor Liska* (1925–94) (1963). Formally, Liska made a contribution to the price debate. However, he did not propose any new kind of ‘price type’, but called attention to the irrationality of price types established by authority, that is, of the price debate itself. Every pricing pattern had indeed set out from domestic inputs (costs), and considered these as ‘socially necessary’ in an economy dependent for its existence and development on foreign trade and competitiveness on the world market. Hungarian economic policy—at least in its intentions and declarations—had already discarded the self-destructive concept of autarkic economic development in the party resolution of June 1953 and the programme of the first Imre Nagy government. In its price policy, however, it invariably supported—as was first shown by Liska—autarkic development and thus protected and conserved backwardness. Therefore, Liska demanded a revision of the whole approach within the framework of a general reform of the mechanism. What was so bold and innovative in his—then unheard of—proposals and critique?

- According to Liska, the socialist economy had to be guided by the world market and not developed in seclusion behind national frontiers, or else it would unavoidably fall behind in modernization, in technological change and in the level of productivity.
- World market orientation also had to determine the internal financial, pricing and other market mechanisms, including the need for a convertible currency. (To the best of our knowledge, it was Liska who first raised this problem in writing in Hungary.)
- The reform was to produce a consistent model of market economy (though the term was not used by Liska), in which administrative prices would be replaced by flexible prices adjusting to supply and demand, i.e. market-clearing prices; world market prices would not mean a new calculative (fictitious) ‘price basis’ but would actually assert themselves on the domestic market. Though not expounded in detail, one may conclude from several references that the author also wanted to subordinate investment activity, that is the allocation of investment resources, to maximizing profits, and to long-term efficiency criteria,

introducing competition among firms for the acquisition of capital resources. Thus, his approach markedly differed both from the unrealized ideas of the 1950s and from those implemented in the 1960s. It was much more closely related to ideas that emerged 10–20 years later.

### *'Plan' and 'market' debate*

The revival of the reform idea in Hungary—and similarly in some other centrally planned economies—was induced by changes in international politics and the internal economic situation in the early 1960s. In 1962 the Hungarian leadership put *Rezső Nyers* (b. 1923), a party official with an economic background, in charge to manage the preparation for an economic reform. Nyers invited—first in an informal way—many influential experts to take part in this work. It is remarkable that Nyers followed the pattern of the composition of the Economic Commission of 1957, chaired by Varga. Almost all of the persons invited had been involved with the Varga Commission and had belonged to the different parties of the coalition governments of 1945–7. Thus the principle of creation of a 'Popular Front' within a one-party political system was again observed. The actual preparation of the reform was carried on under the direct guidance of the party leadership.

In contrast to the literature in the 1950s, in the preparation period of the 1968 reform there was relatively little public discussion, and reform debates in the preparatory and decision-making bodies also concentrated mainly on practical problems and questions of detail. The decision on the reform itself was taken in two steps. The working panels formed after the December 1964 session of the Central Committee of the HSWP concluded the critical evaluation of the situation, and the basic conception compiled on the basis of their judgement was approved by the 18–20 November, 1965, session of the Central Committee. The then approved 'Initial Guidelines' (see Anon., 1968b) essentially determined the character and direction of the reform. The second step was the working out of detailed guidelines. This work ended in spring 1966 and the final decision was taken by the Central Committee at its 25–27 May, 1966, session. Thus, the reform introduced in 1968 had taken final shape already in May 1966. (This is why Hungarian economic literature speaks about a 1966 conception, instead of a 1968 one.)

Although there was no public discussion concerning the basic concept of the reform, decisions on its fundamental nature were certainly not free of arguments in the working panels. The most debated problem that had to be decided already in summer 1965, during the determination of the 'Initial guidelines', was whether the Hungarian economic control system should retain the directive form of a planned economy (striving, of course, to reduce the number of central plan targets, to coordinate them better, to

extend the rights of enterprises, to increase personal interests related to quality and efficiency indicators—that is, to proceed similarly to the reforms decided upon or proposed in most of the CPEs) or whether it should introduce an economic mechanism operating on the basis of a regulated market economy.

Even the three-member secretariat of the Mechanism Committee, headed by *Tamás Nagy* (1914–93), whose job was to compose a comprehensive draft, was sharply divided on this issue. So much so that the chapter on the national planning of the draft ‘Initial guidelines’ comprised two different variants prepared by the secretariat, containing the above-mentioned alternatives. The essential difference was that the first variant, written by Tamás Nagy and Péter Havas, considered direct government instructions—in particular mandatory plan targets—as exceptions in the control of enterprises, while the second variant, written by Tamás Morva, considered plan targets as elements of the substance of the control system, that is as its integral part, although it also wanted to considerably reduce the scope of mandatory targets, leaving greater room to commodity and money (i.e. market) relations and to economic regulation based on enterprise interests.

Those submitting the first variant consistently pointed out that the second variant was full of internal contradictions. If the impact of economic regulation relying on market methods (the importance of which was also acknowledged by the second variant) coincided with the main objectives of the economy-wide plan and with the interests of society, then it was superfluous to prescribe obligatory targets. If, however, there was a difference between the two—and the prescription of some of the mandatory targets, reduced in number, would obviously relate to this case—then the familiar situation would emerge that the central plan targets demanded something that was contrary to the interests of the enterprise. The solutions by which this contradiction was usually resolved were all too familiar in the Hungarian and international experience with the system of directive planning. The Central Committee accepted the first variant as a basis for the ‘Initial Guidelines’, that is, as determining the nature of the Hungarian reform. However, the final draft did not clarify unambiguously whether the replacement of mandatory plan targets by indirect regulators only meant a more flexible and thus more effective mode of implementation of central plan. Or did it also imply a change in the role, function and contents of central decision-making (i.e. the plan) and the method of working out the national economic optimum (i.e. the relationship between ‘plan’ and ‘market’).

This problem was formulated with unique clarity by *Béla Csikós-Nagy* (b. 1915). He wrote that the system of directive planning rested on the hypothesis that ‘the plan is a regulator encompassing every detail, its essence is the centrally computable national economic optimum and the mechanism

of plan instructions based on it' (Csikós-Nagy 1966:399). This view considered the market to be a necessary evil, to be tolerated only in the trade of consumer goods (and even there only transitorily). Initially, as Csikós-Nagy correctly emphasized, discussion of economic mechanism reform in Hungary wished to prove (and the 1950s should be included here) that the implementation of the national economic plan could also be secured by economic instruments, without resorting to mandatory targets. By the mid-1960s the debate was concluded in Hungary in that sense. But the idea of generally accepted indirect regulations was also based on the hypothesis that a centrally computable national economic optimum actually existed, and could be realized if enterprises acted under the impact of the well-established economic regulators and in conformity with them.

This theory considers the market as being essentially a technical transacting mechanism of the central plan, and it therefore sticks to the traditional interpretation of plan and market. It can be predicted that if the economic reform is implemented in this spirit, operative government interference must be regular. It is quite certain that under the impact of the economic regulatory instruments enterprises cannot act exactly as is centrally assumed by the plan (and particularly by its supporting computations).

(Csikós-Nagy 1966:400)

Csikós-Nagy also provided another kind of interpretation of the relationship between plan and market, which, indeed, also meant a different concept of the reform:

[T]he national economic optimum develops...on the basis of centrally planned regulation but actually is the final result of real market processes. It is thus quite possible that when enterprises react to the economic regulatory instruments, they do not reproduce the national economic plan in every detail. But this is not so under the mechanism of plan instructions either. The plan must therefore be revised from time to time in both systems of planned economy. The essential difference is that under the new economic mechanism it may be assumed that, when the market reacts on the plan, the former follows the central ideas. As a result, it essentially channels the economic processes towards the national economic optimum.

(Csikós-Nagy 1966:400)

Thus, according to this second concept, the market is an indispensable element not only in the realization but also in the determination of the national economic optimum. Which of the two conceptions of the

relationship between 'plan' and 'market', as outlined by Csikós-Nagy, can be considered as the basis of the reform of 1968?

The text of the 'Guidelines' of the reform, passed in May 1966 (Anon 1968a), allows both kinds of interpretation. If, however, we set out from the afterlife of the reform, the conclusion may be drawn that in practice the first reform conception was realized. That is, the system of plan targets was replaced by a huge system of economic regulatory instruments which could actually secure the implementation of the national economic plans, but the regulation of market relations through indirect methods was also coupled with regular and operative interferences by the central control agencies.

Analysts of the new economic mechanism (NEM) established after the 1968 reform agree that the abolition of the directive planning system did not lead to the development of any form of market economy (cf. e.g. Kornai 1986, Kornai and Richet 1986, Brus and Laski 1989). With the operation of NEM over more than twenty years a third kind (if you like, model) of centrally planned economy came about in Hungary besides the hitherto known Soviet and Yugoslav types. It was an indirectly controlled CPE, first of all by means of financial regulation. This system resulted partly from intended actions, but also from deliberately entered compromises, from the mistaken neglect of essential factors, and from unforeseen and unforeseeable international and domestic developments.

The financial indicators replacing plan targets laid down in physical terms helped to develop a way of thinking in terms of money, costs and profits (even though the size of the latter was centrally manipulated). Enterprises, i.e. enterprise managers, received a limited yet real autonomy; in other words, instead of being executors of central instructions they became decision-makers, since it was the substance of indirect economic control that influenced and manipulated their decisions. Thus the indirect system of economic control and management was, in principle, a useful lesson, an interim learning phase on the road to a genuine market economy.

### *NEM: where to go?*

However, the idea of a gradual movement towards a market economy while preserving the accessories of a party-state was actually never tested in Hungary. This was made impossible from the very first year of the 1968 reform by the worsening international conditions in Central and Eastern Europe (the military invasion of Czechoslovakia, violent suppression of dissent in Poland, etc.). In Hungary, the immediate continuation of the reform was struck from the agenda in the early 1970s.

Nevertheless, for a number of years economic research headed in the direction of the expected development of the economic system. The scholars raised the following issues:



- Investment decisions should be further decentralized, i.e. taken out of the hands of the central governmental bodies. This meant that reform should lead to the establishment of a kind of capital market in addition to the already established commodity markets. In a seminal article *S.Kopátsy* (b. 1922) (1969), senior researcher at the Institute of Finance Research, proposed the transformation of the state-owned enterprises into joint stock companies and the creation of stock and security markets (stock exchange). According to him initially twenty banks were to be entrusted with the stock management. Each of them would have held no more than 20 per cent of shares in a particular company. As one can see, it was a very early proposal for the transformation of the state ownership which only started in CPEs twenty years later.
- The monetary system in a trade-dependent country, like Hungary, should secure her integration into the world economy. According to Csikós-Nagy (1970) the long-range aim of the Hungarian economic policy was to make the Hungarian currency (*forint*) convertible. As two-thirds of the country's foreign trade were conducted with CMEA countries on a very specific, non-monetary basis, the progress towards convertibility would be stepwise. In fact, the realization of Csikós-Nagy's expectations took more than twenty-five years and became possible only after the collapse of the system of CMEA trade in the early 1990s.
- Not only the economic mechanism, but also the strategy of economic growth should be changed. This was the conclusion of a thoughtprovoking study by *F.Jánossy* (1914–97) (1969). Jánossy demanded the abandonment of the autarkic, Stalinist conception of quantitative (i.e. factor-intensive) economic development which created only a 'quasi-developed' economy putting out goods of low quality. He was almost prophetic when he argued that such an economy would not stand competition if exposed to the forces of the world market.

In the 1970s, when the further development of the reform stuck, the focus of economic research moved towards an analysis of the functioning of the peculiar system of CPE that had come into being. While pointing at those features of the NEM which favourably distinguished it from the Soviet-type CPE, Hungarian scholars pointed out the inner contradictions of the NEM. They amply discussed the obstructing impacts that resulted from the fact that the state-owned enterprises, although vested with decision-making autonomy, remained parts (more exactly, lower steps) of the hierarchy of central economic control and management (cf. Tardos 1972, Bauer 1976). It was discussed in the relevant literature only later in the 1980s, that the reform had not abolished the amalgamation of politics and economics and had not put an end to the interchange of economic and political criteria in decision-making. Having left the power structure of the party-state

untouched, the Hungarian reform blocked the realization of its ends—at least within the framework of the existing system.

## PART II. TRANSFORMATION AND HUNGARIAN ECONOMICS (1978–96)<sup>5</sup>

### From the market under socialism to market or socialism

#### *Introduction*

The year 1978 was a turning point in the fortunes of Hungarian socialism. The outer limits of the recentralization of that decade were reached. The 1973–7 attempt to ward off the impacts of the oil crisis proved to be a dead end. A year later, the second oil crisis shattered the remaining hopes of planners for an inward-looking strategy, based on improved traditional planning techniques and more intra-CMEA cooperation. The growth-oriented strategy, never questioned since the late 1940s, had been confronted with external and internal constraints. Externally, the Polish debt crisis and the second oil price hike in 1979 together made the debt-financed strategy unsustainable. Internally, the limitations of Soviet oil and gas supplies proved unsurmountable. Thus the limitations inherent in the policies and systemic options came into the limelight.<sup>6</sup>

This was a year when the 1968 reforms were rehabilitated at the political level. The internal dynamics of Hungarian politics in general and economic thinking in particular would have required—and actually did call for—the radicalization of reform attempts. It would have included those areas, which were consciously exempted from the 1968 reforms: the priorities and orientation of economic policies, the institutional system, the financial and foreign trade system, and last but not least, party control of the economy. Meanwhile, 1979 saw the Soviet invasion of Afghanistan, the collapse of import-led modernization in Poland. As the Solidarity period ended in the pre-emptive coup by General Jaruzelski on 13 December, 1981, the geopolitical constraints on Hungarian reform dynamics had become conspicuous. This explains the hysterical reaction of the authorities in response to the call for a second economic reform that would have encompassed ownership relations (Bauer 1982). This piece, written for and accepted by the official reform committee (CCER, see below) can, with the benefit of hindsight, be taken as the blueprint for the actual changes spread across the 1980s.

During this period the Kádár leadership was cautiously balancing between internal and external exigencies. In Hungarian economic policies the termination of additional Soviet oil supplies in October 1979 triggered a strategic change by Hungary's move to join the IMF, making the country's external dependence formally bipolar. This turn, as documented elsewhere

(Csaba 1995c), has become instrumental in shaping the balance of forces inside Hungary, turning them gradually in the favour of marketeers. IMF expectations were formalized in a systemic matrix.<sup>7</sup> This matrix contained a schedule for coordinated systemic changes to be instituted in the 1984–7 period in finances, taxes and import regime. Albeit the deadlines were finally not met, the propositions, coincided with much of what autochthonous Hungarian research had to offer. However, the authorities rejected the suggestions.

The radicalization of reform was a rejection of various fundamental qualities of the *status quo*: planned economy, CMEA orientation, self-sufficiency, the socialist qualities of the redistributory system, public property, central allocation of investments, price and wage controls, state monopoly of foreign trade and foreign exchange, and, last but not least, the reformability of the socialist model. Following the experience of 1956, 1968 and 1981, most authors tended to focus their criticism on particulars, not on the basics or the entirety of the system. However, both the implications of these increasingly sweeping criticisms and the coordinated fashion in which they could be articulated, resulted by 1988 in a nearly consensual professional view favouring a thorough overhaul of the model itself, i.e. systemic transformation replacing socialist reforms.

As documented in part I, Hungary never had a strong tradition in market socialism. The extraneous element has also been reflected in the lack of theoretical generalizations of the Hungarian model.<sup>8</sup> In fact, monographic treatises of this genre were written mostly by those who have remained outsiders to the given reform policies or periods. The first such attempt to generalize the 1968 model was offered by Tamás Sárközy (1973), a professor of law.

In a bulky volume published as late as 1979, a medium-placed official of Hungarian planning Ákos Balassa (1979:16 and 54) argued for the cross-country validity of the indirect planning model. However, by that time crisis management had started to dominate all formal(ized) decisionmaking structures (see below), and the theory did not sound convincing either domestically or internationally. Then Jenő Bársony (1989), a teacher of political economy, produced a more convincing case for the same. A fourth such attempt was written retroactively by an Englishman, Nigel Swain (1992), contrasting the Hungarian experience with the idealistic suggestions of Alec Nove on feasible socialism. Though many books and articles were written—also in English—on Hungary, on the NEM and later reforms, only the above four monographs attempted to offer a theoretical generalization, while others consciously avoided any such implication.

This pragmatism had been symptomatic of Hungarian thinking and reflected the compromise with the geopolitical status quo. The concept of economic mechanism had helped to promote what Germans term

*Ordnungsdenken* (thinking in orders). However, as some of the key policies were excluded from the areas open to publicly voiced criticism, the evolution into what may correspond to *Ordnungspolitik* (policy of economic order) was slow in the 1978–88 period. On the other hand, avoiding the hot potatoes allowed much further progress in understanding the bits and pieces of a free market economy. This has become manifest in the remarkable sustainability and stability of reformist policies over and across frequent changes in the government in the post-1986 decade.

### *The collapse of planning*

The external constraints and shocks of the 1973–81 period have rendered macroeconomic planning an empty shell. Leading officials complained publicly about it. The strong man of the Planning Office openly conceded the impossibility of managing the economy through any sort of plan, as well as the failure to relate plans with regulators, or even to create a congruous policy mix that could have followed realities flexibly (Horváth 1980:4). The chief economic policy-maker of the party (also a theorist of planning) rejected the idea of any longer range plan that could list all major policy measures or quantify main processes or define structural changes; planning was seen as a process of dovetailing competing claims for scarce resources (Hoós 1982:1305–7). This worldview was, of course, a far cry from the ideas of revisionist market socialists or even indicative planners.

This final settlement of the plan or market issue originated in a vast body of empirical research that confronted contemporary ideology with the realities of the 1960s and 1970s. Analyses of the banking system (Husztai 1981) in general and the investment sphere in particular (Deák 1978) proved the continued predominance of central, bureaucratic decisions, based exclusively on physical indicators or policy priorities, rather than considerations of return or efficiency in major investments, subsidy and credit allocations. Though not surprising in view of the totalitarian political structure, this was at open variance with the self-proclaimed ideology of the NEM. Likewise, profits did not orient investment decisions. Conversely, fiscal organs ‘secured’ the nominal profitability of investments, based on development programmes.

In theory, the 1968 reforms emancipated both the financial and the enterprise spheres from the bureaucratic tutelage of the plan. In reality, fiscal practices continued to be dominated by immediate policy concerns in more than one respect. As the monograph of the later finance minister Mihály Kupa (1980) documented, fiscal authorities could never counterbalance political leadership when major decisions on development projects, major parameters of the plan or economic policy priorities were concerned. On the contrary, by insulating Hungarian markets first from the artificial intra-

CMEA, later also from radically different world economic price signals, arbitrariness in fiscal management reached unprecedented degrees by the end of the 1970s. The monograph called for diminishing the economic role of the budget, especially for the abolition of income redistribution based on individual (corporate-specific) deliberations and ones due to price distortions and incomes policy.

As far as emancipation of companies was concerned, progress was limited to small and medium-size firms. Central party and planning organs continued to play an active role in shaping enterprise plans and not only in intra-CMEA plan coordination. The plan-jury was a formalized approval process of independent decisions of managers of larger units. Furthermore individual orders and even allocation of scarce inputs, especially imports, remained contingent upon party interference; companies often themselves insisted on the latter to minimize their risks (Lakos and Jánka 1979:144–7).

Of course, if officials were unwilling to draw conclusions, other analysts were not slow to make the remaining steps. Concluding his two volume monograph on three decades of socialist planning in the whole of Central and Eastern Europe, the seminal book of *Tamás Bauer* (b. 1946) (1981:536–8) proved convincingly that the unintended oscillation of investment activity is no less inherent a feature of the command economy than the business cycle is of market economies. Thus, contrary to the postulates of Keynes, Tinbergen and the various market socialists, government management of investment decisions has resulted in more, rather than less, fluctuation in economic activity, more rather than less waste of resources, less rather than more efficiency measured at world market prices.

This fundamental critique was reinforced by the work of Soós (1986), who analysed the post-reform Yugoslav and Hungarian economic systems in a comparative perspective. He asked about the efficiency of decentralizing market socialist reforms, and raised an issue that still counts among the evergreens of reform and transformation debates: the interrelationship between institutional reforms and financial restrictions. Surveying empirical evidence Soós (1986:488–94) found a strong positive correlation between the two. He underlined the basically political nature of the oscillation between pro- and anti-reformist cycles. He referred to several cases of retreat when intended, but actually never realized, radical projects were aborted by the resistance of the totalitarian political superstructure. Thus he pinpointed the need for open debates and public choices in making the pro-reform line acceptable. He also was the first to highlight the irreplaceable role of capital markets for fostering sound and continuous readjustment of economic structures at the micro- and macrolevels alike.

Two fundamentally dissimilar analyses round up the economic thinking of the turn of the decade. *The Economics of Shortage* by János Kornai

(1980) enjoyed probably the largest international echo ever achieved by any Hungarian economics book. The concepts of soft budget constraint, shortage economy, monetization and paternalism have all become part of the standard vocabulary. From our perspective, the basic strength of the analysis was its presentation of the command economy as a logically closed system, in which all subsystems and phenomena depend upon one another. This is why partial reforms such as price liberalization, delegation of competence or reorganizations of various sorts were, by definition, dead ends. Considering the fact that the latter were at the core of all socialist reforms of the 1960s, the 1970s and even the 1980s, this was not an innocent message. Thus Kornai highlighted the deeply rooted structural causes for non-reformability.

In a completely different approach *László Antal* (b. 1943) (1979) offered an original insight into the entire NEM period. Stepping into the footprints of the 1956 Kornai (see part I of this chapter), Antal gave a detailed account of the emergence of a bargaining society in place of the enlightened absolutism of Oskar Lange and W.Brus. Unlike Kornai, Antal stressed the fundamental role of the political and the institutional system in reproducing patron—client relationships in formally decentralized areas. The nature of political hierarchies was blamed for omnipresent economic irrationalities. If the description of Kornai (1980) was more in tune with standard Western perceptions of the command economy, Antal highlighted the lobbying powers of large enterprises and regional party organizations. His description was not one of rulers and servers, but of a power game of intricate mutual dependences and vulnerabilities.

### *Is neither plan nor market still a command economy?*

It would plainly be wrong to consider 1978 Hungary as yet another command economy. Imperfections inherent in any socialist reform model became manifest. And not least, Hungarian reality differed substantially from the ‘fraternal states’, not only in human terms—like availability of food, a relative observance of privacy, or some travel possibilities—but also in terms of the economic system, as explained earlier.<sup>9</sup>

In 1968 Hungary had made two giant steps, which the Russian government only ventured as late as September 1992: it abolished the compulsory indicators *in toto*, and it abolished the centralized allocation of inputs. Thereby enterprise management was exposed to the vices and virtues of independent decision-making in many walks of life. Most products, problems, situations and financial regulators are too small and too numerous to become the subject of vertical bargaining: they had to be taken care of at the local level. So, relevant enterprise behaviour changed, rendering it quite dissimilar to what conventional command economy microeconomics would have suggested.

This was established by empirical microeconomic research, which has become a unique and most productive field of critical Hungarian economics. Several authors, disenchanted from, or rather reserved against, official reform ideology produced interesting pieces describing Hungarian realities at the firm level. In an important collective volume (Tardos 1980a) Hungarian researchers stressed the wide variety of behavioural patterns that could be observed, which was at variance with the uniform centrally planned economy perspective. In the post-NEM decade, managers could opt for competing strategies of success, from more patriarchal to more independent-minded, more monopolistic or more competitive, eastward- or westward-looking. More independence often implied more managerial effort to get into sheltered CMEA markets, while getting rid of laborious and unrewarding Western sales. Large firms were instrumental in shaping the contents of central development programmes and intra-CMEA specialization, formally managed by sectoral ministries. New freedoms of auxiliary activities of coops also spread entrepreneurial behaviour, whereas others were successful in lobbying for more subsidies and in merging their subcontractors.

The plurality of successful entrepreneurial behaviour against a non-forthcoming environment was a main finding of Lányi (1980) as well as of the monograph on innovation by Laki (1979). The focal role of state organs in major investments required by major innovations was shown to have led to a false feeling of security, subsequent to failures in the real market environment. Competition, rather than company size, was shown to foster innovation success. The more the state was active in reorganizing firms and enforcing high-tech as part of its technology policy, the higher was the probability of failure of the new products in terms of sales. This finding was an indirect proof of the advances made in actual managerial independence.

But the growth in freedom was also perceptible at the level of the individual. Shortages were mild relative to those in other communist countries, and this enhanced consumer sovereignty. The individual could and, indeed, had to allocate his time increasingly according to his personal preferences to overcome shortages and stagnant real incomes. The second economy, first analysed monographically by Gábor and Galasi (1981) had become a mass phenomenon. It has actually moulded Hungarian society much more thoroughly than reforms in the post-1978 decade.<sup>10</sup>

### *State of emergency instead of a second reform*

From the fragmentary survey it should be clear why there was a strong professional case in favour of a second economic reform by the early 1980s, and why the political leadership adopted a much more cautious line. When in 1978, and again in 1981, external constraints triggered financial restrictions, which normally bode well for systemic change, the geopolitical

situation, as well as fear of the Czech and Polish type of political repercussions of economic reforms produced a very risk-averse official stance. With both the ideology and practice of macroplanning collapsed, the only way out, short of a second reform, was the reintroduction of a simplistic form of command management (as described in detail in Csaba 1983). This entailed an extreme form of centralization, in the hands of a government Economic Commission, headed by deputy premier József Marjai. This informal power centre overruled and dominated the entire formal decision-making structure. Although influential analysts, like Tardos and Nyers (1979), Antal (1983) or even Hoós (1981), were not slow in highlighting the dangers inherent in the approach, short-term improvements in the current account seemed to lend support to the 'firefighters'. With the benefit of hindsight, critiques have clearly been right in pinpointing the dangers of opting for solutions systemically inferior in terms of structure, dynamics and opportunities alike. The situation, however, has helped to discredit all the remnants of planning ideology and of alleged superiority of policy-led adjustments. This was the time when Kornai (1984) replaced the old plan and market dichotomy with the more pertinent bureaucratic versus market coordination, a formulation that clearly delineated ideological aspirations from power-centred reality.

With the imminent crises—current account and geopolitical—dispelled, the leadership gave in to some reform in 1983, providing an opportunity for dozens of actively and hundreds of indirectly involved economists to reflect upon the type of market they wanted and upon ways of transition to their target model.

The prime question was: Through what way, to what market? General answers were given in works by *Márton Tardos* (b. 1928) (1982), Bauer (1982) and Antal (1982), with their call for a second, more radical reform, rolling back the state and extending market coordination to capital allocation, valuation of corporate assets and to foreign trade. All these ideas went much further than the original NEM project of 1966. While individual representatives of this line of thought were limited to small-circulation journals, whose editors were often harassed or even persecuted, the Institute of Economics was commissioned to elaborate a comprehensive reform programme (IE 1983), and the Coordinating Committee on Economic Management (CCEM), an interdepartmental organ directly supervised by the party centre, continued to discuss intensively radical projects to be legislated from 1984 onwards.

The IE project launched an all-out attack on discretionary decisionmaking, both in the form of 'operative interference', orders, phone calls, as well as in the more traditional form of individualized, company- and sector-specific regulation, as practised in 1968–78. It declared the principle that in the competitive sphere only self-regulation of market forces is acceptable. It called for the simultaneous liberalization of imports and



prices rather than waiting for equilibrium to be restored through commands. It pleaded for investments to be allocated following profitability, via decentral decisions of firms, for abolishing wage controls and also for the emancipation of the private sector, not only of co-ops. Similarly, the pressure for exit (closures) was highlighted, as this allows for the market to clear: thus bankruptcy is far more important than the creation of any optimal industrial pattern. Analysts of the Institute also called into question the *rationale* of (limited) self-management of enterprises, as it was shown to be in conflict with maximizing asset value as well as with capital reallocation according to considerations of recoupment.

Policy-makers rejected most of the substance of the IE paper, retaining only some of its language. Contemporary adherents to the upcoming self-management school (Csillag 1983), recruiting themselves from the ranks of the young Turks of the Ministry of Finance, underlined the principles that in absence of a capital market only a social counterweight can protect the hard-fought managerial autonomy against bureaucratic arbitrariness, whereas state holdings tend to be misused by bureaucratic and political interest groups.

The final version of CCEM reform blueprint (Gadó and Varga 1984) was a serious disappointment, reflecting an all-out counterattack from the ideological wing of the party (Kozma 1982), as well as the anti-inflationary concerns of János Kádár. The compromise, struck for the April 1984 Central Committee meeting, proved much too elaborate, leaving all sides equally dissatisfied with the outcome. The more general part of the project was a rehash of the old regulated market model, where markets were a mere instrument, and major investment decisions were only influenced, but not guided by its feedback. This was, of course, an extremely backward position even by contemporary standards.

Both in home and external trade a very restrictive stance prevailed, justifying quotas, orders, administrative interference of any sort. Centrally set prices still covered nearly half of all prices, and bureaucratic wage controls remained in place. Most 'progressive' elements in the CCEM blueprint served to curtail current fiscal spending, while leaving the systemic features intact. Three areas indicated some progress. (1) Banking reform was launched, accepting a two-tier banking system and parliamentary control over money supply targets to be elaborated by the central bank. (2) The idea of maximizing asset value was mentioned for the first time ever in an official document (p. 105–6). (3) The formation of enterprise councils with the right to elect managers was approved. It was a politically expedient, though economically ambiguous step.

### *Radicalization amidst political stalemate*

The strange deal was well-reflected in a position paper by the two leading personalities of the CCEM, Pulai and Vissi (1984), bringing a new

medium-term reform project to the fore. It contained important deadlines—such as 1987 for the introduction of a new system of taxation, similar to that of the EC countries. Furthermore, it contained important new elements going way beyond the confines of the CCEM project, dated only six months before. Some features mentioned were a demonopolization drive, delineation of legal, market and ownership control, as well as the issue of capital markets.

It would be hard to comprehend this swift change of mind without the widespread feeling of a crisis. This had to do with the loss of perspective; clearly, the writing was on the wall for a regime that had pacified its citizens by buying them out with constantly, though modestly, growing living standards. And 1984 was already the sixth meagre year. If new growth prospects had been around, a sigh of relief could well have been heard. But this was not the case. The chief planner (Hoos 1984:16) was quite plain in stating that recovery of domestic demand could not be expected before the 1990s. This meant the drying up of the base for the post-1956 social compromise. Others (Nyers and Tardos 1984) contended that there was an alternative available, if systemic reforms had proceeded more radically than envisaged in the CCEM paper. This, however, would have called into question ‘proven’ ways of controlling social consequences of economic processes, like price and wage controls, entry and exit of firms, the monopoly of foreign trade and centralized money management—precisely what the party disliked the most.

The fundamentals of economic policy were often questioned in the literature on foreign economic relations. However, Kádár (1984) questioned the rationale of contemporary policy priorities *in toto*, when he proved that considerations of supply security, the priority of the primary sectors, aiming at technological invulnerability were all at odds with main tendencies to be observed in successfully adjusting developed and developing countries. He stressed the relevance of joining the multinational inter- and intrafirm networks, especially in technologically more advanced subsectors, for R&D, product development and for market entry. This added up to a full-fledged horizontal attack over the whole policy front.

In a much quoted monograph, Antal (1985a:146–66), synthesizing his previous findings, came to an integral vertical critique of economic policy. He talked about regulatory illusion reigning among those on the commanding heights and highlighted the role of invisible, interest-related mechanisms of decision-making. In a second part he presented the NEM in general as an illusion, where some softening up occurred, but its major principles—like tying incomes to profits, or applying generally valid financial rules—had proved to be impractical. In a third part he identified minimizing of strains and frictions, rather than any idea or model, as *Leitmotiv* of the system, where restrictions only breed new restrictions, and even all the remnants of rationality are lost. With no increments to be

redistributed, economic policy has reached its outer limits, as there was no room left for it to influence actual processes in any significant way. This rounded up to the view of a dead end, with the system heading for implosion, without any external influence, following its own logic.

What Antal presented as a postulate, Szegvári (1988a) established as empirical evidence. Analyzing the 1979–86 period, he talked about an implicit economic policy to denote actual priorities which were only loosely related, if at all, to formalized procedures, plans, policy documents and other fancy inputs of classical sovietology. The complete decoupling of formal and real powers and policies, the growingly irrelevant regulatory and policy-forming rituals, as observed by an insider of the supreme planning organ, were clear signs of decay in the macrostructures of over-ripe socialism.

In this overall looming of crisis, analysts turned to empirical research, as mentioned above, or to elaborating what a well-functioning market economy would require *in concreto*. A later minister of finance, writing together with a later governor of the Central Bank, offered a historical and logical overview of the evolution and role of money and markets in the modern economy (Bokros and Surányi 1985). This historical survey proved the qualitative superiority of markets as a coordination mechanism over any other, especially bureaucratic, forms. The second part addressed what the authors saw as the fundamental flaw of a market economy, inflation. They underlined the analysis of Kupa (1980) by stressing the rigidity of any fiscal commitments and disputing the existence of a ‘natural’ deficit which could and should be tolerated, as it is likely to produce only higher inflation and not higher output (Bokros and Surányi 1985:280–89), and concluded that a restrictive (neutral) monetary stance is a precondition for external equilibrium to be sustained, and for adjustment to accelerate.

Analysts of the Institute for Financial Research (Asztalos *et al.* 1984) highlighted the need to regulate macrodemand through money supply, which, in turn, presupposes an independent central bank. Only asset valuemaximizing, freely operating financial institutions, not serving any fiscal or sectoral purposes, qualify as commercial banks. Such measures require that no physically predetermined plan or developmental project be automatically financed, and that legislation can set limits to monetary financing.

This line of thinking had to be generalized and extended well beyond the financial sector. Not only financial institutions, but the entire corporate sector has to adopt the objective of asset value maximizing, which is something different from profit maximization year by year, as stipulated by the NEM model (Antal 1985b). In the same line, there is no sense in treating separately current and structure-determining decisions, i.e. the foundations of centralized investment management are gone. This prompts the question of freedom not only of entry, but more so of exit. Hence small wonder that official working documents of the CCEM openly discussed Western-style

bankruptcy arrangements as a means to manage enterprise crises in a decentralized manner (Matolcsy 1984). Consequently, legal experts were not slow in elaborating a bankruptcy legislation modelled on rather soft West European procedures. The law took effect from August 1986 and influenced mostly small and non-state firms. Dramatic market changes did not take place (similar to post-transformation experiences in many other countries). Authorities tended to discourage any case that would have involved larger units and, on occasion, they bailed out large ‘political’ firms.

### Reforms beyond socialism

From the mid-1980s Hungarian economic thought evolved in four main directions, covering the organizational system, financial sector reform, property rights and foreign trade orientation.

#### *The futile quest for optimal organizational patterns*

The organizational system remained one of the taboos in the post-NEM period. It was common knowledge that the monopoly system, created by the 1962–4 centralization campaign, had been a serious impediment to generalizing market-type behaviour. Nevertheless not much has happened other than marginal steps, like merging the three industrial ministries into one department in 1980, or merging the external and home trade ministries in 1986. As the contemporary best-selling account of an insider, Tamás Sárközy (1986), explained in detail, two major streams of thought emerged in the reformist camp. One group—including Sárközy—saw sectoral organs and party control as the greater evil. In order to restrain it by a centralized functional governmental pattern, the group was ready to compromise with ‘socialist industrialists’. The other group, rallying around the minister of finance István Hetényi, tried to break the backbone of the lobbyists first. Therefore they supported financial sector reform and small-scale entrepreneurship.

The second line of reasoning capitalized strongly on the aforementioned anti-trust ideas of the CCEM and initiated a centralized deconcentration drive against the large conglomerates. Whereas the first group was thinking of a *Treuhand* model, i.e. a ministry or a national property fund, the second supported small business and deconcentration, i.e. competition from below. The first group saw concentration as an objective trend of modern industrial organization in any sector; the second (Csillag and Lengyel 1985) highlighted the role of small business and competition, both for societal and economic considerations. This was a clear break with the NEM having tolerated the auxiliary activities of co-ops, or even with its 1981 edition tolerating the same for industry and services: it was a call for new and potentially dangerous entries. In reality, centralized initiatives foundered, while new initiatives, partly in the second economy, flourished.

*Early reforms of the financial sector*

In the second area, financial sector reform, progress was rapid, self-propelling and linear. Banking reform and many of the institutional changes that make monetary policy meaningful, was accepted in the ever more forthcoming official stance. The 1984–5 growth acceleration attempt was in defiance of both the IMF and domestic reformists. The collapse of this course by 1986 had automatically strengthened the latter. Authorities had to be more attentive to IMF advice, which was asking for the measures listed in the 1984 matrix. Meanwhile, the previously surveyed domestic analyses were also stepping up pressure to proceed with financial sector reform as the only way to improve allocative efficiency and to generate growth under hardening external constraints.

Following the twists and turns of bureaucratic infights and overcoming the resistance of the Central Bank, a two-tier banking system was introduced, by severing the sectoral directorates of the National Bank and turning them into three independent financial organizations. As the contemporary description of Bácskai (1989) indicated, these were burdened with old debts and forcibly allocated clients, heavily undercapitalized in terms of infrastructure and human resources, and operating with a less-than-free price system distorted by proliferating subsidies. It is not very surprising that architects of the change such as Bokros (1987) clearly stated that conditions for business-like behaviour had not been created yet, as guidelines for credit policy continued the old practice of breaking down plans.

The banking reform did not enhance the transition from an ever more radical socialist reform to a model of private capitalism with no governmental control over resource allocation at the macrolevel. This finding was supported by a monographic description of the post-reform bank and credit system in Hungary, blaming it for the lack of a long-term capital allocation mechanism (except for the plan) (Antal and Várhegyi 1987). The latter, in turn, explains the institutional rigidity of supply in the longer run. The book offered a detailed list of the variety of methods by which the function of profit- (recoupment)-oriented capital reallocation was to be substituted in the Hungarian practice of 1967–87—in vain. Simulation proved to be a dead end (and this equalled the death sentence to any form of market socialism).

*Private property*

It is in this context that the obscure scholastics of previous decades on the property issue gained in significance. Under the geopolitical constraints of Hungary both private property and real self-management were non-starters. Meanwhile, debates over co-ops and small business often were sheer reflections of contemporary Soviet vigilance. With the introduction of

enterprise councils in 1985, bankruptcy legislation in 1986 and commercial banking in 1987, ownership developed into a serious issue, affecting power and the rules of the game.

The internal logic of theoretical evolution coincided with the geopolitical emancipation of the country. Therefore it made increasingly good sense to address the previously untouchable fundamentals. In a book published by the party press, Sárközy (1987) discussed not only his pet idea of a *Treuhand-type* supraministry, but advanced the thesis of the corporation being a politically neutral form of enterprise organization. As the thesis remained uncontested and the author soon became the mastermind of economic legislation, this paved the way for the massive corporatization of Hungarian companies, two years before true privatization was put on the political agenda in 1990. It was, of course, a vital step on the way to transforming the unsophisticated socialist enterprise into a body subject to commercial law and later, by implication, to commercial deals.

The earlier quoted radical reform proposal of Tardos (1986) had already called for complex market regulation on all commodity and factor markets alike, which makes sense only under a predominantly private property regime. Capital markets and asset value maximization are also truly capitalist institutions and objectives. Such arrangements switched off the heart of the socialist model: centralized investment allocation decisions. Finally, the article of Kornai (1990a) was crystal clear in stating that if one opts for market regulation on efficiency grounds, as the vast majority of Hungarian economists did, it also implies an option for private property and capitalism.

### *Trade liberalization*

Both the 1966 NEM and the 1984 CCEM projects contained a series of politically motivated compromises with the traditional command economy model. On the one hand, a small open economy is by definition unfit for central control. Being embedded in the Soviet empire, on the other hand, still made a vertically integrated and closely controlled polity imperative, involving a centralized foreign trade and exchange system, irrespective of its economic irrationality. Should this iron law not be observed, the command system collapses—as could be observed in Hungary 1989–90.

Retaining a series of debilitating brakes on foreign trade implied limits on the scope of market coordination both at the macro- and microlevels. In part this was justified by the unreformed CMEA mechanism. But with respect to the theoretically more relevant Western part, the 1966 NEM opted for the use of an average instead of a marginal rate of exchange with the resultant plethora of levies and subsidies, not to speak of continued reliance on quotas and licensing and an arbitrarily structured customs system (operating from 1973) (Kozma 1981).

Such sorrowful backwardness of practice coexisted with a colourful, critical, stimulating and radically progressive stream of theoretical writings. *Béla Kádár* (b. 1934) (1979) contrasted the whole philosophy, system and policy of the socialist world to the post-oil-crisis realities of the industrial countries. The comparison highlighted the antiquated qualities of ‘the most advanced mode of production in the history of mankind’: a one-sided emphasis on heavy industries, neglect of technology, informatics and electronics, i.e. the driving forces in the modern age, and cultivation of a societal environment positively harmful to the most dynamic elements of international competitiveness. Import-substituting policies were blamed for the fiasco. Kádár warned of the cumulative lagging behind inherent in the structural priorities of socialist industrial development and aggravated by its defensive, import-substituting answer to the oil shock.

These findings were supported and complemented by *András Köves* (b. 1938)(1980) analyzing the consequences of the international interdependence of socialist countries, especially Russia and Hungary. The book emphasized the impossibility of maintaining a seclusive policy stance, despite post-Afghanistan animosities, stressing the structural dependence of Russia on the West. It highlighted the dire consequences of importsubstituting policies in general and of intra-CMEA self-sufficiency grand projects in particular. These policies were blamed for the ongoing erosion of the terms of trade, as well as for the reproduction of external financial disequilibria.

Autochthonous interests, not only Soviet pressure to reproduce the shadow world of the CMEA, had important bearings on how Hungarian economists viewed the functioning of the economic system and the available policy options. Looking at the comfortable world of the CMEA, Bauer (1979) concluded this environment to be hostile to innovation. Tardos (1980b) dispelled the myth of the 350 million people strong CMEA market, pointing out that it was segmented by bilateral trade relations, and further split by hard and soft commodity groups. Its nature was shown to have been hostile to markets outside of it, using them as a training ground for companies trying to enter truly competitive markets. In another article, Tardos (1980c) pointed to the disruptive consequences of financial restrictions in a non-market environment. He further elaborated on CMEA stability, producing a vicious circle for competitive corporate behaviour. The objective of monotonous profit growth, together with a one-sided emphasis on economies of scale, made management hostile and suspicious of any cycles and uncertainties inherent in the international market.

Tardos’ finding was supported by the monograph of *Sára Pásztor* (1983). She laid stress on the intimate interrelationship of autarkic tendencies, inward-looking policies and the hierarchical structure of the economic system. She underscored the tendency to reproduce outdated patterns because of the strong interdependence among the individual elements of the

chain forming its subsystems. Thus one link becomes the reason for the other in the next round, and partial reforms are derailed. In a likeminded monograph Csaba (1984) spoke of the dead end of the CMEA for Hungary in two respects. First, integration arrangements could not be improved owing to the nature of bureaucratic coordination. Second, the evolving crises remained covert and nurtured the illusion of stability at a time when the seeds of irrevocable decay had already been sown, not least by the non-adjustment to the new trends in the world economy.

In a no less important debate, the role of foreign direct investment (FDI) was discussed. Once regional seclusion is overcome, the question of dependency arises due to the intrafirm division of labour of multinationals. The discussion—as summarized in Krasznai and Laki (1982)—rejected traditionalist fears and laid the foundations for a basically forthcoming public attitude to FDI, as elaborated with full vigour in the habilitation thesis of Inotai (1990). The change in the general way of thinking proved quite relevant by the early 1990s, turning Hungary into the only transforming country conducting a fully-fledged open door policy *vis-à-vis* FDI. It helped Hungary to opt for a transformation strategy with foreign savings assisting the modernization of industrial white elephants. Thereby it managed to overcome what a large part of the theoretical literature views as the major bottleneck in transition to private capitalism: the lack of domestic savings to finance privatization. It also may partly explain why non-conventional privatization techniques never enjoyed popularity among Hungarian economists, for the problem to be addressed by these was (rightly) seen as non-existent under Hungarian conditions.

The analysis was reinforced by the increasingly futile attempts of Hungarian authorities to rely on the CMEA, rather than the West, in order to avoid the painful adjustment to new realities. As Köves (1984) convincingly established, the hopeless fight against realities had led to an ever-growing dependence on the stagnant, ossified Soviet market, even more on the export side than on the side of import supplies. This mistaken policy not only wasted a decade, but made the inevitable adjustment and reorientation more costly than otherwise would have been the case.

### *Emergence of the shock versus gradualism debate*

It would have been surprising under the conditions of senile socialism, if the ideological vigilance of the mid-1980s had not spilled over to the economics profession. In his inaugural speech as a member of the Academy of Sciences, a professor of the Party High School (Hoch 1986) launched an all-out attack on the evolving mainstream of opening up the economy. He was the first to attack as ‘monetarists’ those who prioritized market equilibrium and a policy of turning to the world market.



Probably it is more the *Zeitgeist* than the intellectual substance which explains why such rather uninspiring ideas had triggered a heated debate spread over more than two years. Constraints of space limit us to recall only two representative views. A leading trade theorist, unsurprisingly also an important person in the liberal camp, produced a wittily written critique (Nagy 1986). Surveying the relevant international and Hungarian literature he pointed to Hoch's ignorance of it and also of more recent country evidence favouring export-led open-door policies. Seen from today's perspective, *András Nagy* (b. 1926) can be called the first 'shock therapist', three years before Jeffrey Sachs entered the East European scene. True, Nagy refrained from such ideas as big leaps in institution building, so typical of true shock therapists, but he urged radical measures to be instituted in a single package.

The counter-arguments were best advanced by Iván Szegvári (1988b). Also a trade theorist by training, this author rejected the pseudo-theoretical argumentation of Hoch, but he also contested the position of Nagy, blaming him for drawing immediate policy conclusions from rather abstract theories. He elaborated the view in which it is not the objective (of an open economy) which really matters, but the way in which one gets there. The latter is bound to be stepwise, via compromises. In his article Szegvári gave a full list of arguments favouring what two years later became known as a gradualist transition strategy.

### Transition to capitalism

Having surveyed the substantive features of reforms transcending socialism, it does not come as a surprise to learn that the transition to capitalism in Hungary was smooth. In many ways it was economic reforms which were spilling over to the political sphere. The first such occasion was the muchquoted policy platform, 'Reform and Turn', originating from late 1986 (Antal *et al.* 1987). This was the time at which the first opposition protoparties emerged, which were, at this stage, partly still overlapping. Thus the major conflicts arose not between the reform socialist government and the opposition, but among various tendencies within the opposition. In concrete terms it meant that official, semi-official and oppositional economic platforms (cf. Laki 1991) were simultaneously elaborated, often by the very same personalities. This ensured a lack of major twists and turns in the transition process, in other words the sustainability of the overall line of market transformation.

The real breakthrough was reached by autumn of 1988, when officialdom faced the sinking of the Soviet Titanic and adopted a policy of fleeing it. It implied trade in convertible currencies, i.e. getting out of the institutional strait-jacket of the empire. It also implied the adoption of a reform model (Government document 1988) emancipating private property and

liberalizing trade and all factor markets. Through reforming the role of government, cessation of annual planning was envisaged and the use of taxation for social policy purposes was to be discontinued by the introduction of a single-rate VAT (Hetényi 1988). Fiscal reform projects also covered social security reforms. However, 'Kádárism' lasted too long, and the outgoing governments were (rightly) feeling too fragile to address this explosive issue seriously.

### *The organic way to transition*

A less bumpy road was to take up and resolve problems so that issuing new or modified legislation did not trigger immediate resistance. This included a three-year programme of gradual liberalization and, above all, it included the corporation law and the transformation law, opening the gate wide to spontaneous privatization. In this process impersonal public property had been transferred into private hands, mostly of insiders. The rationale of the process, as explained by Matolcsy (1990), went as follows: no privatization can be successful against corporate management. In many ways incumbent management and the outgoing *nomenklatura* were the only agents able and willing to exert governance, combine factors, and restructure ailing companies. By the late 1980s Hungarian corporate bosses ceased to be clerks merely taking and transmitting commands. They had evolved into independent-minded, autonomous and very innovative business executives able to adapt to local conditions much of what Western business economics had to offer (Lányi 1988). Public outcries against the process did lead to setting up the State Property Agency and to adopting a law on the protection of public property in May 1990, the last days of the Németh government. The new Antall government was unable either to stop spontaneous privatization, or to offer an alternative, or even elaborate its professional criticism.

Such criticism came mostly from the established profession, blaming the reorganizations for not having produced real private property (Móra 1991), for not having created efficient corporate control, for the lack of making the new owners risk their own property (Voszka 1991), and for the neglect of clear definitions of property rights as well as competition in contestable markets (Somogyi and Török 1993). Although the Antall government aimed at more centralized control over the process and declared its priority to be the creation of a middle class by a variety of methods (Anon. 1991a), reality turned out to be different. As several analysts (Voszka 1992, Mihályi 1993) have demonstrated, the underlying spontaneity of the process, the persistent dominance of corporate management *vis-à-vis* any privatization policies remained manifest throughout the post-1990 period.

Various cross-country analyses rightly identified this remarkable stability as a peculiarity of Hungarian transformation, spontaneously evolving

ownership changes remaining predominant over all forms of social engineering attempted by the government in the framework of its changing privatization policies (Major 1993, Mihályi 1994). After the shocks of 1918, 1944–9 and 1956, Hungarian society was fed up with any sort of social engineering. Retrospective surveys of the economic programme of democratic parties (Laki 1991) as well as of professional controversies (Major 1991) snowed a remarkable consensus on this point, boiling down to the rejection of any radical proposition. The cooperation of official and unofficial advisers also had a similar effect.

This explains the mixed reception to János Kornai's new bestseller (1989), establishing a platform of radical stabilization *cum* privatization policies. The book summarized what we may call the mainstream of first-generation Western thinking on systemic change. It pleaded for radical disinflation. In so doing, it contradicted the official reform strategy stressing structural change first, foreign equilibrium second, and taking a 15–20 per cent rate of inflation for normal (Berend 1989:131–5 and 145–8). Following the vision of his earlier writings, Kornai's understanding of enterprise behaviour and corporate management was quite different from the microeconomic approaches surveyed above. He saw the active role of 'socialist entrepreneurs' as a much more contentious issue than the contemporary Hungarian professional mainstream. He was proved quite right by the outcome of the 1990 elections, which produced a victory for the brand new centre-right forces, united only by their disapproval of the spontaneous ownership changes described above.

Some propositions of Kornai's book produced widespread controversy. Commentators noted that it was impossible to introduce dual-track regulations, separating public and private companies, because corporate and transformation laws, as well as the growth of the non-state sector, made a dividing line between public companies, to be tightly controlled, and private enterprise, to be set free, rather ambiguous. There was also widespread disagreement about the need to undertake a 'stabilizatory operation' as proposed by Kornai. All this criticism notwithstanding, *The Road to a Free Economy* was the first open platform advocating fully-fledged private capitalism at a time when most democratic parties were still a long way from stating this point clearly.

While sharing the more abstract reasoning, as well as the objectives, of *The Road to a Free Economy*, the best experts of the outgoing administration (Antal *et al.* 1990) emphasized the crucial role of liberalization and deregulation for the market order to evolve. Another group of theirs (Vértes and Kardos 1990) blamed the stalemate due to ossified interest structures for the lack of a breakthrough of a similar platform in 1987–9. But the situation since then had fundamentally changed due to the collapse of the party-state in Hungary in 1989 and the collapse of the Soviet Union two years later. It was their links with the old power

structures that left the most influential lobbies vulnerable and allowed the maintenance of a twin policy of liberalization and a stringent monetary and fiscal stance. This happened amidst administrative and ideological chaos produced by a government that had adopted an outright *dirigiste* ideological position (Csaba 1992).

### *The controversy over the design of capitalism*

However, when the first democratically elected government came to power, the situation was not clear yet. The Hungarian Democratic Forum (HDF), the supreme governing force throughout the 1990–4 period, had adopted the slogan of a social market economy without being specific about it, without even having a clear concept of this objective.<sup>11</sup> For the HDF it did not mean a primarily liberal economy with social support for the weakest, but, by and large, the rejection of the idea of shock therapy and of an American-type wild-west capitalism. The need to rely on something prestigious and proven (i.e. marketable to a conservative electorate) derived from the fight on two fronts of the new Premier, József Antall. On the one hand, he felt the need to dissociate himself from the liberals; on the other hand, he had to dissociate himself from the original third-road/market socialist platform of his own party's *Lakitelek Manifesto* of 1987.

All these theories had a rather limited impact on policy-making. Formation of the government proved possible only thanks to a separate deal with the major opposition force, which enabled Antall to marginalize his more radical coalition partners. However, this happened at the cost of perpetuating infights within his own team, rendering any major policy reform next to impossible. The unfortunate attempt by finance minister Ferenc Rabár, a political newcomer, to abolish all subsidies at one stroke triggered the taxi drivers' blockade, the only major civic unrest ever since.

Such circumstances were clearly hostile to social engineering of any sort, and convinced the government to step into the footprints of its predecessor. This happened by the adoption of a three-year economic programme (Ministry of Finance 1990) containing only a third of the original (August) subsidy cuts. The programme clearly rejected reprivatization, the single issue of the governing Smallholders, it called for full liberalization of wages and exports, and, in an obscure language, it postponed all measures that could cover, even in part, social security reforms. Interestingly, when the new finance minister Mihály Kupa, the founding father of the 1987 tax reform, took over, the same programme basically survived. The only significant difference was that in the final edition (Anon. 1991b) legislative measures came to the fore aimed at institution building. But these also gave way to muddling through policies within a few months.

It is interesting to observe the ongoing decoupling of professional debate from political polarization. It produced a unique situation in

Hungary, in which political groups and economic schools hardly overlap. This feature has become manifest since the July 1994 formation of the centre-left government. The latter's backbone, the Socialists, adopted a basically neoliberal stance in line with OECD practices. Meanwhile, not only the populists, but also the moderate right continue to go out of their way to protect the remnants of the socialist welfare state. This incongruity surely counts among the peculiarities of the Hungarian intellectual landscape. But it is remarkable that a multiauthor volume, giving a cross-professional overview of how Hungarian economists viewed the transition phase of 1988–92 (Székely and Newbery 1993), still testified to a *Grundkonsens* in all major issues. True—new—differences showed up when such questions as to what capitalism, by what way, at what price emerged.

### **Which capitalism? The (re) birth of intellectual currents in economics**

It would be quite absurd to conclude this survey by offering one particular vision of a target model. For brevity's sake we shall group and label authors corresponding, by and large, to Western policy parlance. Thus we disregard self-categorization of the authors themselves. Due to the swiftness of changes and their acceleration, schools in the established sense of the word could not emerge with institutions, leading figures and admission procedures. Correspondence to Western equivalents was also hard to establish in most cases. However, providing some policy orientation for the reader may, at this time, be more important than semantic incontestability.

The transitory phase was such that the neoliberal mainstream could not but dominate the scene. With time passing, an ever-growing number of scholars started to ask about the price to be paid for the free economy in terms of output, employment and human conditions in general (see, for example, most recently Szamuely 1996). Obviously under the strong influence of the Economic Commission of Europe, analyses assessing transition costs as too high were elaborated. Consequently, calls for an anticrisis, growth-generating policy, laying more emphasis on the social components of change have emerged. And this is what, in policy terms, Keynesianism has been all about. Whereas the more orthodox version is still in favour of expansionary governmental policies and controls, the modern version takes stock of the multitude of dangers inherent in inflationary policies, and integrates monetary policy and theory into its framework.

Old-fashioned Keynesianism was first advocated by Hoch and Radnóti (1989). Riding the tide of dissatisfaction, the impressive public speaker Kopátsy (1992) was the next to launch an all-out attack on 'idolizing' antiinflationary concerns at the cost of everything else. In another article

(Kopátsy 1993) he blamed the entire mistaken concept of 'monetarism' for what he considered as a dead end for the Hungarian economy. Others also advocated expansionary policies on theoretical grounds to get out of 'depression' (Mandel and Szombathelyi 1995).

The more modern version of Keynesianism appreciates the grave dangers of fiscal overspending and of sustaining inflation. It tries to integrate deficit cuts with the objective of avoiding a credit crunch (Erdős 1992), it recognizes the existence of crowding out as an objective phenomenon dangerous to any recovery (Erdős 1993:18–22), and it underlines the fact that fiscal expansion, on its own, is counterproductive. It is the rate of investment which needs to be augmented (Erdős 1994). Köves (1992) highlighted the loss of output and employment as the single most important feature of economic transformation region wide. The approach developed into tolerating selective discretionary and administrative tools as anti-depression means (Köves 1994:162–3) and it rejected the aspiration to remodel the welfare state over and above inevitable fiscal corrections (Köves 1995:41–3, Augusztinovic 1996). This line of thought discards the concept of twin deficits and, therefore, finds the curtailment of domestic consumption in order to improve the current account unjustified (Oblath 1996).

The neoliberal camp in Hungary is certainly more institutionalist than monetarist, which would sound odd in Britain or in the United States. But this orientation has to do with the nature of transformation which is, to a great extent, about institution building. Kornai (1992) was among the first in the international transition debate who called attention to the time dimension of change. It leads to lasting fiscal deficits<sup>12</sup> in the course of transformation, as expenditure cuts are difficult in times of recession, whereas the recovery of government revenue is contingent upon recovery of economic activity, which takes time. The approach stresses dissimilarities between the fall of output in the post-Soviet era and cyclical recessions or even depressions in the West. In an influential article Kornai (1993) listed a number of factors that conditioned a specific transformational recession and that are partly structural, partly due to hardening the budget constraints and partly due to reorientation as well as to market exits. In other words, these all reflect a fundamentally healthy process rather than a crisis.

The neoliberal camp, understandably, conducted an all-out war on the centralization tendencies emerging under various governments in the name of a variety of ideologies. Lányi (1995) criticized the lack of deregulation both as a theoretical guideline and a policy issue, as over-regulation lames entrepreneurship more than taxation or recession. Attempts by the government to centralize control over privatization were compared to planning, and the state property holding company to the old planning bureaucracy (G.Karsai 1993). Others ridiculed initiatives to orchestrate

industrial policies as attempts by a superfluous bureaucracy to regain its lost *raison d'être* (Csillag 1992). In a very successful monograph Éva Voszka (1995) described the political and bureaucratic foot-dragging that evolved in the privatization agencies in their fight against financial organs and sectoral ministries. By contrast, as Judit Karsai (1994) explains, industrial reorganization programmes were thinly veiled attempts by the bureaucracy and the management of ailing firms to postpone privatization and, later, to avoid it altogether.

While officials justify the ways and means of bank consolidation, i.e. a centralized bailout operation on grounds that are familiar from international banking literature (Balassa 1996), the neoliberal camp, in a similar vein, points to the moral hazard and remains critical of the bureaucratic arbitrariness and the lavish use of taxpayers' (in larger part, future generations') money (Király 1994, Köbli 1994). Following the change of government in 1994, the neoliberal camp remained in professional opposition, i.e. in disagreement with the style and substance of government practices. The government was criticized for acting bureaucratically in an atmosphere of favouritism and campaign. It did not let privatization evolve following business considerations and did not ensure transparency (Csillag 1995).

Two more subjects figure prominently on the neoliberal agenda. First, attempts are made to build a bridge to the mainstream and operationalize its findings for Hungarian conditions. The monograph of Pete (1996) is the first comprehensive attempt to perform this function on the level of economic theory, while Csaba (1995b) is a similar attempt to interpret the OECD/Washington consensus on the level of theory of economic policy. Second, as fiscal reforms largely overlap with social security reform, the concomitant rewriting of the Social Contract, this long postponed issue, came to the fore. Kornai published two major articles on the issue. In one (Kornai 1996) he discusses fiscal cuts in terms of paternalism versus growing freedom of choice, a point that has been completely neglected in public debates. In a related, more comprehensive account (Kornai 1995/96), he asks about the limits to consensual change in a myopic society. The piece quite bluntly states some of the practical tradeoffs that are hard to reconcile within a liberal worldview. Presenting a more formal (standard Western) argumentation, Csontos (1995) calls to attention the fiscal illusions misleading the public in more egalitarian systems. Implicit costs/debts as well as future burdens remain regularly covert and systematically underestimated. This causes a public misperception, viewing reforms that bring the choices and tradeoffs into the open as frontal attacks on the remnants of solidarity and social justice.

Mention should be made of transformation studies which are not at all as numerous as one could have expected from a pioneering reform country. Adding to the already quoted items and findings, Kádár (1994) highlighted the need for a redefinition of the role of the state with respect to

internationalization, growth promotion and organizing the catch-up potential. Greskovits (1993, 1995) did pioneering work in the light of a new comparative political economy, trying to understand the interaction of economic and political factors in assuring social acceptance of radical market reforms. He stressed the limits of spontaneous protests and wild social explosions in countries where tripartite coordination of interests, parliamentarism, the rule of law and media formation of public perception support the government compensating the worst losers. Finally, Csaba (1995a) singled out financial intermediation and competition, rather than the property and the growth issue, as the backbone of systemic change. His book envisages already the gradual withering away of transformation as a special area when the fundamental qualities of the market order are established. He also calls for better application of available standard economics on the specific Eastern field than was the case in 'first-generation' transitology.

### Concluding remarks

This bird's eye view on the trends and subjects is far from exhaustive. Plurality of views in all areas can probably be taken as the best indicator of a return to European normalcy. As seen from the survey of individual areas, traditional eclecticism is still strongly present. The emergence of formalized approaches, as well as the crystallization in the lines of thought will certainly exert a disciplining influence and diminish this feature, as foreseen by Varga (1947).

Meanwhile, some specific features are unlikely to disappear. The presence of a strong empirical-sociological school of microeconomics and surveys of enterprise behaviour will surely be one of those features. Given the limits to agricultural protection, agricultural economics will probably be more inclined to free market ideas than in most of the EU outside the UK. The article by Fertő (1996), questioning the validity of most 'theoretical' arguments invoked for protecting farming as a peculiar activity, is a first sign of this trend.

Neo-institutionalism will hardly give way to pure forms of neoclassical or monetarist approaches. If for no other reasons, a decade-long process of adopting the EU *acquis communautaire* will support this phenomenon. The growing distance between policy-makers' and theorists' views of the economy will surely continue to seduce leading scholars to policy relevant issues and analyses of policy failures, just as one can observe in the *Economic Journal*, the *American Economic Review* or the *Journal of Economic Perspectives*. Following fiscal reforms, the Hungarian economics profession will not be affluent enough to afford the aristocratism of pure theory currently dominating the leading economics departments of the globe. But, after all, is this going to be a great disadvantage to the country and to the discipline?



## Notes

- 1 Part I has been written by L.Szamuely, part II by L.Csaba.
- 2 The experts of the Social Democratic Party were advised by Nicholas (Miklós) Kaldor invited from Britain. The future Lord Kaldor worked on the draft for two months in Hungary in December 1946 and January 1947 (see Káldor 1979:79).
- 3 Between 1949 and 1957 all regular statistical publications (like statistical yearbooks) ceased to exist. Even the volumes containing data of the national census of 1949 were ordered to be secret (Andorka 1994:122). According to Péteri (1994:118) even the number of copies of the statistical yearbooks printed under the title 'classified' or 'confidential' and available only for a narrow circle of the highest party and governmental officials (plus the Soviet Embassy) was constantly declining: from 400 in 1949 to 100 in 1953.
- 4 Brus (1986:97–9) in his well-documented comparative analysis of the economic development of CEE countries from 1950 to 1975 tells the story of the reform project elaborated at the beginning of 1957 in Poland by the Economic Council under the chairmanship of Oskar Lange (see also Chapter 3). Its final draft was published and favourably assessed by the Polish government in July 1957. The draft seemed to be very similar to that of the Varga Commission and was not implemented either. Brus also writes about a Czechoslovak reform blueprint that was elaborated at the end of 1957 and was approved by the party Central Committee in February 1958. This document 'was indeed much more limited in its objectives than the Polish Theses' (p. 99). However, Brus mentions the Hungarian blueprint nowhere (perhaps because it was suppressed) though it is a striking evidence of the parallel (but at that time non-interconnected) development of economic thinking in CEE countries.
- 5 The author acknowledges, without implicating, the useful suggestions of T.Bauer, M. Bornstein, G.Karsai, K.Lányi, P.Sutela, L.Szamuely and H.-J.Wagener on an earlier version of this part of the chapter.
- 6 The collected essays of József Bognár (1976) played a pioneering role in spreading this conviction, irrespective of some of its plainly erroneous theses, such as the global shortage of energy or the rearrangement of price relatives favouring primary products.
- 7 The document is still classified. It was first publicly mentioned in the article of Antalóczy and Kinczer (1995:60–1).
- 8 In concordance with the Hungarian mainstream the monograph of Xavier Richet (1989:181–9) also comes to the conclusion that the 'neither plan nor market' situation was too meagre to deserve the term 'theoretical model', in the sense of a third road between capitalism and socialism. On the other hand, his monograph is devoted to explaining the ways in which way the NEM differed from the standard (Czech, GDR or Russian) CPE.
- 9 Bauer (1983) aptly speaks of a Hungarian alternative to Soviet-type planning, without giving a name to it (model, variant, mutant, etc.).
- 10 An exhaustive summary of this broad subject and the wide literature on it is offered in the survey article by Sík (1996).
- 11 Proving this point in a review of contemporary literature Lányi (1996) shows the predominance of secondary accounts by outsiders over the original German theorists, as well as the strong political instrumentalization of this concept.
- 12 This view does not attribute a stabilizatory function to fiscal deficits, neither does it condone any measure of governmental overspending, nor does it provoke a laxity on urgent institutional reforms or spending cuts.

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# ECONOMICS AND SYSTEM CHANGE IN CZECHOSLOVAKIA, 1945–92

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## Economic thought and political rule

The development of economics in the communist era of Czechoslovakia (1948–89) was determined by the political conditions that influenced the spiritual climate.<sup>2</sup> Hence the seigniorage of power by the communists forced the liquidation of any economic ideas that were contradictory to the Stalinist version of political economy. The functional weakness of the command system, accompanied by the emerging reform climate in the Soviet Union under Khrushchev, initiated criticism of the ruling doctrine. The increasing democratization of Czechoslovak society in the 1960s, accompanied by emancipation from Soviet supremacy, opened the way for new ideas in economics that finally led to concepts of an alternative economic system ('plan—market model') culminating in the Prague Spring of 1968.

After the suppression of the reform movement as a consequence of the Warsaw troops' invasion in August 1968, and the restoration of the communist power monopoly under the patronage of the Soviets, the Sovietization of economics was once again on the agenda. During the following two decades the former ruling order was restored under the label of 'normalization'. However, over time, the unspoken critical approaches towards decreased orthodoxy gradually began to surface and later on an increasing number of economists pleaded more outspokenly for a turn away from dogma. In fact, the publications produced did not show a genuine alternative *vis-à-vis* the official doctrine. Non-conformist ideas were discussed partly in the underground and partly by groups organized informally under the auspices of official institutions. Towards the end of the 1980s, even in published studies and articles, the view of numerous economists that only a transformation of the command order into a market system would stop the lasting decline of the Czechoslovak economy started to gain ground.

After forty years of communist rule the political environment was being eroded in conjunction with an economic crisis for the second time. Yet in contrast to the erosion of the early 1960s, this decay did not take place within the borders of a single country. This time it was a decline spreading all over the Soviet bloc, including Moscow, its centre. The 'Velvet Revolution' in Czechoslovakia gave reign to a free exchange of views and concepts, including economic ideas.

### Economic thought from the post-war period to the reform ideas of the 1960s

#### *After World War II: Aiming at a 'mixed economy' (1945–7)*

After the closure of the Czech universities by the occupying power in November 1939, academic life in the so-called 'Protectorate of Bohemia and Moravia' was brought to a halt until the end of World War II (see Kosta 1995a:376). Under these conditions the community of scholars—among them economists—was faced in May 1945 with a challenging task: to fill in the five years' gap in economic science, first of all in education. Two outstanding scholars in economics who had survived and were able to take leading responsibilities in this field were Karel Engliš, a liberal with a broad scientific competence,<sup>3</sup> and Josef Macek, a politically engaged protagonist of Keynesianism.<sup>4</sup> As it turned out they only had two and a half years to devote themselves to that task. Teaching of the subject was based on pre-war textbooks of mainstream economics, imparted mainly by means of Czech lecture notes. There was no lecturing in Marxist theory.

Compared with the university, a somewhat different picture emerged with respect to ideas on economic policies.<sup>5</sup> As in other parts of Europe, the future of economic systems was discussed at that time under the shadow of the failure of market economies in the interwar period. National planning and nationalization became popular slogans. This tendency took a concrete shape in Czechoslovakia in official documents and acts of that time. In that way an economic system crystallized which was later called a 'mixed economy', characterized by the coexistence of private and public property on the one hand, and a combination of market and planning elements on the other. Yet to avoid misunderstandings, at least two intertwined circumstances ought to be stressed. First, in contrast to the impression that arises in retrospect there was no blueprint conceived *ex ante* by theoreticians to design such a system. Second, this mixed economy developed as a gradual outcome of disputes, controversies and compromises, and in an environment of some political pluralism (which weakened under the increasing influence of the communists).

The opposing views and suggestions which preceded the respective decisions were expressed by reputable economists on behalf of the political parties forming the coalition. The main issues under consideration referred to the extent of nationalization and to some problems of planning. In showing the opposing positions we will refer to the political parties, rather than to single authors, since the viewpoints were mostly published in the party press or in other mass media without being signed by the authors. As far as nationalization was concerned there was a certain consensus among the policy-makers and their advisers that the 'key sectors' of the economy (companies in industries such as mining, energy, steel processing, banking, foreign trade, etc.) should be put under national property, and this was realized extensively in October 1945. Whether nationalization should be extended to small and mediumsized business, however, was a matter of conflict. The communists pleaded from the beginning for an expansion of the public sector to middlesized firms and, somewhat later, to formerly German-owned enterprises which were placed under 'national administration'. Whilst the social democrats (before the forced 'merger' with the Communist Party of Czechoslovakia, thereafter 'KSC?', in 1948) supported this position, the other two parties of the 'National Front' advocated private entrepreneurship outside the already nationalized large concerns. On the other hand, the KSC? and its experts asserted throughout the period under consideration (1945-7) that small-scale trade, just as small-scale farming, should be maintained in private hands. As a matter of fact the medium-sized sector had been extended step by step since 1946, a process which can be traced back to the growing influence of the communists in political life. The 'socialization' of small-scale firms and farms took place only after 1948.

Another point of controversy concerned planning. The Two-Year Plan (1947/8) was based essentially on an indicative projection, mainly doing without commands towards the enterprises. The content of the plan was aimed at overcoming the damage caused by war and occupation, and by rebuilding the Czechoslovak economy more or less in accordance with its traditional industrial structure. The speakers of the KSC? advocated, especially from 1947 on, a tightening of planning: they were anxious, for example, to impose certain targets on the companies which resulted from trade agreements with the USSR. Whilst the coalition parties did not oppose this position explicitly, an open disagreement gradually arose on development strategies. The communists pleaded, in contrast to the other parties (especially the social democrats) for speeding up economic growth by substantial increases in the investment rate. Again, it was the ideas expressed by the experts in the KSC? which were realized, although mainly after 1948.

*The drive to Sovietization (1948–55)*

After February 1948 it was the strict aim of the now solely ruling communists to eradicate any ‘bourgeois’ ideas completely. This had to be guaranteed by purging all professors of economics, with Karel Engliš and Josef Macek as the most prominent ones. The only Marxist who taught economics at a university before February 1948 was Pavel Hrubý, but he became a victim of the purges not much later than his ‘bourgeois’ colleagues.<sup>6</sup> Applied economists such as accountants, statisticians, managers, etc. were either dismissed too, or demoted.

To adapt education and science to the Marxist—Leninist doctrine, the universities, particularly the specific chairs, were reorganized. The former Vysoká škola obchodní (Higher School of Commerce) was restructured under the label of Vysoká škola věd hospodářských (Higher School of Economic Sciences) in 1949. This school was in turn replaced by Vysoká škola politických a hospodářských věd (Higher School of Political and Economic Sciences) in connection with the dissolution of the former Vysoká škola politická a sociální (Higher School for Political and Social Sciences) in 1952. The period of reorganizational ‘obsession’ that was always accompanied by replacements of ‘cadres’ was brought to an end in 1953 by establishing the (still existing) *Vysoká škola ekonomická* (VSĚ, University of Economics) in Prague.

The newly established chairs for political economy (in the terminology of Soviet doctrine) were subject to strict personal and ideological control by the party organs. A similar process concerned the institutionalization of economic research, which according to the Soviet pattern had to be isolated from the universities. In particular, ‘fundamental’ research in economic theory—in reality the interpretation of the political economy of capitalism and of the Stalinist version of socialism—was concentrated in the network of research institutes under the roof of the Academy of Sciences. In that frame a *Kabinet politické ekonomie* (Cabinet for Political Economy) was founded in the early 1950s and enlarged in 1953 into the *Ekonomický ústav Československé akademie věd* (Institute of Economics of the Czechoslovak Academy of Sciences: hereafter ‘EÚ ČSAV’), an institution which played a decisive role later on in developing non-conformist ideas in the reform views of the 1960s, and, more than two decades later, in preparing systemic transformation.<sup>7</sup> At the same time, research institutes for applied economics were founded or restructured: at the central level the highly specialized branch ministries established or enlarged such organizations as the research institutes for planning, finance, mining, metallurgy, machinery, agriculture, trade, etc., and similar organizations appeared at the lower branch and regional levels.

To secure the ‘right’ interpretation of economics, particularly at the respective university departments, in the EÚ ČSAV and its sister institute

erected in Bratislava shortly thereafter (EÚ SAV), only conformists were appointed to the respective posts. Hence Felix Oliva, one of the rare Marxists in the field of economics, a man who had taught the discipline in the 1930s at the Moscow International Trade Union School, was nominated as professor of political economy and chairman of the department at the VS?E. The post of Director of the EÚ C?SAV was passed to Vladimír Kaigl, a journalist of the party paper *Rudé právo*. Another economist, Zdeněk Vergner, a former employee in the water supply branch, having been retrained as a planning officer in Moscow, was appointed to take over the leadership of the key institute for the implementation of planning theories as policy tools, the Institute of the State Planning Commission.

Because of a shortage of qualified economists amongst reliable party members, all the decisive posts in economic education and research had to be filled mostly by young people, the majority of whom had to pass 'quick courses' based on texts prepared by the party in accordance with Stalinist doctrine. To train a larger number of qualified 'cadres' for the longer term, workers' schools were established to prepare disciples for university studies (from 1949 to 1952, 1338 workers were trained to take over leading posts in the economy). Moreover, a considerable number of young party members were chosen for university studies in the USSR.

In fact, there were a few highly qualified economists who supported the course of the KSC?. Some of them belonged to the group of pre-war leftists who had emigrated to Britain and come back to Czechoslovakia in 1945. Yet because of the urgent need for policy-makers and advisers, the new political leadership entrusted these experts with responsible policy tasks at the central level. The exceptional role and the fate of the most reputable ones (Ludvík Frejka, Josef Goldmann, Bedřich Levc?ík, Eugen Löbl) is worth noting.<sup>8</sup> Moreover, it is noteworthy that the communist leadership relied on a large number of excellent managers, whose fate was similar to that of the economists (e.g. Edvard Outrata, Ivan Holý, František Fabinger, Zdeněk Rudinger).<sup>9</sup>

Let us come back to the issue of economic thought under the political and ideological hegemony of the KSC?. It was the Soviet version of the political economy of socialism that formed the basis of economics in Czechoslovakia after February 1948. The main textbook used at the time was Stalin's *Otázky leninismu* (Questions in Leninism), a translation of which was edited by the Prague party publishing house in 1947. Later, in 1952, it was Stalin's *Economic Problems of Socialism in the USSR*, and in 1954 the new Russian 'Bible' under the title *Political Economy* (translated into Czech only in 1960). Other frequently used texts were pamphlets of Soviet authors translated into Czech (Leontiev, Kozlov, Ostrovitianov, Sorokin, etc.). Between 1948 and 1951, eighteen of these brochures were published, among them only one written by the Czech 'party economist' Ludvík Frejka.<sup>10</sup> The topics of the series dealt with 'the object and method of political economy',

‘the socialist economic system’, ‘the laws of the socialist economy’, ‘khozraschet’, etc.

At the beginning of 1949, however, *Josef Goldmann* (1912–84) who had been closely involved in the Two-Year Plan for 1947 and 1948, seemed to believe in the suitability of the Czechs’ own experiences, saying that Czech planners were learning by doing, that planning mistakes had to be corrected permanently in terms of real results, that bottlenecks should be overcome by using reliable statistics, etc. (Goldmann 1949:47, 63, 66, 75). One can hardly imagine that such formulations would have been used from 1950 onward. The first wave of arrests of leading communists started in September 1949 and Goldmann himself, after a long series of others, was arrested in the spring of 1952.

The development of economic thought during the 1950s reflects the remarkable learning process of the young generation which had replaced the ‘bourgeois’ scholars after 1948. These economists grew up in the postwar spiritual climate. They had no doubts, at the beginning of the period, about the ‘right way’ the party had chosen to build a socialist order. There were several factors typical of many intellectuals in Czechoslovakia which promoted this conviction. These were the Great Depression of the 1930s seen as a ‘consequence of a capitalist market economy’; the alleged ‘successes’ of the Soviet five-year plans; the ‘sell-out’ of the country by the West in the Munich Agreement of 1938; and the liberation viewed by a good part of the population as the foremost merit of the Soviets. All of this supported, at least until the early 1950s, the opinion that socialism and planning were desirable options for the future.

### *First attempts of ‘improving’ the command system (1956–9)*

The first doubts among some economists of this generation arose by 1956. The contradiction between their optimistic expectations of the socialist planned system and their disillusionment with real developments of the economy brought about a learning process that was furthered by the ‘thaw’ in the Soviet bloc in the early Khrushchev era. The chapter of reform debates and reform concepts was opened. The process went on in two waves culminating in 1957 and 1968 respectively. Let us elaborate on the development of thought in the first period.

The reform discussion during the first wave of the late 1950s (1957/8) did not exceed the framework of the traditional concepts and methods applied in Soviet textbooks of political economy. As in the other bloc countries, the use of ‘commodity—money relations’ as a prerequisite for a functioning socialist planned economy was emphasized now. True, during the 1950s economic thought may have been more advanced in Hungary and in Poland in terms of criticism of the command system and of reform ideas, but after 1960, the stress on this point was stronger in Czechoslovakia than elsewhere

in the East, because the systemic weaknesses, such as waste and misallocation of resources, were particularly felt in the highly industrialized Czech economy. Whilst perfecting planning was on the agenda, the main flow of ideas moved only within the limits of the command system, characterized by centrally planned targets.

The economists who were entitled by the party leadership to draw up the blueprints for an 'improved' planning system belonged mainly to the planning apparatus, including the Research Institute of the State Planning Commission (SPK). They were accompanied by experts from some other institutions. The head of the working group was Kurt Rozsypal, a viceminister of the SPK. The main proposals consisted of focusing on five-year plans instead of the one-year planning horizon used previously. This turned out to be wishful thinking, as it was not feasible in reality. Furthermore, a certain decentralization of planning from the central to the branch level was envisaged according to the proposals. But again, the main part of the 'key' decisions on investments and inputs was maintained at the centre. Finally, a new method of perfecting was suggested, the so-called 'long-term normative of material interest': by this instrument, relative shares of the achieved profit ought to be allotted to different funds such as wage, investment, culture, and social funds. This last concept also failed to stand up the test of practical application.

In this context the theoretical interpretation of the reform concepts is of interest. Appropriate explanations put forward by the team around Kurt Rozsypal can be found in a pamphlet published in 1957 under the title 'Problems of the new system of planning and financing the Czechoslovak industry' (Boreš *et al.* 1957). The influence of Evgenij Liberman's ideas, published in 1956 in the Soviet party journal (Liberman 1956) was obvious even if this source was not explicitly quoted. There can be no doubt that the members of the research institute of the SPK who played a decisive role in Rozsypal's team tried to support their concept by referring to the reform debates in the USSR. They systematically followed the Soviet discussions: the description of these debates was published later by two authors of the institute, Karel Cípek and Jan Tesar? (1964), with an introduction by the director of the institute, Zdeněk Vergner.

In the publication *Problémy* (Boreš *et al.* 1957), the members of the research institute and other experts did not question the theses of the Stalinist version of the political economy of socialism. However, they criticized the fact that, up to that point, Czechoslovak scholars had not mastered the application of Stalinist economics to policy measures, saying:

The economist-theoreticians restricted themselves mostly to an explanation and a description of the phenomena; they often did not deviate from the textbook theses in isolation of the state of the given 'production relations' and the 'productive forces'. The economic



apparatus did not apply economic science to the concrete issues of the national economy. The employees of the economic apparatus in that way could not get a sufficient picture of the economic interdependencies, they did not grasp the connection between theory and practice, and, aiming at solutions of concrete tasks, they tended to apply administrative methods.

(Boreš? *et al.* 1957:3–4)

The theoretical explanation of the proposed changes concerning the ‘methods of managing a socialist economy’ was the thesis of two types of economic laws under socialism:

- laws that require conscious activities of the society—in particular the law of planned development, and
- laws that function without such conscious intervention—e.g. the law of value.

The first of these two categories of laws is dominant over the second.

Following this kind of reasoning, the concrete measures suggested by the ‘reformers’ around Rozsypal focused, as mentioned, on long-term planning, namely on five-year plans: in that sense, the five-year plan was to be fixed as a mandatory plan target. At the same time, the current decision-making was decentralized at the enterprise level by setting incentives to stimulate all decision-makers—firms and individuals—towards the planned direction. The aim was ‘a full harmony between the interests of the individuals and those of the whole society’ (Boreš *et al.* 1957:21). The concept proved to be unrealistic: shortly after approval—and later on again and again—the national plans had to be reformulated.

### *Critical approaches to the Stalinist doctrine (1960–4)*

To understand the further development of economic thought, it is useful to draw attention to the political climate in Czechoslovakia in the early 1960s (Kosta 1978:113–24). While the first attempts of East German economists to advocate the application of ‘commodity relations’ to a greater extent in a socialist system (1957/8) had been strongly criticized by the party leadership (see Chapter 6), the KSC? under Antonín Novotný a few years later seemed to support some reform ideas that had been condemned by the fraternal party abroad. How is this to be explained taking into account the attempts of Czechoslovak communists to slow down at the same time the process of destalinization in the political and ideological spheres? It was in the interests of the leadership to overcome the crisis of the Czechoslovak economy in the early 1960s, since the consequences concerning the decline of living standards threatened its own power position (as happened before in Poland,

Hungary and in the GDR). That is why Ota Šik,<sup>11</sup> the most prominent critic of the traditional planning system, who seemed to show a way out of the blind alley, was chosen by the party leaders to put together a team of theoreticians and experts to draw up a reform blueprint.

However, the party leadership was by no means the guarantor of a free exchange of views and concepts, neither in the political sphere, nor in the economy. Other social groupings such as writers, social scientists,<sup>12</sup> artists, journalists, and in particular the young generation pushed the path of free thought ahead. Amongst them the economists enjoyed more room for manoeuvre because the establishment had to rely on their suggestions for an economic recovery.<sup>13</sup>

The erosion of the Stalinist economic doctrine began with the application of methods and concepts used by Marx to question the 'economic laws of socialism' formulated in the Soviet textbooks. Ota Šik, in particular attacked the concept of property relations as the key element of 'production relations' and of the 'mode of production' in this way. According to Šik's interpretation, based on the authentic writings of Marx, property relations represent a secondary phenomenon within the mode of production. Essentially, the given division of labour forms the property system (Šik 1964, 1967b). This proposition implied a strong attack of state ownership, in other words, of the core of the Soviet-type system. Although Šik's approach was not very transparent for a reader not familiar with Marx's concepts, his book opened further critical discussions about the official doctrine at home.

Another argument that appeared in many articles by Czech and Slovak authors referred to the high level of industrial development in Czechoslovakia. At this level of the economy, it was said, a centrally controlled economy is no longer adequate: decentralization and indirect regulation of economic processes is on the agenda.<sup>14</sup> In the course of reform debates Ota Šik and others argued that a given stage of development does not enable any central organ to master decision-making with respect to the growing differentiation and complexity of the economy. At the same time, the level of development achieved implies, according to Šik, the laborious nature of work and still sets limits on private consumption, in other words, the needs of the consumers cannot be sufficiently satisfied. In such a situation a contradiction arises between producers (selling enterprises and traders) on the supply side and consumers (buying firms and individuals) on the side of demand that can only be overcome by market-oriented incentives (Šik 1964:269–305).

#### *From abstract exegesis to a market-oriented reform (1965–8)*

The move from an abstract Marxist exegesis of the type set out in Šik's *Ekonomika*. (1962) and similar reasoning in the journals (*Politická*

*ekonomie, Nová mysl*) towards gradually more concrete analyses of both theoretical and, increasingly, empirical content was typical for the period after 1962. This tendency was connected with the 'official' order to draw up a blueprint for an 'improved' system of planning and management, a task that reform-minded economists accepted with a certain sense of honour.

The trend of reform thought can be characterized by a successive turn away from criticizing and questioning the main pillars of the command economy towards a search for alternative systemic solutions around 1964. True, the first blueprint of the reform, approved by the Central Committee of the KSC?, was still moderate with regard to the extent of the 'commodity—money relations' to be applied in the 'planned management of the national economy'.<sup>15</sup> In the following period (1966–8) a radicalization of thought towards market solutions was observed.<sup>16</sup> The ideas and proposals of the reformers around Šik could, however, not be realized in total before the defeat of the Prague Spring movement after the invasion of August 1968. Let us mark some cornerstones of these tendencies by briefly pointing out some of the ideas.

After the misfortune of the Rozsypal 'reforms', there were different views about the reasons for the failure. At a conference organized by the journal *Politická ekonomie*, some economists tried to explain the failure by the use of market elements which they considered 'alien' to a planned economy. In their opinion it would be necessary to improve only plan targets, e.g. to replace 'gross production' by 'net production' as the main mandatory target for the enterprise.<sup>17</sup>

At the same conference *Bohumil Komenda* (1925–85) and *Čestmír Koz?us?ník* (b. 1928) from the EÚ CSAV, both protagonists of market-oriented reforms, represented the counterposition (Komenda 1963, Komenda *et al.* 1963, Koz?us?ník 1963, Komenda 1964, Komenda and Koz?us?ník 1964). In an introduction to the conference they state 'In the system of targets that determine activities...finally targets indicating the output volume prevail.... Prices...are understood as a calculation category, oriented towards the volume of production' (Komenda and Koz?us?ník 1964:221). In fact, even before the rejection of the 'target system' by Komenda and Koz?us?ník, Zdeněk Kodet had proven in his empirically founded analysis that any mandatory target imposed on enterprises from a planning centre, be it gross production, net production or profit, will provoke economically irrational behaviour of the firm, misallocation and waste of resources, etc. (Kodet 1962:130–2). On the basis of this criticism, Komenda and Koz?us?ník pointed out the direction in which a solution should aim. They emphasized two principles that should be met: 'First, money incomes of the enterprises and wages earmarked by them...ought to be strictly linked to market sales' (Komenda and Koz?us?ník 1964:226); and second, prices should be 'equilibrium prices' (in Western terms: scarcity prices clearing the market). In a working paper, ordered by the party,

Komenda and Koz?us?ník also proposed a ‘new’ system of management based on ‘self-regulation’ on the grounds of a ‘planned use of commodity-money relations’ (Komenda *et al.* 1963:12). Two other members of the working group, Ladislav R?íha and Ladislav Mate?jka, suggested a more cautious option by ‘perfecting’ the existing system (Komenda *et al.* 1963:12–13). Komenda pointed out that producers—as a consequence of the division of labour—do behave like market agents even under central planning. But the existing ‘material interest’ connected with plan targets, the size of which depends on non-market prices, necessarily compromises the principles of rationality (Komenda 1964:83–128). Also in Koz?us?ník’s work it is the violation of the ‘law of value’ that operates in an irrational way if plan targets replace ‘equilibrium’ prices.<sup>18</sup> Both views are supported by empirical data and—in Komenda’s case—by mathematical calculations.

*Otakar Turek* (b. 1927), another member of the EÚ C?SAV, who cooperated in S?ik’s reform team, contributed original ideas to the further development of the reform concept (Turek 1967). He proves convincingly that neither the command (Soviet type) model of managing a socialist economy, nor a ‘transitional’ model (based on central targets to be fulfilled by ‘economic instruments’, i.e. fiscal instruments and the like, but not market prices, etc.) will overcome the well-known inefficiencies. He pleads, instead, for an ‘economic’ model characterized by a plan that implies a prognosis rather than a binding forecast, by market-conform economic policies, and, last but not least, by a market mechanism based on ‘parametric’ prices set by the free interplay of supply and demand. Three years earlier, at a time when differing enterprise taxes were still defended by many economists, it had been Turek who pointed out that only a uniform gross income tax (‘gross income’ means roughly value added, or sales minus material costs and depreciation) would be adequate to a market-oriented reform concept.<sup>19</sup>

There were a considerable number of other Czech and Slovak economists who contributed to the development of economic thought in the 1960s, although their topics were only loosely—or not at all—connected with the endeavour of the reformers to draw up new blueprints for systemic change. Some of those ideas are mentioned briefly here.

Josef Goldmann published several papers between 1964 and 1967 in which he analysed his findings of cyclical fluctuations in centrally planned economies of the Eastern bloc, in particular the C?SSR, the GDR, Poland and Hungary. Together with *Karel Kouba* (b. 1927), a Czech scholar dealing with the growth theory, he summarized their investigations in a book describing the growth trends accompanied by cycles in the respective countries and explaining the phenomena discovered by applying Kalecki’s growth model in an original way (Goldmann and Kouba 1967). They also proved the need for ‘the transition from a growth strategy, based upon the existence of manpower and output-capacity reserves, to a strategy of growth adjusted to conditions of more or less full employment...and likewise...full

use of production capacities'. It is this transition they say, 'which renders imperative to change the centralized planning system' (Goldmann and Kouba 1967:136).

Some scholars drew attention to historical events and/or past controversies in socialist systems: a retrospective of the Russian periods of War Communism and the NEP and a review of the economic debates in the USSR of the 1920s was on the agenda. In both cases the authors tried to emphasize that a socialist economy cannot function successfully without at least some market-like incentives (Hronovský 1966, Klacek and Rybáčková 1967, Urban 1968). Besides looking back at Soviet history, another interesting item was reviewed, namely the Mises—Hayek—Lange—Lerner controversy on the rationality of a socialist economic system, for the most part expressing sympathies for the Lange—Lerner solution of 'competitive socialism' (Fišer and Kýn 1967).

A related matter of discussion resulted from the evaluation of experiences with workers' self-management of the Yugoslav type. By the mid-1960s, the taboo on affirming the 'anarcho-syndicalist' ideological deviation was broken. The controversy then starting about the efficiency of a 'collective' (self-governed) firm referred to the international literature, wherein the Czech authors emphasized the respective pros and cons: Rudolf Kocanda and Pavel Pelikán, among others, were supporting a plea for self-managed enterprise by the writings of Branko Horvat and other Yugoslav authors (Kocanda and Pelikán 1967). Lubomír Mlčoch, on the other hand, based his objections mainly on the findings of Benjamin Ward (Ward 1958, Mlčoch, 1967). Pointing out the weaknesses of three models (the Soviet, the Yugoslav (Ward) and the Lange-Lerner model), Levcík and Kosta pleaded for a market solution, based on limited participation in decisionmaking (Levcík and Kosta, 1968).

It is noteworthy that the implementation of gross income instead of profit, which is a goal similar to the Yugoslav one, had already been adopted in Czechoslovakia in 1965, more than three years before the management bodies appointed by the central bureaucracy were replaced by 'workers' councils' (see below).

Some other topics do not seem at first glance to be linked with systemic change. Three examples may be given: the economics of education, cybernetics, and Schumpeterian innovations. Jan Auerhan, dealing with the first topic, pointed out that the role of qualification would be a decisive growth factor in the future, a prerequisite for a functioning decentralized system (Auerhan 1965). Introducing cybernetics into the current debates to a broader public implied—among other ideas—a better understanding of the relevance of self-regulating processes (like markets) in societies of high complexity (Kýn and Pelikán 1965, Pelikán 1967). Some stimulating impulses are to be found in Valenta's book on innovations based on an interdisciplinary approach (Valenta 1969).

*Reform concepts of the 1960s: selected issues*

To what extent were the ideas and concepts developed in Czechoslovak economic sciences in the 1960s reflected in the reform blueprint in its final stage in spring 1968? In this context we will briefly dwell on three issues: planning (at the macrolevel), pricing, and the place of enterprise.<sup>20</sup>

As far as the old type of central command planning was concerned, there was general consensus among the reformers that, in principle, the enterprises had to decide mainly according to market signals which should be indirectly influenced by market-conform policies ('economic regulators'). However, a differentiation of views appeared when, as an exception to the general rule, the extent of still-maintained centrally fixed targets was discussed.

Jan Adam (1990) distinguishes four groups of discussants. They differ as to the weight of the plan *vis-à-vis* the market. The first group which was not influential, he says, did not like any fundamental change of the given system (Felix Oliva, Jaroslav Vejvoda). Ota Šik belonged, in Adam's opinion, to the second group. To him, the market is a regulated market by the planned determination of the main processes of distribution of national income (Šik 1964). Microproportions, with some exceptions, should be determined by the market (Šik 1965). Adam includes Karel Kouba (and others) in the third group (Kouba 1966, 1968b). These economists view the plan solely as a complementary coordinating mechanism to the market that can accelerate the trend to market equilibrium in the longer term. To Adam, the distinction of views between the second and the third group is not substantial, particularly as both positions are sometimes rather vague. For the fourth group (Kýn, Pelikán and others), in Adam's opinion, planning is only a supplement to the market.

To our view Adam's distinction of the four groupings is misleading because he chooses examples of the reformer's writings which were published at different stages of the debates. In fact, the views on the relationships between the plan and the market among the market-oriented economists around Šik (Šik himself, Kouba, Kýn and others) developed in the same direction from 1964 to 1968, i.e. from a lesser weight for the market to its extended role at the end of this period. That is why we do not see a distinct difference between the second, third and the fourth groups described by Adam. Finally, four publications on the plan/market issue should be noted, i.e. Turek's book mentioned above (Turek 1967), two studies of Drago Fišer pointing out the role of planning in a 'capitalist market economy' and in a 'socialist decentralized planning system' (Fišer 1968a,b), and a contribution on optimal planning under market competition, written by Rychetník and Kýn (1968).

In the field of pricing, the ideas of the reformers were aimed at a proper market solution: at supply and demand in order to get 'equilibrium' prices. The questions that authors were faced with concerned the transition to

such a state: What measures should be taken, first of all, with respect to grave shortages of many commodities and services to avoid galloping inflation which would appear in the case of a sudden freeing of prices? Inflationary pressure would also increase because of an eventual wage drift. Second, in what way should the price reform be linked with the reform of taxation, in particular with the envisaged introduction of a uniform charge on capital?

The reformers chose two main steps as a transitory strategy. Before starting on the course towards the liberalization of pricing, a 'reform', more precisely, a reconstruction of wholesale prices on January 1967, had to be prepared in order to create equal and therefore 'fair' starting conditions for all enterprises.<sup>21</sup> For that purpose a group of economists elaborated a 'two-channel price formula' consisting of three components: the costs as a base, and two surcharges—one representing a percentage of the wage bill, the other that of the 'funds', i.e. fixed assets and inventories (Hejl *et al.* 1967:61–81). Only after this recalculation could a gradual transition to free prices be realized as a second step. In that way a temporary solution, of setting three price categories—centrally fixed, limited (i.e. centrally set upper and lower limits), and free prices—was envisaged. The third category, representing proper market prices, should only be extended gradually over the following years.

As for the implementation of the price formula in Czechoslovakia indicated above, some problems appeared. The recalculation did not lead to the establishment of equal starting conditions as was expected. Instead of an average profitability (measured as the share of profit in the wage bill) of 22 per cent as estimated in advance, the enterprises achieved 78 per cent in 1967 and 80 per cent in 1968. Moreover, since the figures indicated different profits (and in numerous cases losses) without showing real performance, the government felt prompted to redistribute the results by various differing taxes and/or subsidies. The failure was caused by the fact that they had relied on the firm's information about costs. It turned out that the customary behaviour of the managers in cheating the central planners had survived. The consequence of this misfortune was a slowdown of price liberalization in spite of some plea for an accelerated freeing (Horálek *et al.* 1968).

The third point of the reform concept that is worthy of special comment is related to the place of the enterprise under the new system. In the blueprints and the appropriate documents from 1965 to 1968, the issue of competition was, if not neglected, at least underexposed. True, the interference of the party organs at all levels of decision-making—from the centre through the branch and regional levels down to the enterprises and workshops—vanished at the beginning of 1968, and this made managing more flexible and competent. But the reorganization of the enterprise sector of 1965, consisting of the establishment of about one hundred producing

enterprises ('VHJ') specialized by branches implied a monopolistic structure on the supply side. It was too late when some of the reform protagonists sounded the alarm to open the way for a 'voluntary' disentanglement of these giant companies (Horálek *et al* 1968; see also Sokol 1969).

The reformers were aware from the beginning of their conceptual work, that the performance of the enterprise would also depend on the system of incentives. Those economists who pleaded for the use of profit justified their view by arguing that this was the only way to guarantee an economical use of all inputs (Bráník 1967). The reformers around Šik, however, chose 'gross income' as such an indicator. The use of profit as performance indicator and, at the same time, as base of taxing enterprises, it was said, would tempt management, under pressure from the workers, to pay excessive wages, and this danger would create an 'administrative interference' with wages. In the case of gross income, instead, an 'economic regulation' of wages by taxing simultaneously a portion of wages and of profits would avoid such a central intervention. Moreover, it was argued, such a concept would be more suitable, since under socialism there are no capitalist entrepreneurs, who aim at a maximization of profits and therefore 'watch' costs, including wages (Kodet 1965, Levčák 1967). These ideologically supported arguments were, to some extent, influenced by the Yugoslavs, according to whom their 'workers councils' were successful with their 'income' orientation (this indicator was roughly the same as Czechoslovak 'gross income'). In Czechoslovakia, however, participation of the workforce in decisionmaking at the firm level was not on the agenda before 1968.

Returning to the discussion of the performance of self-managed enterprises in 1967 mentioned above (see the controversy between Kocanda/Pelikán and Mlčoch), it should be stressed that at that time the idea of self-management or even of a more restricted participatory solution did not have partisans among the influential members of the team around Šik (including himself). They were afraid of too much responsibility being given to non-qualified workers and feared the neglect of the long-term development of the enterprise in favour of short-term claims (wages).

Yet the views of the mainstream on this issue changed by the beginning of 1968. It was the change in political climate after the replacement of Novotný by Alexander Dubček in the party leadership in January 1968, and the accelerating process of democratization in Czechoslovak society, that brought about an increasing call for participation in all spheres of social life. A growing number of economists were now searching for a solution that would take into account both the demand for democratization in decision-making at the enterprise level on the one hand and the requirement of efficiency on the other. A compromise seemed to be found by limiting the powers of the newly erected workers' councils to principal issues (such as appointing the top management, approving the main directions of



investments and the balance sheet, etc.) and widening at the same time the composition of these bodies by including representatives of external groupings (such as consumers, investors, regional institutions, etc.). In this way self-management of the Yugoslav type was reduced to a kind of enlarged codetermination of the German type (*Mitbestimmung*) in the enterprises. The property relations of the Prague Spring were based mainly on public enterprises of the participatory type, as just described, complemented by cooperatives and small-scale private firms. In that way the ownership regime differed essentially from both the Soviet-type order and that of the capitalist countries.

### *Political impediments versus new ideas*

Beyond the borders of Czechoslovakia, the idea gained currency under the influence of the 1968 Prague Spring that the economic reform of the time had been clearly conceived as a complete blueprint made 'in one casting', the implementation of which had only been prevented by the forced intervention of the Warsaw Pact troops. However, as was pointed out in the preceding paragraphs, the facts do not fit this picture. In reality, the reform-minded ideas and concepts went through distinct changes, developing from modest corrections of the traditional command system towards a more or less coordinated market mechanism. This course was on the one hand a consequence of a successive learning process and on the other no less a result of an increasing tension between the theoreticians involved in the advisory teams (*teoretická fronta*) and the decision-making bodies at the party and state level. It is worth while mentioning some of the events which will illustrate the interplay of political rule and economic reforms.

In the first phase of conceptual work (1963–5), the proposals of the scholars met with a positive response among the rulers. As mentioned above, political support for the reform ideas resulted from the urgent need to overcome the malfunctioning system of command planning. This explains the decision of the First Secretary of the KŠC, Antonín Novotný to appoint Špik to head the reform team, not foreseeing that the person would become one of his prominent political opponents in the near future.

True, acceptance of the proposals worked out by the *teoretická fronta* was favoured, at the time, by two facts: first, the leading role of the party was not questioned. That implied, for example, the recruitment of the cadres (central planners, managers etc.) by the organs of the KSC?, the subordination of the trade unions to the party at all levels of decisionmaking, and the rejection of workers' participation. Second, the principle of central planning was not generally refused; although the reformers pleaded for 'equilibrium prices' instead of the traditional targets imposed on the enterprises, this did not mean—at least until 1967—that those prices resulted from a free play of market forces: these were still 'planned' prices. As will be

pointed out later, the existence of a capital market was not considered in 1965, nor even in 1968, and capital goods had to be allocated, according to the 1965 documents, mainly by centrally set plan targets, although, as it was emphasized, 'more rationally'. Yet even these limited reform ideas provoked the refusal of some central planners (see, for example, Rozsypal 1964). The presidium of the KSC? approved in October 1964 the proposals of S?ik's team which contained the main pillars of the decisions taken three months later by the Central Committee of the Party.

As a representative example of the controversy between scholars and apparatchiks which took place in 1966, a dispute on 'restructuring the national economy' must be mentioned. It was Josef Goldmann and two of his young colleagues who criticized the central planners' concept of structural changes based on 'a distinctly increasing rate of accumulation'. 'There is no place for high jumps besides the gymnasium', was Goldmann's aphorism which he frequently used to attack the belief in the feasibility of 'great' tasks by central command (see Sos?ka 1966, Goldmann *et al.* 1966). The manifold remnants of central planning in theory and practice were extensively criticized by numerous members of the Czechoslovak Economic Society in its sessions (see, for example, the General Assembly, held in 1967, published in the *Kniznice C?SE* series of the Society, No. 1/1967).

The strained relations between the ruling establishment and the economists surfaced during the 13th session of the KSC? (3 May to 4 June, 1966). It was the party leader and President of the Republic Antonín Novotný himself, at that time representing the orthodox wing in the leadership, who tried to prevent Ota S?ik from taking the floor (S?ik was then the spokesperson for a group of theoreticians appointed by the government to prepare the economic reform, and, at the same time, a member of the Central Committee of the KSC?). Yet Novotný only 'succeeded' in postponing his vote at the very end of the discussion. Novotný's manipulation had a boomerang effect: a large majority of the participants responded to S?ik's radical criticism of the halting reform strategy pursued by the authorities and his pleading for an accelerating reform drive with standing ovations. The vote for Ota S?ik appeared to be the dominant message of that session.

During the years 1966–8 a considerable shift in the reform ideas took place, in particular with respect to how the consistency of the envisaged system of operation was to be achieved. Two publications in these years provided some new ideas on systemic transformation; these were the works of Horálek *et al.* (1968) and Kouba (1968a). We have already mentioned two issues raised by Horálek *et al.* (1968), concerning pricing and competition. In general terms, the essay discloses some traces of Keynesianism. The basic source of economic policy is characterized as envisaging a 'magic hexagon', consisting of (1) the position of the enterprise as a market agent, (2) optimal economic growth, (3) full employment, (4)

stability of prices and currency, (5) external economic equilibrium, (6) free formation of prices and wages. It is clear that the first and the last 'angles' express the additional policy objectives of systemic transition as compared to a standard market economy.

In addition to the extension of free pricing and the creation of a competitive environment by opening up free access for new firms, member units of monopolies were allowed to leave the centrally erected giants and to open the way for the founding of different smaller groupings. The state enterprises ought to be, according to the authors, 'de-etatized' and 'commercialized', in other words, they should operate as independent market-oriented firms endowed with a certain volume of assets (in monetary terms). Besides these public enterprises the experts pleaded for the increased role of cooperatives and small-scale businesses run privately and, moreover, for extending the competitive sphere by opening the market for foreigners. The suggestions contained particular approaches to the CMEA and the Western markets with respect to the exchange regime, recommending a liberalization of foreign trade in many respects (e.g. reducing protective measures, 'commercializing' the state monopolies for foreign trade, extending the right to export and import goods and services to industrial and service enterprises).

Whereas Horálek *et al.* (1968) did not consider the existence of a capital market (although a sort of money market in terms of credits granted by the central bank was taken into account), the proposals of Kouba (1968a) in that direction were further-reaching. Here, the emission of different securities (state, bank and company bonds, shares), was named 'long-term money market', obviously for ideological reasons. The authors of the publication expected, moreover, the emergence of a free foreign exchange market by allowing enterprises and banks 'to trade with their currency surplus'. No doubt, some of the reform ideas in this document anticipated the radical changes initiated after 1989.

The new political leadership established around Gustav Husák in April 1969 made sure that the market-oriented concepts which had been partially implemented were definitely blocked. It became clear that further-reaching ideas such as those expressed by Horálek and Kouba were looked upon as heretical. Under the euphemistic label of 'normalization' the regime ensured the restoration of a command economy.

### *The impact of economic thought from abroad*

The development of economic thought during the first two decades after the takeover by the Czechoslovak communists in 1948 did not proceed in isolation from the theoretical developments appearing abroad, in particular from the ideas in the other Soviet bloc countries. But in spite of observable similar tendencies in the region (which were influenced by the respective political situation in Moscow) the changes in thought in the C?SSR were

initiated, primarily, by domestic economists. It does not mean that an increasingly mutual impact among Eastern theoreticians and, to a lesser extent, a gradually emerging influence of Western thought should be denied. This will be pursued in more detail.

Since the late 1950s the exchange of publications, personal contacts with Soviet and other East European colleagues on the occasions of conferences, visits, lectures, etc., contributed to shared knowledge and brought about new mutual inspirations. The first articles of Liberman, published on the eve of Khrushchev's unmasking of Stalin (Liberman 1956), were felt in Czechoslovakia to support reform thought. The most significant source of inspiration for the reformers of the 1960s, however, was a book by Brus published in 1961 in Warsaw and three years later translated into Czech (Brus 1964). The works of Polish economists generally played an important role, as indicated by the appearance of translations of Lange's, Kalecki's and Laski's writings into Czech (Lange 1965, Kalecki 1965, Laski 1967).

It is not surprising that in the years 1965–8 the closest understanding and, therefore, most mutual impacts appeared among Czechoslovak, Polish and Hungarian reform-minded scholars who were involved in some advisory work for their respective governments. On the other side, the leading economists in the GDR were opposing the concepts of 'market socialism' by still defending the orthodox doctrine of the 1950s. Their high-ranking Soviet colleagues took a rather reserved or vague position. This was observed at a conference organized by the team of Ota Šik in December 1966 in Hrazany, near Prague, where the Czechoslovaks presented their market-oriented reform concept.<sup>22</sup> The mentioned positions were typical of the following participants from abroad: W. Brus, J. Pajestka (Poland); I. Friss, T. Nagy (Hungary); L. M. Gatovskij, R. Evstigneev, G. Lisichkin (USSR); W. Kalweit, H. Steeger (GDR); G. Filipov (Bulgaria), J. Sirotkovic, (Yugoslavia). It should be mentioned that one of the Russian economists, Genadij Lisitchkin, belonged to the most committed partisans of the Czechoslovaks.<sup>23</sup>

Since the first half of the 1960s the Czechoslovak economic community also gained broader access to Western theories. The libraries of the academic institutes complemented their respective inventories. The economists increasingly had the opportunity to travel to the West and, last but not least, a growing number of reputable Western scholars were invited to conferences, for lecturing, etc. University teachers, instead of lecturing on the political economy of capitalism according to the old textbooks, started to introduce classical and modern economic theories to students,<sup>24</sup> and the same tendency was to be observed in the research institutes, where the economists tried to apply methods and policy tools developed in the West by analysing the economy in their own country.<sup>25</sup>

As for the impact from abroad, from the late 1950s up to the end of the 1960s it was typical that, in spite of bringing in some elements of liberal theories and/or methods, Marxist thought was not principally rejected by the leading

reformers. Besides the mainstream of Czechoslovak economists who did not shake off their Marxist education entirely, a new line of thought appeared among a small group of young scholars. The most outstanding of these was *Václav Klaus* (b. 1941). He refrained from any traces of Marxism, using only the approach of Western mainstream economics in his PhD thesis (Klaus 1968a). Here and in two other studies—one of them written in cooperation with two young colleagues—Klaus criticized the reformers who—in spite of their plea for ‘commodity—money relations’—do not see the relevance of a proper money market (Klaus 1968b, 1969, Klaus *et al.* 1969). Referring to Keynes, he points out that in a fully-fledged money economy expectations are by no means clear, since the money owner always has the option to decide between the transaction (i.e. on productive investments) and the speculative demand (i.e. on investments into securities).<sup>26</sup> Klaus objected to the refusal of his older colleagues to use marginal analysis as in the West, and claimed that that is the reason why they were not able to conceive a consistent theoretical system (Klaus 1969). Another author inspired by modern Western theories was *Lubomír Mlc?och* (b. 1944). Dealing with microeconomics, Mlc?och tried to apply the theory of the firm based on marginal analysis to the institutional frame of a socialist economy (Mlc?och 1970).

### *The essence of new thought in the 1960s*

To sum up the essence of economic thought articulated by mainstream Czechoslovak economists in the 1960s: there was a break with the political economy of socialism in its Stalinist version. Instead of deriving commodity-money relations from two forms of socialist property—the state and cooperative ownership—a new interpretation was attributed to those relations (in other words, the market), to the social division of labour. This explanation had two interrelated consequences. First, in contrast to the merely temporary character of commodity-money relations in Stalin’s understanding (since they would disappear with unique ‘all-societal’ ownership), the reformers interpreted the market as a lasting institution in a socialist industrial society. Second, the interpretation given in Czechoslovakia implied the lasting nature of market control under the new system, whereas the Soviet-type system in the long run would be characterized by replacing market elements by central planning.

The Czechoslovak mainstream economists of that time, moreover, conceived of the new economic system as a combination of ‘socialist property’ on a participatory base and ‘long-term planning’ in a mainly indicative form on the one hand, and the ‘use of market forces’, controlled by ‘economic regulators’, i.e. economic policies, on the other.<sup>27</sup> Such a solution of a ‘third way’ (a ‘plan/market model’ or a ‘socialist market economy’) seemed to be at that time popular not only in the whole Soviet bloc, but also among a remarkable number of scholars in the West.

It is not the task of the present authors to assess the views and concepts of the 'Prague Spring reformers', neither their theoretical level, nor their practical feasibility. It can be stated, nevertheless, that their ideas represented a substantial advance in reform thought within the former Soviet bloc, in particular with respect to the interdependence of political and economic systems.

### Trends of Czech economic thought in the 1970s and 1980s

The 1970s and the 1980s are often considered as the period during which the development of Czech economic thought was abruptly discontinued and teaching seriously distorted. However, in addition to the sterile apologetics for the political economy of socialism, it is surprising to find—particularly during the 1980s—a number of scientific papers, including those by authors banned from publishing in official journals, which bear clear signs of modern economics. These provided inspiration for the design of reforms in 1990.

#### *Screening and purges in 1970–1*

The lessons which the KSC? bureaucrats learned from the second half of the 1960s (dubbed by them the 'crisis period') manifested themselves as a deep mistrust towards the intelligentsia in general, and the social sciences in particular.<sup>28</sup> Both the Institute of Economics of the Czechoslovak Academy of Sciences (EÚ C?SAV) and the University of Economics (VS?E) were put under strict ideological supervision. The party leaders remembered all too well that the Institute of Economics (EÚ C?SAV) represented a platform for the reformers around Ota S?ik, from which the main components of reform thought originated.

The party headquarters originally planned to organize a well-advertised 'scientific' evaluation of the faultiness of the ideas on which the economic reforms were based, by inviting several economists whose standpoints towards the reforms were either distanced or critical. However, some of those invited refused to participate, or (like M.S?mejkal and M.Tuc?ek) elaborated their critiques for a special commission set up by the Central Committee of the KSC? which focused on the complexities and difficulties of scientific advancement rather than identifying (as was expected from them) concrete revisionists and right-wing opportunists among those actively involved in preparations for the economic reforms.<sup>29</sup> The Central Committee had to change the composition of the commission and prescribed strict checks at all scientific and university institutions. The screenings were organized everywhere; but in the social sciences they were particularly harsh.

The core of counter-revolution was to be found in economic theory and thereby a formally acceptable concept of 'counter-revolution' was created. Endeavours to radicalize economic reforms in the late 1960s were taken as

a good pretext and the economists and intellectuals involved were the guilty. The working class could thus be exempted from accusations of counterrevolutionary activities. As a consequence, harsh purges hit the majority of economic research institutions. Economists like K.Kouba, B.Komenda, C.Koz?us?ník, O.Turek and Z.S?ulc had to leave the EÚ C?SAV. Among the young generation of economists it was V.Klaus<sup>30</sup> who was sent from the Institute to an 'internship' in the State Bank of Czechoslovakia<sup>31</sup> where he could at least follow the trends both in economic theory as well as in the Czechoslovak economy. His fate was, however, not that unfortunate. Several economists had to move to administrative or manual labour. Anticipation of the purges prompted a significant wave (already the second one) of emigration (O.S?ík, J.Kosta, O.K?yn, P.Pelikán, B.Levc?ík, L. Rychetník, R.Selucký, J.Sláma, and others).

At the universities the departments of political economy were either discontinued or substantially reshuffled. This applied to the Charles University, University of Economics (VS?E) and the School of Political Science in Prague.

The VS?E, the largest university-level institution for economic teaching in Czechoslovakia, found itself in a tragicomic situation. The School was associated with a rather 'conservative' (in the sense of communist conservatism) flavour where the more radical economic thought of the 1960s penetrated only slowly. Though the internal discussions were no less unorthodox than elsewhere, the papers and other publications did not reflect this and the image of the School did not bear a single progressive feature. In the final balance, however, the impact of 'normalization' on the VS?E was as painful as in the Academy. One of the reasons was that V.S?ilhán, a professor of industrial economics, temporarily became first secretary of the Communist Party in August 1968 after Dubc?ek was detained in Moscow, and V.Kadlec, the Rector of the School, had been appointed Minister of Education in the Prague Spring government.

The strict supervision of the VS?E by the KSC? was dictated by the massscale teaching of the young generation of economists. Some two thousand students were enrolled annually and the total number, including external and post-graduate students, reached twelve thousand students. From this viewpoint, economic research conducted in the Institute of Economics had not only direct impact. Furthermore, the content of the theoretical research undertaken there often surpassed the abilities of understanding of the party supervisors.

The size of the VS?E was, nevertheless, insufficient to satisfy all applicants. The KSC? hierarchy misused the situation and promoted its favourites as regular or post-graduate students. The party cadres could receive the title of a candidate-of-sciences (similar to PhD) and some of them were appointed associate or full professors.

Harsh measures were undertaken by the KSC? headquarters in relation to the teaching of political economy. A discriminatory clause was introduced which forbade teaching for non-party members. The departments of political economy at all universities were integrated into the newly formed Institutes of Marxism—Leninism which were established and supervised by the Department of Education and Science of the Central Committee. The positions within these departments were defined as workplaces of the Central Committee. The purges that followed were uncompromising.

A.Chyba, Director of the Institute of Marxism—Leninism at the Prague Polytechnical University, who participated actively in the purges and was later appointed Deputy Director of the Institute of Economics of the Czechoslovak Academy of Sciences, once testified that only 23 per cent of all the lecturers of political economy retained their membership in the KSC?. A majority of those were nevertheless punished and had to behave in a fully loyal manner in relation to the instructions from above.<sup>32</sup> From 1970 to 1979 appointments of new associate professors and full professors were discontinued. Similar punishments along party lines were also applied to the staff of research institutes.<sup>33</sup>

The party apparatus lost all confidence and tried to control decisions in any matter considered important, such as approvals of new lecturers at the regional party level (or Prague level), promotions to higher positions within departments, approvals of research plans and topics for dissertations. Such approvals were also required before any graduate student could defend his or her thesis. Those punished could not defend their theses and were demoted to lower level positions.<sup>34</sup> Younger academics of the social sciences had to spend one year in the party apparatus in order to get access to ‘practical matters’, usually working as assistants. In addition, every lecturer of political economy had to stay at Moscow University for two trimesters.<sup>35</sup> All these measures were meant to instil a feeling of complete subordination to the party apparatus among the lecturers.

Consequently, at the beginning of the 1970s the universities could hardly teach theoretical economics. Both qualified lecturers and adequate textbooks were missing. What was completely lacking was the opportunity for dialogue. Those who remained as teachers therefore stuck to the prescribed doctrine. The situation in the research institutes was simpler only in that the researchers were not primarily used as the apologists for the party policy of the day. They had freedom of access to modern economic literature and their internal discussions were less constrained by ideological considerations. Any piece of paper meant for publication was carefully screened, however. Some authors were nevertheless able to send the message between the lines. Understanding these texts becomes increasingly difficult for those who did not live through that period.<sup>36</sup>

The representatives of the party and the government never missed an opportunity to stress the science-based nature of real socialism. They did



their best, if not to destroy economic science, to sterilize it from any positive influence it could have received from dialogue with other schools of economic thought. Economic science and the teaching of political economy were considered a tribune for popularization of party policy.

### *The subordination of economics to political dictate*

The 1970s saw a partial return to the handicapped state of economic theory of the 1950s, as can be seen in textbooks and the majority of articles. A strange renaissance of dogmatic Marxism—Leninism materialized. Stalinism returned without Stalin; his main ideas, however, re-emerged in the textbooks. On the other hand, access to modern economic literature for academic research remained more or less open, except for some ‘subversive’ titles.<sup>37</sup> Knowledge of modern economics among the younger generation of the EÚ C?SAV remained, at least from the ethical point of view, a definite characteristic of the academic community. This meant that a complete return to the 1950s proved to be unviable. Under these conditions a number of economists—namely the younger generation—decided to invest all their activities into self-education.

However, the official political economy was fully subordinated to political dictate. In the worst case apologetic papers or descriptive surveys of the economic policy of the Communist Party were produced. The textbooks for students corresponding to this apologetic purpose were first translated from Russian and later on worked out by Z.Hába, M.Fremer, J.Barvík, A.Chyba, A.Brůžek and J.Rypota. On the other hand, among the research topics favoured by those outside direct ideological supervision were: historical and methodological topics as well as complicated mathematical economics.

Soon after the purges, the lecturers of political economy were prescribed the sterile ideologically profiled textbooks of the Soviet authors (Cagolov 1973,<sup>38</sup> Kozlov 1971). The students of other faculties were taught according to a brochure of the KSC? by Fremer *et al.* (1973). The textbook by Hába *et al.* (1978) came out much later. Although Cagolov’s and Kozlov’s textbooks were received as completely alien to both the intellectual climate and the real life of the Czech people, they were not fully replaced by Czech texts until the end of the decade. In the 1980s the students of economic faculties were taught according to textbooks by Vojtíšek *et al.* (1979) and Rypota *et al.* (1980).

The authorship was, as a rule, collective, thus minimizing, the risk for individuals of falling into disgrace with the party authorities.<sup>39</sup> The textbooks had to be approved by the respective department of the Central Committee of the KSC? even though the persons who were authorized to give approval often lacked adequate competence in Marxist political economy (unlike in the GDR). Courses of political economy were structured more towards the capitalism of free competition. There, *Das Kapital* and its

simplified interpretation surfaced, including the language (surplus value, exploitation, use value, etc.). Contemporary capitalism was presented only in a descriptive way with the main focus on its conflicting features but, characteristically, without thorough empirical evidence. Nevertheless, the conclusion of the ‘general crisis of the capitalism’ was derived.

The political economy of capitalism featured at least some systemic characteristics. Compared to it, the political economy of socialism lacked logical links among its loosely accumulated topics (see Šulc 1993a). Starting with socialist ownership and the ‘impossibility of exploitation of the labour force’, the main focus was on the ‘fundamental law of socialism’—the maximum satisfaction of the people’s needs and planning as a vehicle to achieve it.<sup>40</sup> The role of commodity-money relations<sup>41</sup> and the relative independence of state companies through the *chozraschot* was never incorporated in a logical way. The final impact on students was amplified by the personalities of lecturers, who more often than not lacked adequate intellectual qualities.

The party organs obliged their loyal theoreticians to develop critical analyses of market socialism but there were only a few authors willing to take on the job. Among those the papers by Vejvoda (1971), Truhlář?, and Reiser (1971) and the readings ‘Overcoming Revisionism in Economic Science and Practice’ represented the die-hard line. A more subtle critique of market socialism was presented by Hába and Kr?íz?ek (1975).

In this period several translations of modern economic literature into Czech which had been started during the Prague Spring were also discontinued. For example, the 6th edition of *Economics* by P.A. Samuelson translated by R. Budínová-Klímová and L. Urban could not be published any more. The censors fortunately did not stop publication of a book by Arrow (1971) and two books by Allen (1971, 1975) as these were considered as merely analytical and ideologically harmless. Also *Exercises in Economic Analysis* by Robinson (1975) and Ch. Kindleberger’s *World Economy* were permitted to appear through the 1970s. Allen’s books in particular provided access for a long-time to modern economics for those who had to rely on translated texts.<sup>42</sup>

It was in the area of personal contacts between Czech academics and their colleagues in the West that normalization brought about an almost complete discontinuity. Travels abroad were effectively controlled and contacts with visiting economists from the West were conditional, depending on approval from the Department of Special Affairs which was established by the Ministry of the Interior in every institution. If such approval was given, one had to report on the visit afterwards. The element of fear, therefore, made contacts minimal. Those who were lucky and were allowed to travel to the West and then met with colleagues who had emigrated, had to keep such meetings secret. Regular mutual exchange of scholars was limited to the socialist countries, among which only Hungary

and, to an extent, Poland kept relatively open contacts with economists from the West. Thus Budapest and Warsaw became the meeting points for Czech scholars with their colleagues from the West. Access to modern economics in the public libraries, however, remained open as both the books and the economic journals were available, with the exception of ideologically 'harmful' items.

### *Official doctrine and escapism*

Due to the controls, restrictions and repressions described above, the Czech economic community was segmented into three different groups: official, unofficial (underground) and exile. A clear dividing line was drawn only between the first and the last group, since contacts with émigrés were considered to constitute betrayal. Of course, some links between underground economists and their colleagues in exile were maintained. The map of economic thought was, therefore, considerably diversified.

Nevertheless, communication among the three groups was very complicated. Public discussions in economic journals and the press were practically impossible. Although censorship was officially dismantled in Czechoslovakia in the 1960s, its role was *de facto* passed over to the editorial boards of journals and publishing companies (in the case of books). The selection of persons for the boards predetermined the image of the journals and the screening of the authors whose articles were accepted for publication. The editors-in-chief were instructed by the party organs as to who was on the list of banned authors, and they did not risk publishing these writers since they themselves could be fired or otherwise punished. This type of censorship proved to be tougher than the official one. Not only the authors but also the content of the articles and books was closely watched. Figures and facts throwing light on negative trends in the economy were considered to be very sensitive and were, therefore, not recommended for publication.<sup>43</sup> The publications containing such facts and their analyses were labelled either 'secret' or for 'internal use'. Macroeconomic analyses and forecasts of the research team headed by J.Goldmann belonged to this group.

The impact of this environment on university students was particularly negative. Modern economics was not systematically taught, and only in the 1980s was the course of the critique of bourgeois economics at the University of Economics (VS?E) in Prague transformed step by step by J.Petráček and M.Sojka into a well-founded presentation of the main schools of economic thought. Generally, the level of knowledge of a typical graduate student was low in theoretical economic subjects, but rather good in accounting, statistics and econometrics.<sup>44</sup>

Ideological control was somewhat reduced in the 1980s, more in research institutes than at universities. The only place where standard modern economics was taught alongside the political economy of socialism and the

optimal theory of planning throughout the 1970s and 1980s was the Graduate School of the Institute of Economics, even though no textbooks were published. The lecturers (M.Toms, M.Hájek, A.Kotulan and others) based their lectures and seminars on publications by the leading economists from the West. It was here that V.Klaus resumed his lecturing of Samuelson's textbook in the late 1980s.

The official theoretical treatises were subject to political dictate. One can find a number of articles devoted to the Soviet school of optimal planning (Kantorovich, Granberg, Aganbegyan, Valtuch), the Polish school (Lange, Kalecki) and the Hungarians (Kornai, Bródy). The most prominent Czech author in this respect was *Miroslav Toms* (1944–88; see his bibliography in the journal *Politická ekonomie* 1989). Other contributions were written by M.Hájek, A.Kotulan, J.Klavec and M.Mejstřík.

The papers on optimal planning enabled the authors to apply the apparatus of modern economics within a framework which was ideologically acceptable, though the Soviet scholars who developed this school were often heretics at home. (Only much later was A.Aganbegyan promoted to the position from which he influenced *perestroika* in the late 1980s.) The reception of the theory of optimal planning provided a good pretext for comparisons with the general equilibrium theory (see De?dek 1989).

The 1970s also marked a climax for the research team headed by J. Goldmann, which included, among others, K.Dyba, K.Janáček, J.Klavec, V.Kupka and R.Vintrová. Their publication *Introduction to Macroeconomic Analysis* (Goldmann *et al.* 1978) together with Allen's works provided a basic source of knowledge for macroeconomists. This was preceded by Goldmann's (1973) book on economic cycles under socialism derived from investment cycles (see Klaus 1984, Čihák 1997, Kupka 1990).<sup>45</sup>

Another topic developed at a rather sophisticated level was the theory of production functions and its application pioneered by Tlustý and Strnad (1968) and Toms and Hájek (1965). There followed contributions by Toms (1968, 1969), Toms and Hájek (1967, 1969), Kotulan (1981, 1982) and Klavec and Nešporová (1980), focusing on the CES, VES and flexible forms of production functions. This type of research also entailed useful inquiries into modern econometrics.

One can ask what connection these studies had with the re-emergence of dogmatic Marxism—Leninism. As a rule, the authors presented a few quotations from 'the classics' or the party documents. But some of them tried to differentiate the analytical apparatus from the neoclassical theoretical backgrounds. Doing so, they could put the formalized models into the framework of the centrally planned economy. The concept of central planning was thus enriched through the use of production functions. A modernized Marxist theory was aimed at, as some elements of modern economics were incorporated. This type of approach was developed in

particular by M.Toms.<sup>46</sup> His profound erudition in post-Keynesian, neoclassical and Marxist schools of thought provided him with the unique possibility for comparing rival theories and combining their elements within a Marxist framework.<sup>47</sup> Though his inner inclination was towards the neoclassical school, an enlightened central planning was for him inseparable from the socialist economy, which opinion he maintained till his premature death in 1988. This approach, exemplified by the fate of Toms, full of inner contradictions and limitations, enabled him and his colleagues to keep up with mainstream economics without losing the opportunity to work and publish.

But it is difficult to draw the line between those who, like many intellectuals in the West, were emotionally left-oriented, and the pragmatists who merely sought to continue as professional economists by making the minimum concessions necessary. In any event, until political change materialized at the end of the 1980s, the approach of incorporating economics into 'modern Marxism' looked like the only viable option at that time for a whole generation of Czech economists.

Unlike the political economy of socialism, some other elements of economic thought were kept at a relatively professional level. These were macroeconomic analyses by Josef Goldmann and his team (EU C?SAV) and econometrics (Jaroslav Walter). At the VS?E the courses of monetary theory and public finance (Jir?í Petr?ivalský, Václav Bakule), economic statistics (Lubomír Cyhelský, Josef Kozák) and accounting (Jir?í Schroll, Jir?í Klozar) belonged to those who were not much affected by the ideological straitjacket. Another stream of economic research was oriented towards a detailed empirical analysis of the data published by the Statistical Office of Czechoslovakia (C?SÚ) and the State Bank of Czechoslovakia (SBC?S). In this way some authors could critically assess macroeconomic trends as did Klaus (1979), Nachtigal (1973), Dyba and Kupka (1973, 1984). The availability of data on monetary development, foreign trade and capital stock was more extensive than in many other socialist countries. It is also worth mentioning that the personal contacts among academic economists and officers at the Central Bank, Statistical Office and individual ministries helped to maintain a relatively high professional level of those institutions compared to the ideologically exposed ones throughout the period of 'normalization'. This was probably one of the factors that made the radical reforms of the 1990s smoother than elsewhere.

At this stage a note on Czech economic journals should be made. The flagship has been *Politická ekonomie*, a theory-oriented monthly published by the Institute of Economics. (Since 1991 the publisher has been the VS?E and it has appeared as a bimonthly.) Another journal, *Economickomatematický obzor*, published until 1990 by the Institute of Economics, was focused on mathematical economics. The Ministry of Finance has been the publisher of the bimonthly *Finance a úve?r* (Finance

and Credit) which also contains special appendices. Selected articles and reviews from these journals used to be published twice a year in English under the title *Czechoslovak Economic Papers*, and since the late 1980s as *Prague Economic Papers*. *Plánované hospodářiství* (Planned Economy) was a monthly of the State Planning Commission oriented to issues of national and regional planning. It was discontinued in 1990 and since then the Ministry of Economy has replaced it with *Národní hospodářiství* (National Economy). The universities publish two economic journals *Acta Universitatis Carolinae—Oeconomica* by the Charles University in Prague and *Acta Oeconomica Pragensia* by the VŠE. Among the dailies and the weeklies *Hospodářišské noviny* (Economic Newspaper) and *Ekonom* (Economist) have built up credibility. Besides topical news they also bring discussions on economic policy. Alongside the journals oriented towards economic theory and applied economics there have been a number of specialized journals, such as *Statistika* (Statistics) and *Účetnictví* (Accounting).

### *The role of exile*

In the West, there were two groups of Czech economists corresponding to the emigration waves of 1948 and 1968. Between the two, but also within each of them, there was wide differentiation with regard to economic doctrines. Consequently the Czech economists in exile, while uniformly refusing the Soviet economic doctrine, nevertheless identified themselves as belonging to different schools of economic thought. (For more on Czech economists in exile see Kosta 1991.)

The most popular person in exile was, for a long time, O.Šik. Well-known as the leading Czechoslovak reformer in the 1960s Šik received a professorship in St. Gallen, where he further developed his vision of a third way. The impact of his works on Czech economic thought of the 1970s and the 1980s was, however, rather marginal. Not only were his books of the 1960s withdrawn from the libraries and his work from the exile period banned from publication in Czechoslovakia, but the younger generation of economists, namely those who designed the reform of the 1990s, never accepted Šik's doctrine. In a review article, Klaus refuted the work of Kornai, who as a reformer aimed at a much more radical transformation of socialist economy than Šik. Some senior colleagues of Klaus, though sympathetic to Šik's writings, did not dare to or could not articulate their positions.

The economists in exile continued to focus on issues of the Czechoslovak economy and other countries of the region, mostly Hungary and Poland. Their major merit consisted of the explanation of the systemic defects of the command economy, the need to reform it, and assistance in establishing contacts *vis-à-vis* the community of Western economists. Some of them gained

prominent positions in their host institutions. B.Levčík became director of the Vienna Institute for International Economic Comparisons (WIIW) where P.Havlík and Z.Lukáš were also active. J.Skolka and J.Stankovský worked in the most reputable Austrian Institute for Economic Research (WIFO).

J.Sláma and P.Štiller worked at the Osteuropa Institute in Munich and J.Kosta was professor at Frankfurt University. A group of Czech economists was active in Switzerland at the International Labour Organisation, among them M.Kubr, F.Paukert, L.Paukertová and Jan Vaneček. J.V. Mládek was promoted to the position of director of the International Monetary Fund. The University of Reading in the UK hosted L.Rychetník, while J.Krejčí stayed at the University of Lancaster and P.Pelikán taught at the University of Stockholm as well as at the Sorbonne in Paris.

The largest group of economists in exile stayed at universities in the US. Among them are J.Brada, J.Hejda, L.Hejl (Hale), V.Holesovský, K.Kánský, J.Kmenta, O.Kýn, J.Michal, B.Pesek, J.G.Polach, G. Staller, J.Švejnar, G.Tesar, J.Tumlír, A.Wynnyczuk, M.Zelený and others. R.Selucký and J.Adam, well-known authors from the 1960s, were active in Canada. Z.Drábek worked for the World Bank and J.Vanous established and continued as director of Planecon—a prominent firm for analyses and forecasts of the planned economies.

Among the Czech economists in exile Jaroslav Vaneček gained particular prominence as a theoretical economist. After his studies at the Sorbonne and in Switzerland he received his PhD from MIT. Since 1962 he has been teaching at Cornell University. Vaneček's contribution to the debate on the Leontief paradox made him famous. Later, he developed his original theoretical concept of labour-managed economies. He analysed the implications of workers' self-management for both micro- and macroeconomics and critically analysed the neoclassical school. Thanks to his reputation, Vaneček could invite several young researchers (V.Klaus, M.Hájek and A.Kotulan) from the Institute of Economics in Prague who each spent one academic year at Cornell University in the period 1969–71. Vaneček was not allowed to visit Czechoslovakia before 1989 when he participated at an international conference on microeconomics at Liblice. Since then he has returned quite often, although his vision of a self-managed, democratic economy has not, however, found adequate response at home.

After 1989 the Czech exile economists were helpful in providing missing economic literature, namely textbooks, giving lectures and full courses of modern economics at Czech universities and offering scholarships abroad for Czech students. Their role in the preparatory steps for economic reforms of the 1990s was not significant. Only Z.Drábek occupied the position of adviser to the Minister of Economy and later to the Governor of the Central Bank. J.Švejnar<sup>48</sup> worked out drafts of economic blueprints in the very beginning of the reform process. He was also active in the debate on privatization of the state-owned companies through vouchers.

*Critical economics in the underground*

Works bearing the classification of ‘unofficial theory’ are those by economists who were banned from publishing, but who could continue some activities close to the academic world such as librarians, translators or subcontractors to authors who kept their positions in academic institutions. There were also those who had to leave academe altogether, but continued their work as a kind of hobby without any chance of publication. This second group included V.Kadlec, K.Kouba, O.Turek, Z.S?ulc, R.Zukal and others. Their papers were usually distributed in small number of copies as *samizdat* and discussed privately among a narrow group of interested colleagues. Some others were partially published under the authorship of those who passed the screening of 1971–2 and had access to the official journals and publishing houses. Some cases were rather bizarre. A.Chyba, head of the Institute of Marxism—Leninism at the Polytechnic University in Prague, confessed in 1988 that out of fourteen books he published through that period none was written by himself. Needless to say the original texts had to be ‘processed’ before publishing.

There was always a specific interface between official and unofficial theories. Besides personal contacts in private<sup>49</sup> some authors from the unofficial group were invited to discussions of papers by official authors, and those who could publish officially sometimes circulated papers, the publication of which had been refused fully or partially by censorship.

As far as the individual schools of economic thought are concerned, the picture of unofficial economic theory was varied. On the one hand, the Marxists of the 1960s who became disillusioned by the experience of ‘normalization’ started leaning towards the liberal school of thought. On the other hand, a few authors who originally stuck to Marx’s concept attempted later to develop their own ideas (L.Rusmich and J.Vraný). The situation started to change in the 1980s when the black list of authors eroded. After 10 years of enforced silence, Klaus in 1979–80 published again his analytical articles in *Politická ekonomie* and Kouba was allowed to appear in *Ekonomicko-matematický obzor*. Both of them, together with others banned before, reappeared as fellows of the Forecasting Institute of the Academy of Sciences only in the late 1980s.

The most important contributions to microeconomics (both theoretical and applied) within the unofficial group were the works of L.Mlcoch. After the screening he had to leave his post as lecturer at the Prague School of Economics and worked as an economist in a big state company in Prague. Mlcoch’s perfect knowledge of different microeconomic schools of thought, combined with ‘inside’ observations on the behaviour of stateowned companies bargaining with one another and with the upper levels of the economic and political hierarchy, enabled him to develop a new stream of microeconomics published in full much later (see Mlc?och 1990).<sup>50</sup>



One (and for a long time the only) platform where both official and unofficial theoreticians and applied economists could meet and discuss jointly were the seminars organized by the Scientific-Technical Society (*Vedecko-technická společnost—VTS*) at the State Bank of Czechoslovakia chaired, among others, by V.Klaus.<sup>51</sup> The seminars were given among others by K.Dyba, T.Jezek, K.Janacek, J.Goldmann, J.Klacek, V.Kupka, I.Kocárník and V.Klaus himself.<sup>52</sup> The seminar papers were published in a special series. These debates were attended by a number of economists who were neither affiliated to the central bank, nor members of the Scientific-Technical Society. As the discussions tended to be open and critical in relation to the official doctrine, economic policy and institutions of central planning, the seminars and the list of participants were watched by the KŠC organs who attempted to discourage representatives of the official theory from attending. The seminars and the papers published afterwards provided a unique opportunity for many participants to study and discuss modern economic thought and contributed to a gradual shift within the Czech community of economists towards more liberal streams of thought.<sup>53</sup> This group also organized some seminars under the name of *Sportpropag*.

Another group of economists, consisting mostly of those who were fired in 1971–72 and who could continue their work neither in the academic sphere, nor in high-level executive positions, was organized by V.Kadlec, Professor of Economics and Minister of Education during the Prague Spring. This group was composed of F.Vlasák,<sup>54</sup> V.Vales?,<sup>55</sup> K.Václavu, F.Bernat, E.Nemec?ek, R.Zukal, V.S?ilhán, B.Stuna, Z.S?ulc, M.Grégr,<sup>56</sup> F. Stránský, B.Sucharda, V.Zahálka, V.Ereмиás?, C.Císar?,<sup>57</sup> J.Hanzelka and O.Klic?ka. They discussed and circulated through *samizdat* a study by S?ulc (1985) which focused on the concept of the transition from the centrally planned economy to a market-oriented one. In 1990 the core of the group formulated one of the alternatives to cosmetic economic reforms (Z.S?ulc 1993a). Since the second half of the 1980s the group was issuing *samizdat* periodicals regularly, among them *Ekonomická revue*, *Ze zásuvky* (From the Shelf). Later, some articles were published in the illegally printed *Lidové noviny* (People's Newspaper). Alongside these, papers which had been refused by the official journals were circulated in mimeo form.

After 1985 the Czechoslovak Economic Association organized several seminars and discussions which surpassed the limits of the current official doctrine and where, for the first time, J.Vraný, O.Turek and others from the unofficial group of economists appeared.<sup>58</sup> The association also organized a course for young economists based on the Samuelson and Nordhaus textbook.<sup>59</sup> Another series of lectures introduced the works of the Nobel Prize winners in economics prepared by the fellows of both the Institute of Economics and the Institute of Forecasting.<sup>60</sup>

*Attempts at reform*

The wording of economic reform, though not radical ones, still survived at the beginning of the 1970s. They were even included in the documents of the KSC? Congress held in 1971. But in practical terms the system of central planning was reinstalled and prices were again put under the control of the government. At the end of the 1970s the economics of the Comecon block experienced a shock as the Soviets applied world prices for raw material and energy supplies to the imports on which these economies were fully dependent. For Czechoslovakia, this meant an increase on imported primary goods of 600–800 per cent in value terms, which put enormous pressure on the balance of payments. An export drive was required in order to fill the gap and appropriate stimuli were searched for so that the exporters would become more responsive.

Thus, the 1980s saw several ‘experiments’ initiated by the central planners and aimed at more or less cosmetic changes to the plan indicators and bonus schemes for companies and their managers. Also long-term forecasting was put in place, including development programmes for technological change. These changes resulted in strengthening of the intermediate level of management-branch directorates. The distorted prices continued, however, to guide the managers along the wrong lines.

The attempts at minor reforms nevertheless opened up some space for economists who reacted early. In 1982 a team of authors from the Institute of Economics headed by V.Kluson? worked out a study focused on the shortcomings of the system of planning and control, which was addressed to the government and the party headquarters. Because of the sensitivity of the issues involved, the study was classified as secret. The leaders of the KSC? were caught in a trap. The public discussion of economic reforms that was needed to get all echelons of the planning hierarchy involved, would inevitably mean rehabilitation of the architects of the reforms of the Prague Spring. For political reasons they could not even allow the ideas of Gorbachev’s *perestroika* be discussed in full. Therefore, the debate and the measures undertaken in the system of planning and control were merely cosmetic, clearly inadequate to the challenges called for by the external shocks.

These contradictions were understood by Prime Minister Strougal and a few people at the top of the party hierarchy. A new process of differentiation within the political leadership thus began. With support from Prime Minister Strougal and some KSC? leaders, a new research institute was established within the Academy of Sciences—The Institute of Forecasting (*Prognostický ústav C?eskoslovenské akademie ve?d*—PgÚC?SAV)—headed by V.Komárek (b. 1930). Komárek invited a group of economists from the Institute of Economics and later on those who were engaged in the reforms of the 1960s, including some chief persons, as well as economists and other

scientists of the unorthodox streams who so far had been banned from publication or closely watched in their activities. The resulting composition represented a rather widespread spectrum of authors leaning towards the neoliberal, neo-Keynesian and unorthodox Marxist streams. Among them were K.Dyba, V.Dlouhý, T.Jezek, K.Kouba, V.Klaus, A.Nesporová, M.Ransdorf, V.Rudlovcák, O.Turek, L.Urban, R.Vintrová, J.Vostatek and also, much later, M.Zeman. Paradoxical as it may seem from today's perspective, the later representatives of almost all fractions within parliament and of the major political parties, left and right, which emerged after 1990 were able to create an unorthodox platform for research and discussion which was soon internationally recognized.

The major research output was the long-term forecast to 2010 which originated under Komárek's leadership in 1988. The study reflected the negative macroeconomic trends of the Czechoslovak economy and concluded that unless the system of planning and control was changed, the persisting trends would threaten the country with economic decline. The forecast also advocated political reforms, including the division of legislative and executive powers from independent courts.

Originally, the whole text was declared secret. However, after it had been leaked to Radio Free Europe,<sup>61</sup> all the background papers were published in *Politická ekonomie* (1989, No. 5). These papers reflected the different views of the authors, while the final text of the forecast, which was presented as a joint paper, was the editorial work. Some of the individual papers were in fact much more radical than the forecast, namely V.Klaus' in which he presented the shock-therapy approach to macroeconomic stabilization that was adopted three years later.

Another study elaborated by in the Institute of Forecasting, *Dominant features of the new social-economic development programme for Czechoslovakia*, was finished just before November 1989 and published in 1990 (see Komárek *et al.* 1990). It envisaged fundamental changes both in the economic and political system and was much more radical than the preceding forecast. The authors first postulated mixed ownership, transformation of the enterprises into joint-stock companies and self-management forms with further options to privatize them, gradual price liberalization, creation of money and capital markets and liberalization of foreign trade with initial devaluation of the Czech crown.

The second centre of reform thought remained in the Institute of Economics, where even after the foundation of the Institute of Forecasting a strong group of theoretically inclined economists continued to dominate. These included M.Toms, A.Kotulan, J.Klacek, M.Hájek, V.Izák, J.Vaner, K.Janáček, S.Janáčková, M.Hrncíř, O.Deždek, V.Nachtigal, J.Hlaváček, D.Tržíska, V.Kluson, M.Mejstřík, Z.Hába and later on also L.Mlčoch. Although the policy-oriented papers of these authors and some collective studies did not receive such a public response as the works prepared by their

colleagues from the Institute of Forecasting, these contributions became an integral part of reform efforts of the late 1980s.

When the long-term forecasts worked out by Komárek's research team were discussed, some of the discussants from the Institute of Economics were in fact critical of the remaining unsubstantiated optimism regarding the path of economic growth and the catching-up process with developed market economics. Last but not least, personal contacts between both teams remained close.

It is worth while mentioning that a group of young economists (including both members of the Institute of Economics and persons outside the Academy) headed by J.Zieleniec of the Institute of Economics prepared a study in 1989 in which the authors pleaded not only for privatization of state-owned companies but also for a shock-therapy approach to macroeconomic stabilization (Zieleniec *et al.* 1989). As a complement to the forecasting activities of Komárek's Institute at the federal (Czechoslovak) level, a corresponding institute at the Czech level (headed by M.Hrncířová) was also established. The papers written by the members of *this* Institute contained conclusions aiming at radical reform measures. Z.Šulc prepared the first version of the Enterprise Act<sup>62</sup> in which the position of the firm under market conditions was designed, although his authorship could not be revealed at that time.

Besides the collective studies of the research institutes, a considerable number of individual papers were published reflecting a wide spectrum of views and theoretical underpinnings. Many of these contributions had an impact on the ongoing debate. One was written by V.Klaus in co-authorship with D.Tržíška (Klaus and Tržíška 1988). The authors criticized the *perestroika* type of market-oriented reform and anticipated macroeconomic stabilization as an integral part of reform. Another leading neoliberal, T.Jezek, translated von Hayek's works for a wider public, circulated first as *samizdat*.

On several occasions before and after 1990, Klaus presents himself as a protagonist of neoclassical economics. This is reflected in his lectures based on the Samuelson-Nordhaus textbook. At the same time, his admiration for M.Friedman's work has always been highlighted. However, since he was appointed minister of finance and later prime minister, his writings and his stance in the decision-making process also contained pragmatic elements which here and there deviated from mainstream theories of the 1980s. Recently he has put it in the following way:

In accordance with my fundamental economic philosophy, I believe in the invisible hand of Adam Smith and Hayek's spontaneously originating system of human interactions. At the same time, I am aware of the fact that, especially when the system is first constructed, one has to adhere to certain non-trivial matters and certain sequence rules, and that it is necessary at this stage to allow

for a not inconsiderable 'constructive' function to the economic centre, an institution whose role under the normal functioning of the system should be minimal.

(Klaus 1994)

Less visible but also active were the economists leaning towards the neo-Keynesian tradition (V.Izák, J.Klacek and J.Sojka). Basing their standpoints on some analyses carried out by prominent economists in the West and analysing the Czechoslovak economy, they elaborated on the incompleteness, imperfections and failures of market mechanisms in contemporary developed economies and their implications for the design of economic reform. Supporting economic reforms aiming at establishing a market-type economy, and anticipating its outcomes, these economists advocated a larger role for the government both in macroeconomics and in the process of restructuring at the microeconomic level. Their ideas were articulated in a study by a group of economists from the Institute of Economics (Klacek *et al.* 1991) commissioned by the Budgetary Committee of the Parliament.

### *Scenario for the economic reform 1990*

Immediately after November 1989 work was started on a blueprint for systemic economic reform in Czechoslovakia. The prime minister of the Czech Republic, P.Pithart, and the vice-prime minister, F.Vlasák, organized a team of economists who were to work out the first scenario. The team was dominated by those who were involved in the reforms of the 1960s but whose views and ideas since then had developed in a more market-oriented direction. Another team organized by the minister of finance of the federal government of Czechoslovakia, V.Klaus, was comprised of his close collaborators from the past. This group was based on a more neoliberal ideology. The concepts of both teams put an emphasis on rapid macroeconomic stabilization, liberalization of prices and limited convertibility at the early stage of the reforms.<sup>63</sup> However, the main difference between the two lay in the speed and extent of privatization, and the role of the government in the process of economic reforms. While Vlasák's team advocated in the first instance a de-etatization<sup>64</sup> of state-owned companies, followed later by the process of privatization based on individual projects of the companies, the team headed by Klaus emphasized the necessity of large-scale privatization from the very beginning of the reform process. The main pillar of their privatization concept was devoted to the voucher scheme, the design of which is attributed to T.Jezek and D.Tržiska.<sup>65</sup> Their timing of the voucher scheme implied that a large segment of the economy should first have been privatized, and only later on restructured after the new owners had enforced their ownership rights in the privatized companies.

The scenario of economic reform which was finally adopted by the federal parliament of Czechoslovakia comprised elements of both approaches, with a preference given to large-scale privatization at the start of the reforms. It included, in addition to the establishment of the Ministry for Privatization, a new institution, the Fund of National Property, an idea which originated in the draft presented by Vlasák's team.

The scenario of economic reform was composed of a set of fundamental institutional changes envisaged within a stabilized macroeconomic framework. A surplus government budget and restrictive monetary policy were aimed at keeping inflationary processes under control. Radical and very fast privatization represented a major institutional change of the scenario and included a small-scale scheme (shops, restaurants), a large-scale, mostly voucher scheme (enterprises), and property restitutions.

Ninety per cent of all prices (measured as a proportion of GDP) should have been liberalized at once and the Czechoslovak crown, massively devalued in 1990, was to become convertible for foreign trade transactions. The scenario also contained elements of social policy, such as the creation of a social safety net for the unemployed and those undergoing retraining.

The market-orientated scenario also postulated a significant role for the government and the parliament in the process of restructuring both at the company and at the national economy level. The government was assumed to adopt market-conformed industrial policies and to become involved in shaping the future structural profile of the economy. The budgetary expenditures of the state, together with the financial allocations envisaged by the Fund of National Property, were to be channelled for these purposes.

The scenario was considered the principal document from which the strategy of transformation from a command system to a market economy was designed. It reflected elements of different schools such as the neoliberals (which prevailed), the neo-Keynesians and others, especially with respect to ecological, industrial and social policies. To reduce the theoretical background of the transformation strategy to a pure neoliberal doctrine, as is sometimes done, corresponds neither to the contents of the blueprint nor to the policy measures based on it. In that respect, examples of Klaus' rhetoric, such as 'market economy without any attribute', have misled some analysts. Such an interpretation is shown to be even more inadequate if the realization of the transformation strategy is analysed in more detail. This would be a new story which cannot be told in this chapter.

### *Implementation of the scenario*

The scenario of economic reform was implemented starting from January 1991, when prices were liberalized and internal convertibility introduced. Privatization was initiated later on and the main component—voucher privatization—was introduced only in 1992–3. Fiscal and monetary policies

were initially very tight. But the tightness of monetary restriction was eroded through a rapid build-up of interenterprise debts.<sup>66</sup> The state-owned companies operated in an environment of almost fully liberalized prices and internal convertibility for at least two years, which had not originally been expected.

Also, some important elements of the reform package, such as the structural development programme, industrial policy and the more visible engagement of the state in regions where old industries were concentrated, were dropped step by step from the implemented scenario.

The actual main changes, compared to the scenario, relate to the process of privatization and the property rights which emerged thereafter. The original design of voucher privatization was based on individual small shareholders and the capital market, the operation of which should reallocate initial property rights. The investment funds were delegated to a supplementary position. In reality, the role played by the investment funds turned out to be dominant. The bank-based investment funds became the major owners of privatized companies. The ownership structures that emerged were characterized as locked-in structures whereby the banks are (indirectly) principal owners as well as creditors of the companies and are cross-owned by the investment funds.

The reform process, as a rule, proceeded faster in the real economy than in the institutions containing the legislative, regulatory and control mechanism. Institutional change was often carried out *en route* which entailed frequent amendments to the laws and government decrees. Macroeconomics trends also differed from initial expectations. As a consequence of bold reforms and the collapse of the Comecon system of trade, the level of economic activity was on a sharp decline throughout the first stage of transformation and recovered only in 1994. The structure of foreign trade was shifted exceptionally fast from the Eastern to the Western markets, which was supported by the Association agreement with the EU. Another shock for the economy came in 1992 when Czechoslovakia was split.

All these changes in the process of implementation of the scenario make it difficult to determine the weights of individual factors. Some issues are still open after six years of the transformation process. The most pertinent are corporate governance, transparency of the capital market and the role of the government in industrial restructuring.

### **Concluding remarks: The impact of economic thought on system change**

What was the impact of economic thought on systemic changes during the four decades of communist rule in Czechoslovakia? There is no simple answer to this question. In the introduction to this study it was emphasized that the development of economic thought and of systemic changes was

always dependent on the ever-changing political climate. Let us draw attention, in this context, to the interplay between theoretical ideas and concepts on the one hand, and the reform measures actually taken on the other.

The reform debates of the 1950s and 1960s focused on the improvement of the so-called 'system of planning and management of the national economy' without questioning the 'socialist order'. It is true that during the Prague Spring of 1968 a radical change was conceived in implementing market instruments as the main tool of coordinating and controlling the microsphere of the economy and introducing workers' participation in decision-making. Yet even then, the concept of the reformers around O.S?ik did not surpass the frame of a 'socialist plan-market model'. The reform blueprints of the Czech economists were initiated and, to a certain extent, supported by the political leadership of the country, in particular after Dubc?ek (and some other reform-minded politicians, including S?ik) replaced Novotný in January 1968. However, the systemic changes could be only partially realized since the forced interference of the ruling forces in the Soviet bloc intercepted the reforms after 1968. There is no doubt, however, that there was a period lasting roughly from 1963 to 1968 when the impact of economic thought on systemic changes was quite remarkable. The concrete design of the reform blueprints was worked out not only by economists, but also by some government officers and company managers.

The period of the 1970s was marked by harsh political dictate over official economic thought, both at the universities and at the institutes of economic research. At the start of the 1970s almost all economists engaged in preparing the economic reforms of the 1960s were fired from their positions and, at the same time, banned from publishing. Some of the leading protagonists of the reform concept emigrated, and a remarkable number of them (O.S?ik, B.Levc?ík, J.Krejčí and others) played an important role in Western academia, in particular in the field of comparative system analysis. Official economic 'theory' was forced to legitimize the restored central planning system and the corresponding economic policy. The younger generation, which mostly survived screening and purges, attempted to escape from officialdom by focusing on intensive studies of modern economics, formalized modelling, etc. The major victims of this downgraded role of economics were university students, whose main sources were the dogmatic Soviet textbooks of Marxism—Leninism.

By the end of the 1970s, the Czechoslovak economy (as well as the economies of the other Comecon countries) was derailed from the already negative trends by severe external shocks. The political leadership was forced to react. Instead of addressing the roots of the economic malaise embedded in systemic defects, they initiated 'measures for perfecting the planning system'. These attempts continued through the 1980s with some intensification towards the end of the decade.



Under the surface of the official publications in economic theory, non-conformist ideas were articulated step by step, namely in seminars and discussions in the research institutes, the central bank and in informal groups of economists. The participants in these debates were not only members of academia but also some government officers and company managers. Of particular importance was the participation of economists who had been dismissed in the purges of the early 1970s. At the same time modern economic thought started to surface both in economic journals and the syllabi of the universities. This does not mean that ideological control disappeared totally. Some issues, such as private property, liberalization of foreign trade and a fully-fledged market economy were still taboos when options for reforms were discussed.

It was only a few months before November 1989 that these taboos stopped being observed. This change could not have happened had there not been an ongoing erosion of the political power in the country. Research centres, namely the newly founded Institute of Forecasting and the Institute of Economics of the Academy, became the main platforms of debate on systemic change.

The dramatic turn came with the collapse of the political system in 1989. A broad area was opened for all streams of economic thought which had so far been suppressed. In this situation, more radical concepts for systemic change gained ground, inspired in particular by the neoliberal school of thought as represented first of all by V.Klaus, T.Jezek and D.Tríska. The impact of these concepts was reflected in the basic official document for systemic change, the scenario for economic reform, approved in the second half of 1990. Although neoliberal ideas were dominant, the impact of some other streams of economic thought could be identified as well.

To answer how economic thought shaped the approach to system change after the political shift in 1989, it appears that its impact was clearly strong. However, in the opinion of the authors, there were some other significant determinants. These were primarily political and social factors, as well as the initial economic conditions for transformation in Czechoslovakia. At the end of the study one general lesson can be drawn: in the long run, no amount of political suppression can stop independent economic thought.

### Notes

- 1 Part 1 has been written by J.Kosta, part 2 by J.Kosta and Z.Sulc, part 3 by J.Havel and J.Klacek, and part 4 by J.Havel, J.Klacek, J.Kosta and Z.Sulc.
- 2 As Brus (1986) convincingly shows, such an interplay between, on the one hand, political rule and spiritual climate and, on the other, economic ideas and reform attempts occurred in all Soviet bloc countries.
- 3 For details see Vencovský (1993).
- 4 For details see Šmejkal (1993).

- 5 The following description of economic policies of this period is based on Kosta (1978), chapter I, and Kosta (1995a), p. 377, and the sources quoted therein.
- 6 *Pavel Hrubý* (1914–94) was teaching ‘political economy—pre-socialist formations’ from 1946 to the early 1950s at the Higher School for Political and Social Sciences (VŠPS). Accused of belonging to a ‘Trotskyist group’ he was arrested in January 1952 and sentenced to several years imprisonment. In the 1960s he was appointed professor of political economy at the University of economics (VS?E) and after the 1968 invasion he was again fired.
- 7 In detail see Kosta (1995b).
- 8 *Ludvík Frejka* (1904–52) was employed in the KSC apparatus in 1927. In the late 1930s he attended lectures at the London School of Economics. During his stay in England in the early 1940s he participated in economic debates organized by the Czechoslovak Communists in exile. After his return to Prague, Frejka was appointed the chairman of the Economic Commission (NHK) of the KSC? and in 1948 he became the leading economic adviser to president Klement Gottwald. He was arrested in 1951 and, one year later, sentenced to death and executed in the ‘Slánský trials’.
- For *Josef Goldmann* (1912–84) see the short biography in the appendix of this volume.
- Eugen Löbl* (1907–87) was a Slovak economist who graduated from Vienna University. In his British exile (1939–45), he was economic adviser to Jan Masaryk, Minister of Foreign Affairs. He returned to Czechoslovakia in 1945 where he took over a leading position in the Ministry of Foreign Trade. He was promoted to the first vice-minister in 1948, but in the fall of 1949 he was arrested, to be condemned in the Slánský trial to a life sentence. In 1963 he was rehabilitated.
- Bedřich Levc?ík* (b. 1915) was a leading member of the young Social Democrats in Prague in the late 1930s. After finishing his studies in Prague, he studied from 1939 at the University of Wales. Then he was employed at the Czechoslovak Ministry for Reconstruction in British exile. After his return to Prague, Levc?ík worked in the field of social policy. In early 1952 he was dismissed and had to begin his career from scratch.
- Frejka, Goldmann, Löbl and Levc?ík were all rehabilitated during the 1960s. Goldmann, Löbl and Levc?ík took part in the Prague Spring reform debates, the last two participated after 1968 during their second exile in the West in academic life. For more details see Kaplan (1986) and Pelikán (1970). (The authors are indebted also to Dr Levc?ík for additional information.)
- 9 The most reputable expert in this group, *Edvard Oustrata* (1898–58), was president of the armaments company Zbrojovka Brno in pre-war times. During the war he was appointed minister of finance in exile and, back in Czechoslovakia after the liberation, secretary general of the Economic Council of the government, and in 1949 first viceminister for national planning. Arrested in 1952, Oustrata was sentenced in 1954 to twelve years imprisonment. He was posthumously rehabilitated in 1963. See Kaplan (1986).
- 10 Let us quote the only ‘Czech’ contribution in this series: ‘We are no more forced to go through our own, often very hard, experiences in order to formulate the economic laws of socialism. This also has been done for us by the Soviet comrades, and it was in particular the great Stalin who generalized the Soviet experiences and discovered on these grounds the economic laws of socialism...it is only up to us to learn how to use them properly’ (Frejka 1951:65). It is the more tragic that Frejka was accused of ‘treason’ and executed (see note 8).

- 11 *Ota S?ik* (b. 1919) seemed to be destined for such a responsible post; see S?ik's short biography in the appendix of this volume.
- 12 One interdisciplinary work produced by social scientists that emphasized the new conditions under the 'scientific and technological revolution' requiring 'humanization', 'democratization' and 'participation' in all spheres of the society was that of Radovan Richta *et al.*, *Civilisation at the Crossroads, Human Implications of the Scientific and Technological Revolution*, Prague 1969. The book summarized the ongoing discussions of a large team of scientists representing different disciplines.
- 13 For more details see Kosta 1978:125–33.
- 14 This argument appeared in many articles in the early 1960s (see, for example, the theoretical journals *Politická ekonomie* and *Nová mysl*); see also Richta *et al.* 1969:89–103.
- 15 *Hlavní směry zdokonalení plánovitého řízení národního hospodářství a o úloze strany* (Main directions of the improvement of the planned management of the national economy and on the role of the party)—decision passed by the Central Committee of the Communist Party of Czechoslovakia, January 1965.
- 16 This can be observed in S?ik's publications too. See S?ik (1965, 1967a, b).
- 17 This was the position of Oldřich Truhlár (VS?E) and Michal Kocman (Research Institute for Engineering) presented at the conference (*Politická ekonomie* No. 3, 1964). Rozsypal was also a protagonist of a solution consisting of a sole improvement of obligatory targets (Rozsypal 1964).
- 18 To avoid misunderstandings, neither Koz?us?ník nor Komenda proposed at the time that the equilibrium prices aimed at should result from the free interplay of market forces.
- 19 Turek (1964) emphasizes in his article the importance of unifying gross income tax (see also below). Another point of tax reforms concerned the envisaged unification of extremely differing turnover rates under the old system. See also Adam (1974:124–7, 186).
- 20 It would go beyond the scope of this contribution to reproduce the reform concept (which itself changed between 1965 and 1968) in its entirety. Moreover, we are unable to describe in detail which parts of the blueprints were realized before the change of the system was reversed after 1968. The reader will find such information in the following selected publications: Adam (1993:231–66); Hensel (1968); Kosta (1978: chap. III); K?yn (1972:139–80); Selucký (1972:79–112); S?ulc (1997).
- 21 For more detail see Adam (1974, in particular pp. 186–93); K?yn (1972:174–6); Fink (1968:127–41).
- 22 The authors of this section were present at the conference. For a summary see *K základním otázkám řízení národního hospodářství* (On basic issues of managing the national economy), IP no. 51, EU CSAV, 1967.
- 23 The reformers around S?ik were familiar with Lisichkin's market-oriented view; see Lisichkin (1967).
- 24 Of exceptional importance was, in this context, the Czech translation of Keynes' *General Theory*, carried out by Miroslav Rumler (Keynes 1963) and Rumler's book on Keynes' ideas (Rumler 1965). Rita Budínová and Ludek Urban translated parts of Samuelson's textbook (in English: 6th edn, 1964), which they published in the series of the EÚ C?SAV in 1969. To support their lectures, the scholars elaborated texts that were published in Urban (1967). See also the volume *Selected Theories of the Market Mechanism* (Mervart 1969).
- 25 Noteworthy in this context is the application of production function to macroeconomic development in the C?SSR, showing the continual decline of factor productivity in the writings of Miroslav Toms and Mojmir Hájek (1967).

- 26 Referring to Keynes' argument about expectations in a money economy does not mean, necessarily, that Klaus would share another proposition of Keynes and his followers, namely that a free market itself, without state intervention (in particular demand management) does tend to equilibrium. Later, Klaus vehemently defends the neoclassical school against Keynesianism (see the third part of this chapter).
- 27 Two books extensively characterize the ideas of this mainstream: the textbook *Politická ekonomie socialismu* (Political Economy of Socialism; Kouba 1965), and a volume of essays *Úvahy o socialistické ekonomice* (Reflections on a Socialist Economy; Kouba 1968).
- 28 The 'dangerous' role of economic theory for socialism was mentioned in an official KSC? document 'A Lesson From the Crisis Development in Party and Society', which in 1970 concentrated all objections of the hard line communists against the process called the Prague Spring.
- 29 The commission was headed by K.Roubal. The authors of this text had the opportunity to study the original documents of the commission.
- 30 See also short biography of Klaus in the appendix of this volume.
- 31 The State Bank of Czechoslovakia (SBC?S) was a 'monobank' which concentrated the role of the central bank as well as the role of commercial bank in one body.
- 32 J.Vojtíš?ek, the editor and the author of the largest textbook on the political economy of capitalism was the only remaining professor of political economy at the University of Economics (VŠE) in the 1970s.
- 33 People who never did anything in economic science and research had the best position in purges, because he who does not work cannot fail. Many of these second-class economists later became loyal party chiefs.
- 34 These restrictions were partially lifted in 1982 when the decision-making process was delegated to the lower levels of the party hierarchy.
- 35 The only alternative was the Franz Mehring Institute at the University of Leipzig. Later another equivalent was permitted: two-year external study at the Party School of Political Science.
- 36 It is incredible that some articles were written because their authors really wanted to say only two or three critical or doubtful sentences.
- 37 The best situation was in the library of the Institute of Economics of Czechoslovak Academy of Sciences. Among *libri prohibiti* were mainly Czech titles from the 1960s and all texts published by Czech emigrants.
- 38 Cagolov headed the authoritative department of political economy at Moscow State University.
- 39 V.Novák, who was responsible for the education of political economy in the Ministry of Education joked that Vojtíš?ek's team included 'all Czechoslovak economists who could ever criticise this textbook...'
- 40 The similarity with Stalin's fundamental law of socialism is quite apparent.
- 41 Economists of socialism were afraid of using more simple 'market relations'.
- 42 In the late 1980s, translations of Western literature were completely stopped in the Czech Republic; the situation was a bit better in the Slovak republic.
- 43 In Rypota's (1980) textbook on the political economy of socialism all empirical data were missing.
- 44 This is not a total surprise because the Prague Economic University (VŠE) was and still is more a business school than a school of economics. Broader education in economics (including Western theories) was only part of the syllabus for students of political economy or econometrics. The number of economics students was quite limited there.

- 45 See also Goldmann's and Klaus' work presented earlier in this chapter.
- 46 See also short biography of Toms in the appendix of this volume.
- 47 In 1967 M.Toms spent one academic year at Michigan University. In his dissertation (1968) he compared the theories of K.Marx with those of J.Keynes, J.Robinson, R. Solow and P.Samuelson. In the 1970s and 1980s his main focus was on optimal planning and Marx's concept of use value.
- 48 Švejnár is a disciple of Jaroslav Vaneček.
- 49 Such relations existed, for instance, between K.Kouba and J.Goldmann.
- 50 Mlčoch's focus on the microeconomics of socialism was quite exceptional. His colleagues preferred macroeconomics and this fact is also reflected in the shape of the Czech reform process in the 1990s.
- 51 Klaus was secretary of the Czech Society for Science and Technology at the State Bank of Czechoslovakia in the first half of the 1980s.
- 52 With the exception of Josef Goldmann, who died in 1984, many participants were promoted to the cabinet, the parliament and the central bank in the 1990s. Václav Klaus became federal minister of finance (1989), federal vice-premier (1991) and prime minister of the Czech government (1992). Karel Dyba was minister of economy (1992–6). Tomáš Jezek became the first Czech minister of privatization (1990–2), chairman of the National property Fund (1991–4), chairman of the Budget Committee of the Czech Parliament (1992–6) and chairman of the Prague Stock Exchange Chamber (1996). Ivan Kocárník became Czech minister of finance (1992). Václav Kupka was vice-minister at the Ministry of Economy. Jan Klacek was the last director of the abolished Institute of Economics of the Czechoslovak Academy of Sciences and the first director of a newly established Institute of Economics at the Czech National Bank.
- 53 The Society for Science and Technology at the State Bank published twelve collections of these seminar papers.
- 54 František Vlasák became vice-prime minister of the Czech government in 1990.
- 55 Václav Vales was the minister of Foreign Trade in the 1960s and became vice-prime minister of the Czechoslovak Federal Government in 1990.
- 56 Miroslav Grégr became minister of industry in 1990.
- 57 Cestmír Císar was one of the main political leaders of the Prague Spring.
- 58 The section of young economists led by Michal Mejstřík and later on by Leos Kmoníček was the most active part of the society.
- 59 The 12th edition of the Samuelson-Nordhaus textbook was used. The course was led by A.Kotulan and V.Klaus in the late 1980s. A similar activity appeared a bit later also in Slovakia, where the course was led by Jozef Kucera.
- 60 In 1986 the Cabinet for Forecasting was founded, which was transformed in 1987 into the Institute for Forecasting.
- 61 One copy of the text was sent to the prominent political emigrant Zdeněk Mlynář, and he immediately asked three exiled economists (Šik, Levčík, Kosta) for their comments. See Kosta (1995b).
- 62 The Enterprise Act activity of the old regime was inspired by Soviet *perestroika*. Of course, Šulc's proposal was changed deeply by the 'experts' from the Central Committee of the KSC.
- 63 The contributions to the long discussion about the shape of the Czech reform process can be hardly covered here. Alternative concepts were put forward. They contained reservations towards restrictive monetary and fiscal policies. With differentiated reasoning they also cast doubts on mass-scale privatization of unstructured companies as a way of increasing their very low X-efficiency. All these papers and blueprints lacked, however, coherence and represented just a partial response to the raised expectations of the general public.
- 64 De-etatization is the original idea of Zdislav Šulc.

- 65 The origins of the voucher type of privatization are not yet perfectly mapped. Besides Polish economists, J.Švejnar, a Czech-American professor at Pittsburgh University and since 1993 also director of the newly established Economic Institute of the Czech Academy of Sciences, and Andrew Jonás?, an experienced manager operating in world financial markets, are often referred to as sources of inspiration.
- 66 Companies reacted to high-credit interest rates and the limited availability of bank credits by failing to pay their subcontractors. A chain of indebted companies spread over the national economy. The efficiency of monetary restriction was therefore limited. See Hrnčíř? and Klacek (1994).

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# ECONOMICS IN EASTERN GERMANY, 1945–90

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## A tentative first approach to the topic

When studying the history of science in the GDR, a thought expressed by Kocka (1993:11) applies: interpreting the phenomena in the GDR exclusively as a prelude to its collapse not only leads too easily to one-sidedness, but also ‘introduces the danger of grossly ignoring the question of possible alternative courses within the historical constellation’. Considering and interpreting the collapse of the GDR as the sole reference system quickly leads to a new kind of teleology, of ‘retrospective determinism’ (Bendix 1982:65). The result would be fixed and ‘only its historical explanation needs to be given. But that is too simple. There is a great danger of riding a transformed philosophy of history that has merely changed the sign of the former way of thinking’ (Kohli 1994:31).

So what was economics in the GDR? Was there ‘any such thing as economics in the GDR’ (Pirker *et al.* 1995:196)? Was it, in analogy to philosophy in the GDR, merely a kind of party-organized thinking? Or is it true that the GDR ‘made significant progress...specifically in socialist economic theory’ (Beyer *et al.* 1970:256)? Was the outstanding characteristic of economics in the GDR that it was ‘specially bended’ (Wyschofsky 1995:196)? Was this science characterized mainly by existing in a constant state of tension between the official scientific pronouncement of dogmas and the enjoyment of a cognitive life of its own based on the normal standards prevailing in science?

What should we take as our starting point? First, we must start with the fact that the history and cognitive profile of economics in the SOZ/GDR can only be properly appreciated if the years 1917 and 1945 are regarded as historical turning points, as far-reaching crises in the bourgeois modern. They placed the search for alternative future economic and social development, the question of a socio-political reorganization firmly on the historical agenda—and engendered the now familiar Soviet type of communism in Europe. Following the defeat of the Fascism brought forth by

bourgeois society, there were not a few people in 1945 who at first regarded the new order in the SOZ and the GDR as an opportunity, a chance to finally establish a system based on common ownership of the means of production and marked by social justice and equality. And, under the prevailing circumstances, the model of the Soviet economy and society created in Russia after 1917 had to be considered *the* model of socialism, the incarnation of theories about communism and its economic theory. The GDR emerged as a state *cum* concern and experiment undertaken by German communists to solve the social issue by eliminating private ownership. The resulting convictions were to mark the coming generations of GDR economists in various ways.

On the other hand, because the GDR quickly mutated into a state rigidly governed by the Socialist Unity Party (SED), economics could only survive by positively identifying itself with state socialism, its centralist planned economy, its sources of fundamental economic thought (Marx, Engels, Lenin and, for some time, Stalin) and the SED as the 'leading force'. It was thus soon to assume the character of an official science, a character it retained until the turnaround in the late autumn of 1989. Briefly, economics in the GDR was from the very start an integral part of the political structures and instruments serving SED policy. This instrumentalization categorically included treating the economist as a political functionary, a 'party worker at the theoretical front who had to deliver what policy dictated' (Schirmer 1993:7).

However, the system conformity of economics in the GDR cannot be attributed entirely to duress and repression by the SED and state socialism in general and its science system in particular. Owing to their convictions, a messianic belief in their enlightenment effect within party and government circles and the Nibelung-like party discipline, the majority of economists accepted, and therefore made socially acceptable, the function of official scientist conferred upon them. For them, a complete break with state socialism and its economics was scarcely conceivable, despite the unpleasantness and suffering encountered in some cases. Commenting on the behaviour of oppositional SED social scientists, W. Harich (1993:194), a leading protagonist among critical Marxist philosophers in the GDR during the 1950s and consequently in the cross-fire of scientific and personal repression, remarked: 'But such behaviour can be expected among people who, flesh of the flesh, spirit of the spirit of this party, did not wish to fight it, but wanted to help it find a new way.'

How economics stood in relation to the SED and the way it used the knowledge furnished by economic theory forms a special chapter in the topic dealt with here. Based on its self-image rooted in Marxism-Leninism, party propaganda postulated that the SED represented scientific potential of the greatest magnitude and that its economic and social policies in the GDR were always founded on a strong scientific theory. This legend was

underscored by the work of GDR economists. For many years they lived with the notion that their ideas, conceptions and proposals were providing a scientific foundation for SED policies. Ultimately, this notion proved to be self-deceptive. Our survey of GDR economists reveals that they increasingly became convinced that economics in the GDR had no major impact on economic policy or the development of the economic system.

And, finally, substantial parts of the origin of GDR economic theory and the argumentation it used must be analysed in the context of 'relational history'. In other words, the problems studied by economics in East Germany, its emphasis, its research topics, recommendations and publications must be explained largely against the backdrop of the competition between systems on German soil, the divergent post-war development in divided Germany, the mutual influences between East and West Germany. Distinguishing itself always from the Federal Republic as the 'better' of the two Germanics, the GDR alleged that the FRG had actually always been anti-GDR, and this relationship is characteristic of the whole German post-war history. Economics followed contrary directions in the two German societies in the same way that their basic economic structures developed in divergent directions. This was reflected in the theoretical programmatics and methodologies, systems of scientific categories, major research topics and the economic policies derived from economics research.

### **Economic theory in the SOZ from 1945 to 1949**

The institutional establishment and subject matter of economic theory in the SOZ were marked by the specific nature of post-war development in Eastern Germany. The radical break with pre-1945 political, economic and intellectual cultural structures and the consequent replacement of the former élite constituted new conditions for the development of economics on the territory of the SOZ. It was simultaneously the cognitive, structural and personnel lesion in the birth of economics between the periods before and after 1945.

This historical period of change was marked in the SOZ principally by efforts to establish an anti-Fascist democratic social system and the first steps towards a planned economy. The actions were carried out with the help of the Soviet Military Administration in Germany (SMAD). It was on this basis that economic theory was to develop. Initially a relatively broad variety of theoretical approaches and opinions were tolerated, most of them linked to the theoretical concepts of traditional economics. Therefore, at least until 1948, no rigid course had been set for the erection of a state socialist scientific structure with economics officially enthroned.

*The institutionalization of economic theory*

Once the universities in the SOZ such as Berlin, Jena, Halle, Leipzig, Greifswald and Rostock had reopened their doors in 1945/6, teaching in economics was also resumed. True to German traditions, it was taught mainly at the faculties of public affairs and law. The structure of economic studies and the subjects it entailed were much the same as in pre-1945 academic institutions. And not only the structures of the traditional disciplines were retained: numerous representatives of the pre-1945 academic staff were able to resume their teaching activities, present the same subject matter and accept scientific posts, including for instance at Berlin B.Gleitze, K.Mellerowicz, R.Meerwarth and B.Rogowsky, at Jena E.Preiser and A.Paulsen and at Halle H.Gehrig.

So, how was Marxist economic theory able to take root in the SOZ? In the first place, the SED introduced a training system in 1946 to teach its members the dogmas of Marxist political economy. Second, the SED Party College 'Karl Marx' was established in June 1946. It provided the party not only with a training centre for its cadres, but also with an important institution for the propagation of its teachings. Third, a few Marxist economists were among those who received appointments or professorships at the reopened universities. They included the economist and economic historian *Jürgen Kuczynski* (1904–97) in Berlin and the economist and historian of economic ideas *Fritz Behrens* (1909–80) in Leipzig. Fourth, the SED in collaboration with the SMAD was able to establish faculties of social science at universities such as those in Leipzig, Jena and Rostock side by side with the traditional higher educational structures. Serving to educate a new intelligentsia of working-class parentage, these faculties were an important aid to the party in extending its ideological influence to embrace the universities and sciences and simultaneously functioned as centres of both Marxism—Leninism and political economy. Fifth, the German Academy of Administration (DVA) was founded in Forst-Zinna in October 1948. This new college of social sciences was responsible in particular for the further education of senior grade staff employed in the administrative apparatus and the economy, trained instructors for the administrative schools at regional level and was responsible for the preparation and publication of Marxist teaching materials. The dean and founder of its economics faculty was the economist *Gunther Kohlmei* (b. 1913), who was to become one of the few economists in the GDR to acquire an international reputation.

The new institutionalized field of economics in the SOZ also provided suitable platforms for publication. Apart from the weekly *Die Wirtschaft* (The Economy), periodicals such as the SED journal *Einheit* (Unity) first published in 1946 and the periodicals *Die Arbeit* (Labour) first issued in 1947 and *Deutsche Finanzwirtschaft* (German Finance), of which the first issue also appeared in 1947, all dealt with corresponding topics. But



magazines such as *Aufbau* (Construction) and *Forum* also published articles on economics and its controversies in Eastern Germany.

The situation of economics changed in 1948/9. As the divide separating the SOZ from the Western zones deepened, the correspondingly modified strategy adopted by the SED leadership (towards a more strongly autonomous development in the SOZ) led to a harsher climate for non-Marxist economists, now titled 'bourgeois forces'. The sustained stalinization of the SED which, starting in 1948, aimed to transform the party into a party of a new type based on the Soviet communist party model, contributed decisively to this situation. The acquisition of ideological supremacy and a monopoly on interpretation emerged as the foremost goals. Henceforth, all analyses of economic phenomena and processes without a Marxist weighting were to be denounced. War was declared on 'bourgeois economies'. The predominance of Marxism—Leninism throughout the economics scene in the SOZ became a declared goal.

### *On the first debates concerning economics in the SOZ*

What topics dominated the discussion among economists? The majority of papers published at the time dealt, as might be expected during a phase of economic reconstruction, with topics of practical relevance to the contemporary economic situation. Economics had no need for far-reaching generalized theories. Four topics received particular attention:

- economic theory during the reconstruction phase;
- the ownership issues involved in socialization, nationalization and public ownership;
- planning and the planned economy in the context of considerations concerning the economic system; and
- monetary categories in the new economic system.

### *Discussions on 'Economic theory during the reconstruction'*

In view of the devastation wreaked by Fascism on the economic, social, cultural and scientific scene and the far-reaching changes taken in hand after 1945, a discussion on 'economic theory during the reconstruction' was more than urgent. The situation called for a reappraisal of economics in many respects. A critical and self-critical review was needed of the position and function of German economics in the power structure of the Nazi regime, theories and subject matter that had been propounded and the possible involvement of individual economists were on the agenda. And it was necessary to consider the cognitive profile of economics as regards their applicability in a new system.

Although the economists involved in the discussion were from various theoretical schools, consensus was reached on several issues. This must be seen as an expression of a largely democratically constituted economics beyond the bounds set by pronounced monopolies on definitions, standpoints dictated by party politics or official scientific conformity. Common views were signalized. Naturally, it was impossible to conceal the substantial differences and contradictions in the design and vocabulary of the various theoretical schools. It was natural that Marxist theoreticians emphasized the importance of Marxian economics in their publications. Behrens (1948:8), for instance, regarded ‘the task of living Marxism in Germany, the country of birth of scientific socialism’, as consisting in ‘making the springs of Marxist tradition to flow again after twelve years’ complete suppression’. Until about 1948/9 it had not been evident that the direct reception of Marx’s theories and the ritual declaration of belief in their validity was considered an indispensable precondition for scientific activity in the institutionalized economics of the SOZ. Instead, by ‘accepting Marx as a theoretician.... (one) paid tribute to a perceivedly very basic freedom and progressiveness, the suppression of which during the period of national socialism one also lamented together’ (Becker and Dierking 1989:109).

However, the tendency to privilege own theoretical structures that became so pronounced in GDR state socialism was already apparent among Marxist economists at this time. This is evident when Behrens, Kuczynski or *Fred Oelsner* (1903–77) attributed the origin of economics exclusively to Marx’s distinction between ‘scientific economics’ and ‘Vulgar economics’ and denied the ability of non-Marxian economics to grasp the inherent structures and causal relationships, the ‘essence’ of the economy. The conclusion that traditional economics was unable to define the actual facts of capitalist economy because it ignored the economic theories embodied in Marxism was problematic (cf. Behrens 1948, Oelsner 1948).

Finally, in 1949, when the division into two states or ‘camps’ was becoming clearly manifest both inside and outside Germany and the SED was intensifying its ideological power posturing, the diction of East German Marxist economists in the dispute between theories became clearer. Competition between ideas became a matter of defining bounds. Knowledge and truth monopolies were established. Kuczynski (1949:100) wrote, for example: ‘The foundations of the true science of economic reality were laid a hundred years ago by Marx and Engels’. In contrast, bourgeois economic theory in the ‘period of capitalist decline...was committing...suicide as it declares itself not qualified to undertake anything on its own initiative to grasp and change the world’ (Kuczynski 1949:102), because ‘only Marxism—Leninism is able to grasp reality in its entirety, its system of economic science is also the only one that is not repeatedly surprised and overturned by reality’ (Kuczynski 1949:105). Therefore it is obvious that

one—so runs the direct declaration of war on non-Marxist theory—cannot approach the construction of a peacefully democratic systematically steered economy with such theories. Marxist economic theory had entered its early stage as an official science in the SOZ.

*The ownership issue between socialization, nationalization  
and public ownership*

The actions taken to transform ownership relations in the SOZ after 1945 explain just why it was the representatives of Marxist economics who increasingly took the floor on the ownership issue. This issue involved processes that were of central importance to the SED's conception for the construction of socialism; after all, the communists could 'summarize their theory in a single expression: Abolition of private ownership' (Marx and Engels 1975:475). In concrete terms, it involved defining the content of numerous categories linked to the ownership issue for immediate practical political purposes. Owing to the historical circumstances, much thought was being given to categories such as state ownership, socialization, nationalization and transformation into public ownership, private and capital ownership, people's and common ownership, state and communal ownership, and cooperative and personal ownership. The distinction between 'nationalization' and 'socialization' was drawn explicitly in connection with the question of whether every nationalization is already socialism. According to *Anton Ackermann* (1905–73), a theoretician during the early days of the SED, nationalization would 'only become socialization if carried out by the working class wielding political power in an alliance with the other strata of the working people' and 'the nationalization (were) only part of the general upheaval, only the beginning of the socialist reorganization of the entire economic and social relations of the country concerned' (Ackermann 1947:849). And since the system in place in the SOZ, he wrote, was 'not the state system of a working class that had come to power, the nationalization carried out was not socialization, but an action of a progressive, antifascist, generally democratic character' (Ackermann 1947:849).

In effect, Marxist economists found themselves forced to do the splits. Their communist convictions told them that capital and the private ownership of small commodity producers were totally inconsistent with socialism. On the other hand, it was understood that, owing to the historical time span of the social reorganization, the property of small commodity producers would occupy a safe position in the new economy for some time. The transition to social ownership could in addition take place by voluntary amalgamation to form cooperatives. But until they had 'reached that stage, we shall not touch their property, on the contrary we shall protect it by eliminating the danger of their being crushed by capitalist competitors by

eliminating capitalist ownership' (Oelsner 1946:21). The SED economists and politicians doubtless took great pains initially—not least out of tactical considerations—to deal cautiously with the ownership issue, something in which they differed quite considerably from the communist parties in some other state socialist countries.

Since East Germany did not have 'a uniform economic system' (Stoph 1949:244), a large number of private capitalist firms still existing there, attention was given to the weighty problem of whether 'in our situation we can dispense with the production from private firms for the construction of the economy and supplying the population' (Stoph 1949:246). The answer was: 'On no account!' Owing to the large proportion of private firms in the manufacturing and food industries it would have been 'impossible to do without the production from these firms...if only for economic reasons' (Stoph 1949:246). In other words, there were good material arguments at the time for integrating private industry into the economic system of the SOZ. Owing to resolutions adopted at the first SED Party Conference in January 1949, the potential and initiative of private capital was to be used for a considerable time through delivery and processing contracts.

*Planning and the planned economy in the context of considerations on the economic system*

The gradual installation of structures serving a centralized planned economy was a major step in the SOZ. Therefore, the debates surrounding them were more than primarily academic discussions. In fact they involved a fundamental political decision concerning the future appearance of the economic system. Although a consensus had already been reached after 1945 that moderate, well-balanced state economic planning would be necessary, two issues remained open. First, exactly what form should planning take? And second, was this acceptance of a moderate degree of economic planning simultaneously a fundamental decision for or against a socialist or capitalist economy or, in other words, an answer to the fundamental question of economic coordination by plan or by market?

In an article for the periodical *Forum*, H.Peter wrote in 1948 that the highly problematic 'effects of a free capitalist economy...can scarcely be avoided, so that the *necessity of systematic coordination is currently recognized by all economists*, although the span of the possibilities being considered is extraordinarily large, ranging from a total, centrally administered economy to a free economy influenced only by information based on systematic observation' (Peter 1948:9. Emphasis G.K.).

This explains in a way the initial lack of controversy between traditional economics and gradually established Marxist economic theory concerning the issue of (state) planning in East Germany. It was *Bruno Gleitze* (1903–80) who suggested that the previously unbroken belief in the absolute

superiority of coordination by a free market be challenged and state planning be considered ‘the due replacement for the groping and speculative attempt to adapt a long unsound automatism of the “free play of forces” driven by a market economy’ (Gleitze 1948:84). Speaking in terms of the economic system, this meant at least that the plan was regarded besides the market as a genuine potential factor for controlling the national economy.

The discussions on planned economies were fuelled partly by the theory and practice of the Soviet planned economy and partly by various important economic historical facts. These included for instance the economic steering and planning activities of the DWK (German Economic Commission), the expansion of the publicly owned sector of industry and the improved opportunities they gave the state and associations of stateowned enterprises to draw up plans. But the introduction of half-year and two-year planning (1948) was especially important. It was hailed by the SED and its allied economists as the transition to a new stage. *Alfred Lemmnitz* (1905–92), for instance, declared that with ‘the announcement of the 2-Year-Plan for 1949/50...we in Germany too—starting in the Soviet Occupation Zone—have left the stage of general discussion about economic planning and entered the stage of its actual implementation’ (Lemmnitz 1949:13).

The theoretical objective was to assess more accurately the possibility of mixing or combining decentralized and centralized coordination of the economy. Those systems that ‘arise through an interaction of both coordination norms’ are those ‘which conform best to the phenomena of the ‘real economy’ (Paulsen 1947:15). These musings show that among non-Marxist theoreticians there was evidently a tendency to consider the fundamental question of economics, plan or market, from a more differentiated standpoint and to accept certain approximations of the real phenomenon of socialist planned economy in the Soviet Union. During the discussions concerning economic planning previously partly neglected practical aspects of economics received a more sustained emphasis (see also Peter 1948, Gleitze 1946, Lenz 1948a).

Marxist economists had no doubt that the issue of economic planning was the most topical issue of economics in Germany after the collapse of the Hitler regime. The debate they conducted on plan, planning and planned economy revealed several interesting points. In the first place the question of planning under capitalism was considered. Contentious topics were found among the opinions of Eugen Varga, a Hungarian economist living in Russia, in 1946 (the ‘Varga discussion’), the views aired by *Rita Sprengel* (1905–93) (the ‘Sprengel—Oelsner controversy’) and the thoughts on planned capitalism expressed by Sering/Löwenthal. While Varga argued for the relativization of former Marxist negative judgements concerning planning in modern capitalism, Sprengel (1947) distinguished two principal types of economic planning. In her opinion, one form of planned economy strives to

overcome the slump in sales resulting from lack of purchasing power among the broad masses by restricting production, restricting social wealth. The other form attempts to further increase the abundance and systematically eliminate all poverty. The first of these forms of planned economy can be called restrictive, the other expansive. Sprengel saw the restrictive planned economy as given in the capitalism of her time, whereas the USSR stood as an example of the expansive planned economy. She, at any rate, did not *a priori* deny capitalism the ability to plan. Her criticism focused on the content and goals of capitalist planning activities. Oelsner (1947) attacked this standpoint fiercely. In his opinion, concepts such as planning and planned economy were completely inconsistent with capitalism owing to the existence of capitalist ownership. The polemics concerning the legitimacy of related terms reflected a theoretical understanding committed in the first place to political principles. The capitalist economy to be superseded by the state socialist planned economy simply could not possess certain properties. This was why apparent concessions to bourgeois and reformist theory were denounced so vehemently.

In the course of the debate it became apparent that Marxist economists in the SOZ, despite their commitment to the Soviet model, did *not* demand its unconditional application to the situation in the SOZ and later the GDR. Distinct attempts were made to draw on differences in the historical, economic, political and intellectual starting positions to elaborate a different approach to the establishment of the planned economy. Two aspects were emphasized in particular. The first was that, according to *Josef Winternitz* (1896–1952) the ‘East Zone was not an autonomous, independent state’, but ‘part of an occupied Germany divided as a result of the policies of Western imperialists’ (Winternitz 1949:8). Second, Germany was thought to lack the internal and political conditions needed for the transition to a socialist planned economy. ‘The popular masses here did not struggle against Fascism, in fact the vast majority of them supported it to the bitter end. Therefore, it was only thanks to the Soviet occupation forces that far-reaching democratic reforms could be implemented’ (Winternitz 1949:9). The reservations of Marxist economists concerning the all too mechanical application of the Soviet planning system to East Germany doubtless reflects an intuitive sense of the historical reality of the times and a certain desire to leave their mark in setting up a planned economy. Naturally, their reservations did not reflect any doubts about the system or orthodox Soviet economic theory.

And finally, Marxist economists had considered in some detail the issue of planning methods, time horizons, stages, levels and the basic principles of planning. Special attention was given to topics such as the directive character of plan and planning, planning as the fundamental economic law of socialism, short-term and long-term planning and relations between quantitative and value plan. Discussing the directive character of the plan,

for instance, *Bruno Leuschner* (1910–65) observed that the national economic plan ‘cannot simply be a combination of the plans and projects of the various ownership institutions. Such a belief would be completely false. The plan must be a coordinated system of directives’ (Leuschner 1949:308). At the same time it was emphasized that a differentiated approach was needed in view of the ownership structures existing in the GDR. It was not possible, it was said, for the economy to be governed everywhere directly by the state, so a distinction had to be made between plan directives for the nationally owned economy and economic policy for the remainder of the economy. This meant in plain words that ‘the state disposes of the people’s property by means of the plan...and directs that part of the economy that is not owned by the people by economic policy’ (Leuschner 1949:309). As being bound by plan directives would be contrary to the wishes of private industry—‘that would be equivalent to the state control we have all been acquainted with during World War II’ (Leuschner 1949)—it was to be linked to the sector of the national economy steered by directive planning by means of a system of contracts under civil law, as was done in practice.

*On monetary categories in a new economic system*

The discussion concerning the position of monetary categories in a newly organized economy was naturally also important. This was partly because of the need to reach agreement on basic theoretical and practical issues of post-war economics. On the other hand, after 1948 it represented a specific reaction to phenomena and processes associated with monetary reform in the East Zone and the West Zones. Pondering on money and credit, currency and taxes achieved new relevance as the monetary reforms represented historical turning points.

All this led to a need to reach some understanding about the further shaping of economic structures in the SOZ and the methods to be developed and applied for directing the economy. Traditional economists (e.g. Gleitze) preferred to adapt to the structure of its free market by a little more state or a little more planning. For instance, they encouraged price formation rather than price mechanism, arriving at a kind of symbiosis of the principles used to direct both market and planned economies. The debate also covered the question of whether increased preference for the state and planning entailed a risk of debasing the monetary economy. The quantitative relationship between money and goods remained a traditional topic. Marxist political economists considered this issue under the fundamental heading ‘Necessity and role of the commodity—money relation and the law of value in socialism’. The term ‘commodity—money relations and law of value’ in this case is a synonym for the existence and mode of action of the market and market categories.

The prevailing opinion in this respect, based on criticism of capitalist commodity and monetary economies expressed by classical Marxists and Soviet economics derived from them, was that market and value categories, money, credit, price, interest and market price mechanisms had only a limited function and effect in a socialist economy. Basically they were considered part of the inventory and nature of capitalism and were generally thought of as rudimentary relics. Lemnitz (1948:271) wrote: 'Commodities, and therefore money, exist only in a society in which social labour is performed as private labour, as the labour of private producers.' As differences in ownership relations, in technical production facilities in socialist industrial enterprises, between simple and skilled and between intellectual and manual labour still existed in socialism as essential relics of capitalism, it was believed that the socialized accounts for labour performed must still adopt the category 'value' prevailing in capitalism and apply it in modified form.

A socialist economy completely at odds with capitalism would soon start functioning on the basis of completely different principles and using completely different scales. Not value, but value in use, not value and money accounts, but accounts kept in kind and quantity were to become the focus of interest. *Lola Zahn* (b. 1910) emphasized:

The director of a Soviet factory does not think primarily in terms of roubles. He thinks in terms of bales of cotton, numbers of spinning machines and looms, metres of cloth. In other words, he is interested in goods mainly in their natural material form. Socialist production starts with accounts in kind, the elaboration of material plans, and not the availability of money... Socialist production planning ends with the good, not the commodity, with the material product of labour.

(Zahn 1948:111)

Although accounts in kind and quantity were to predominate in the socialist economy, money would still exist, although with a totally new function. Money was

still to perform the functions of a means of exchange and payment, but this function of money is of a secondary nature... As money increasingly becomes pure plan money, a technical accounting unit, the monetary character of the currency unit will decline more and more.

(Zahn 1948:116)

These views not only show that in those days socialism was regarded as a relatively short phase representing the direct transition to communism, in



which money then ‘withers’, but also that the inherent link between the material and value character of goods so typical of a commodity-producing society was being eroded. The consequence was, finally, that voluntaristic ideas of making and planning the economy won the upper hand. The coherence of the entire system was to be cemented not by money or monetary categories, but by planning.

### *On trends existing in economic theory*

Two major trends can be discerned in the economics scene in the SOZ from 1945 to 1949. Fairly equal in status until about 1948, their mutual relationship was characterized by fierce controversy. One was non-Marxist economics. It was represented mainly by economists who had already been among the fraternity prior to 1945. Some of them had emigrated during national socialism, driven from position, office and rank by the national socialists. Others were economists who had continued to take part in the academic life of economics during that time. After 1945, they had been examined by the appropriate (‘denazification’) offices in the SOZ with regard to their political and scientific past and graded as ‘without guilt’.

Paradigmatically, the non-Marxist economists embraced a broad spectrum. They included adherents of the Historical School as well as representatives of neoliberal economics. The economic traditions of J.H. v. Thünen existed cheek by jowl with economic theory oriented towards J.M.Keynes. None of these streams appears to have achieved general predominance, specific trends predominating rather at the local, i.e. university level. The representatives of non-Marxist economics had plenty of opportunity to publish their economic ideas and theories in the SOZ, and economists such as Lenz, Paulsen, Gleitze, H.Kastner, G.Eisermann, H. Gehrig, E.Kaemmel, O.Schneider and Mellerowicz (as a business economist) made plentiful use of it. However, many of them left the SOZ/GDR for the Western zones and the Federal Republic between 1948 and 1951 owing to the orientation towards a planned economy and the construction of socialism, the alignment of economics with Marxism-Leninism and political economy, the raising of the SED ideology to the supreme component of the scientific programme and growing repression against non-conformists. It was these same factors that led to the departure of professors and students from the Humboldt University in East Berlin and the foundation of the Free University in the Western part of the city.

The other trend was that of Marxist economics. Its representatives regarded political economy as their main field of activity. But Marxist research programmes were also carried out in other areas such as economic history, national economics and geographical economics. During the period under consideration, its principal representatives had either worked within the traditions of Marxist theory prior to 1945, for instance Kuczynski,

Behrens, Lemnitz and Winternitz, or, like Oelsner and Kohlmei, had acquired their knowledge of Marxism and its economic theories by various routes in the Soviet Union during the German Fascist period. However, after 1945, opportunities to become acquainted with Marxist economics were abundant: through university studies, special courses, teaching and propaganda activities and practical work in the economy and administration. Most of these economists were members of the KPD (German Communist Party), some of them even prior to 1945, or the SED or worked in their immediate environment.

Marxist economic theory at the time was marked by strong traditional feelings and discursive unity—another result of the subjectively internalized loyalty to the ideology and policies of the communist party and its discipline. Economists of this generation regarded the paradigms of political economy in the tradition of Marx, Engels, Lenin and Stalin augmented by the theories of orthodox Soviet economists as the alpha and omega of modern economics. It was simultaneously the strict, inviolable border of their reception behaviour.

The political economy responsible for the reconstruction of the economy in the SOZ, as developed, received its normative character and cognitive profile primarily through the basic thought of a socialist/communist society based on common ownership and centralized planning. Scientific activities concerned with the political economy of capitalism, which were concerned with the analysis of the structures of capital, were based mainly on Marx's *Das Kapital*, Lenin's analysis of monopoly capitalism and imperialism and the analyses and assessments supplied by the Communist Internationale and its economists. Marxist studies of theoretical traditions of other provenance were dominated by definitions of viewpoint and controversy on principles. The consideration of competing economic ideas exclusively on the basis of intrinsic scientific principles was, despite occasional efforts, extremely difficult. The preferred criteria for evaluating doctrines were their closeness to or distance from conceptions presented by the Marxist theory and its theoretical traditions.

### Economic theory in the GDR from 1949 to 1962

#### *On the socio-political situation*

The main impetus for the development of economic theory in the period from 1949 to 1962 derived from a series of political, economic and scientific events in East Germany and elsewhere. The foundation of the GDR in October 1949 was naturally of prime importance. It meant that the course was finally set for an administrative centralized planned economy. The adoption of the first five-year plan (1951–5) by the III SED Party Congress

in July 1950 inaugurated the transition to longer term economic planning. It also meant that research into the economics of state socialism had become the main object of analytic activities. In 1953 the 17 June was marked by early protests of the workers in the GDR against a course of accelerated economic development that ignored the consumption needs of the individual. The year 1956 was significant for several reasons. The XX Party Congress of the CPSU, three years after Stalin's death, witnessed the first criticism of the socialist model associated with his person and policies. But the popular uprising in Hungary and events in Poland in the autumn of 1956 soon brought rising hopes of a reform of state socialism down to the harsh reality of conservative communist power policies. The communist leaderships strengthened their policy of unity in the aftermath of these occurrences, rallying closer around the Soviet Union in the struggle against imperialism, counter-revolution and revisionism. Then 13 August 1961 saw the erection of the Berlin Wall. Shortly afterwards, the SED declared the victory of socialist production relations.

The disproportions that arose in carrying out the five-year plan forced the SED to express its opinions on the methods of economic management used hitherto. The strictly applied forms of centralized rationing and allocation of resources and the drastic alignment of production on indices of kind and quantity led to the nationally owned enterprises manufacturing their goods virtually without regard for costs and price. The issue of efficiency was largely ignored. The introduction of economic accounting was decreed in response. Value categories were to receive greater attention in the future. Dissatisfied with the development of the economy, the SED leadership resolved a first reorganization of the planning and management system in November 1954. The purpose of these activities was to increase the economic independence of the enterprises and industrial sectors and to enhance their economic efficiency by the increased use of monetary categories. It simultaneously formed the starting point for reformist ideas among economists in the period from 1955 to 1957.

The State Plan Commission (SPK), which hitherto had been exclusively a planning institution, was reorganized in 1957 to become the central organ of the GDR's Council of Ministers for the management and planning of the entire economy, and simultaneously seventy-four amalgamations of state-owned enterprises (VVBs) were set up in the various branches of industry to act as economic organs for the centrally guided socialist enterprises. Then the course proclaimed by the SED for establishing socialist relations of production in the entire economy led to decisive changes in the ownership structure of the country. And finally, the SED resolved at its V Party Congress to develop the national economy within a few years so that the superiority of the socialist social system in the GDR compared with capitalism in the FRG would be comprehensively proved and, by the end of 1961, the Federal Republic would be caught up with in terms of productivity

of labour and *per capita* consumption of the principal foodstuffs and consumer goods (Anon. 1959:159). These ambitious goals were to exceed the capacity of the GDR's economy, to lead to considerable economic conflicts and the ultimate failure of the undertaking in 1961/2. In the scientific arena, the reform of higher education started in 1951 was intended to establish a socialist higher education system and orientate the scientific establishments towards the goals and interests of the SED. The introduction of basic Marxism—Leninism courses for students in all subjects made lectures on the 'fundamentals of Marxism-Leninism' and 'fundamentals of political economy' mandatory at all universities and colleges. As for the training of economists, the 'training of plan economists' for socialism was considered the decisive goal. For many years the science system of the Soviet Union had a normative effect on the scientific scene in the GDR—and therefore also on economics. GDR economic theory was strongly delineated by the acceptance of Soviet economic theory, particularly during its formative phase.

#### *On the further institutionalization of economic theory*

The decision in favour of a planned economy and state socialism and the consequent demand for qualified staff with an economics background resulted in a strong boost to economics in the GDR. And economic theory was to be established specifically as the political economy of Marxism—Leninism. The high regard for economics led to the founding of numerous colleges of economics between 1950 and 1954, including the University of Economic Planning at Berlin-Karlshorst (1950), the College of Financial Economics at Potsdam-Babelsberg (1953), the College of Domestic Trade in Leipzig (1953) and the College of Foreign Trade at Berlin-Staaken (1954). From the early 1950s onwards, increased attention was also given to setting up or restructuring the economics faculties at the leading universities. At the Humboldt University of Berlin, the subject matter covered by economics was initially selected by non-Marxist economists. However, Marxist political economy was represented increasingly strongly from the start of the academic year 1949/50, largely owing to the efforts of Winternitz and, newly appointed in 1951, *Robert Naumann* (1899–1978) from the Soviet Union. Faculties of economics were created almost at the same time at the Universities of Leipzig (1950), Halle-Wittenberg (1951) and Rostock (1952). At the University of Jena, the Faculty of Economics had been separated from the Faculty of Law and Economics and set up as a faculty in its own right in 1949.

The acceptance of economics in the GDR into the then German Academy of Sciences further contributed to its institutionalization. Kohlmeier was appointed founding director of the Institute of Economics in October 1953 with the brief to make it the GDR's leading centre of economics research.

Four cardinal areas were identified, on which work in the departments was to concentrate while taking into account the theoretical tasks forced into the foreground with particular urgency by social life in the GDR:

- Productivity of labour and profitability in the state-owned industrial sector, agriculture and the distributive trades in the GDR.
- The monetary system of the GDR.
- Problems of state monopoly capitalism.
- Main trends in West German economic theory and economic views represented by West German social democracy.

The SED institutes were to influence economic theory profoundly in the GDR. Their work directly served the economic and social policies of the party leadership and their legitimation, although this did not preclude serious scientific work in some areas. These institutes served mainly as concentration points for the SED's research and propagandistic resources in the fields of Marxism—Leninism and economic theory. The foundation of the party college in 1946 was followed by the establishment of the Institute of Social Sciences, the Marx-Engels-Lenin-Stalin Institute (later the Institute of Marxism—Leninism) and, as a facility devoted to research into capitalism, the German Economic Institute in Berlin.

New periodicals were also important for the institutionalization of economic theory in the GDR. *Wirtschaftswissenschaft* (Economics), regarded as the GDR's most important specialist periodical, first appeared as a bimonthly journal in July/August 1953. Its first chief editor was Kohlmeier. The board of editors considered the foremost duty of the periodical to consist in explaining the economic theories of Marx, Engels, Lenin and Stalin. This obviously meant that the periodical was restricted to one theoretical school. Therefore, the scientific dispute it aimed at could not be a pluralistic affair between conflicting paradigms, but merely a dispute within the monopolistic framework of the prevailing Marxist economic theory.

The range of periodicals dealing with economics also included *Schriften des Instituts für Wirtschaftswissenschaften* (Writings of the Institute for Economics), which first appeared in 1955, and the annual of the Institute for Economics which was published under the title *Probleme der Politischen Ökonomie* (Problems in Political Economy) and made its appearance in 1957. These were augmented by the *Wirtschaftswissenschaftliche Informationen* (Economic Informations), which appeared irregularly, and the quarterly scientific bulletins *Geld und Kredit* (Money and Credit) and *Konjunktur und Krise* (Boom and Crisis) which were devoted, from 1956 and 1957 respectively onwards, to specific problem areas and each of which was the responsibility of scientific working groups within the Academy institute.

The Academy's 'Section of Economies' was set up under the chairmanship of Oelsner in July 1954. Its members included scientists and a few state and economic functionaries. The department's brief was to plan the contents of economic research in the GDR, define its central obligations, coordinate the work of the various institutions and direct the scientific discussion within the community of economists on the basis of the principal economic goals set by the SED. In September 1954 it presented the first research plan in the history of GDR economics. From 1960 onwards, the Academy, collaborating with other establishments, drew up the 'Long-term framework plan for economic research in the GDR'. Top priority was given to ensuring that the sovereignty of Marxist-Leninist economic theory was maintained during the discussion.

### *Economic theory from 1949 to 1962*

#### *Making economic theory uniform*

The decision in favour of state socialism and a planned economy transformed post-1945 economics in the SOZ with its diversity of theoretical approaches and schools into a uniform discipline. This making uniform was largely a result of two powerful processes: the normative restriction of economics unreservedly to Marxism—Leninism and the massive sovietization and stalinization of economics.

A so-called keynote article (Altmann *et al.* 1951) reveals how the process of making economic theory in the GDR uniform took place. After declaring that Marxism—Leninism had won important positions in East Germany's universities and colleges and had been able to displace the most active representatives of the reaction from our colleges, the authors continued in a threatening disciplinary style:

But not yet all of our teachers in higher education present political economy openly and clearly as a class based proletarian science. Some lecturers still adopt the stance of a 'pure science', of objectivism, although not openly, perhaps unconsciously, and sometimes even hidden behind revolutionary terms, and falsify the kernel of the theory, its essential contents, its aggressive party character'.

(Altmann *et al.* 1951:628)

In view of this it was obvious that, thenceforth, traditional economics could 'no longer be included in scientific activities under the general heading "reconstruction"' as was possible after 1945 (Becker and Dierking 1989:263). As a result, most of its representatives left the GDR for the Federal Republic between 1949 and 1951. It was in this way that in the

GDR Marxist economic theory achieved its monopoly in knowledge, definitions and explanations. A discourse in which economic topics were discussed by a diversity of traditional schools had become impossible.

The application of Marx's works to economics led to some notable problems. Since Marx had failed to draft a systematic economic theory of socialism, his system of theories and categories was initially applied to the new economy without further thought: it was assumed to apply to the new contents of the categories. Its suitability was not seriously verified at the time; *Das Kapital* was styled more or less as the authoritative textbook of a planned economy. Later, a start was made at studying Marx's economic theory of capitalism more closely with regard to its methodological significance for an analysis of the economy of state socialism. As has been pointed out: 'The decisive question of the historical moment in the logic of Marx's works, i.e. the historical context of its categories, remained outside the public discourse' (Wagner 1996:85).

Soviet economic theory in the form of its orthodox political economy and the economic views of J.W.Stalin became an important scientific instance. Behrens (1952) declared programmatically that science in the German Democratic Republic must take socialist science in the Soviet Union as its model. From the early 1950s onwards, Soviet economists developed a wide range of lecturing and publication activities in the GDR on the initiative of the SED, and the essence of the cognitive profile of economic theory in the GDR and its discussions were therefore naturally influenced by Stalin's economic ideas and writings. The SED leadership organized theoretical conferences on his works (see, for instance, Mussler 1953) serving their campaign-like analysis and the affirmative celebration of new climaxes in the development of Marxism. The first official Soviet textbook, published in the GDR as *Lehrbuch Politische Ökonomie* (Anon. 1955) achieved key importance in theoretical economics in the GDR and shaped economic discussion for many years. After the process of making economic theory uniform had been set in motion in the GDR, signs of its development as a Marxist—Leninist science and the definition of its structure became increasingly evident in the mid-1950s. The decisive results of this process were, in the first place, the development of economic theory as political economy with the main emphasis on the political economy of socialism (PES). Further, it led to the successive establishment and definition of the subject matter of specializations such as industrial, agricultural, trade and transport economics, functional disciplines such as labour and financial economics, besides interdisciplinary subjects such as economic statistics, mathematics, law, history and geography. PES gradually acquired a central role through the introduction of political economy as a mandatory subject at all colleges and universities in 1950/1. It was to serve as an ideological mould and guide for research in all disciplines concerned with the planned economy.

*On the development of the subject matter of PES*

## THE CONSTRUCTION OF ITS THEORY

Systematic development of PES started in the late 1940s. Kuczynski (1949) may have characterized the state of development of Marxist economic theory as still very meagre in 1949, but the subsequent years saw efforts to change the situation, for instance by Behrens, Kohlmey, Oelsner, Lemmnitz, Naumann, Zahn, *Eva Altmann* (b. 1903), *Herbert Wolf* (b. 1925) and *Helmut Koziol* (1927–97).

The foundation of PES in the GDR was a positive reply to the system question, the belief in a centrally planning socialism/communism. This was founded on Marx's theory of the economic formation of society. The concept of the economic formation of society was used to characterize each historically determined stage of societal development by the way social relations were regulated. According to this concept, the history of humanity is a process in which the five social systems—primitive society, slavery, feudalism, capitalism and communism—inevitably arise, develop and supersede each other. In contrast to the research programmes of traditional economics, this concept does more than name the specific structural organization, mode of functioning and steering mechanism of a economy; it also defines society as a complex phenomenon and considers the economic and social system as a unity.

The erection of the communist system was thought to take place in several stages. First the foundations of the new economic system would be laid during a transitional period ending with the victory of socialist production relations (see, for example, Oelsner 1956). This would be followed by socialism as a first phase comprising various stages and culminating in full-blown communism as the second and mature phase. Economic theory on these stages was not merely a Talmudic exegesis of the works of Marx, Engels and Lenin. It marked above all a nebulous description of target states, each of which was to serve as a measure of the maturity of a stage, but each of which were linked to certain economically rational operational criteria.

Naturally, social ownership of the means of production was among the elements constituting socialism. A distinction was made between two basic forms: ownership by society as a whole and cooperative ownership by workers' collectives (see Naumann 1950, Oelsner 1956). The issue of the further strengthening of social ownership that was often discussed during the transitional period against the background of the socio-political orientations of the SED was concerned mainly with theoretical and practical problems of the transition from cooperative ownership to popular ownership by society as a whole and with the ways and means of transforming capitalist ownership into forms of social ownership. In other words, the real topic was the gradual elimination of private ownership.



Centralized state planning of social production was considered an essential part of the socialist economic system. It was even described as ‘the first fundamental law of socialism’ (Naumann 1950:932) and the plan as the basic economic law of socialism, a standpoint abandoned after publication of Stalin’s (1952) *Economic Problems of Socialism in the USSR*. Although it was completely incompatible with Marx’s, Engels’ and Luxemburg’s ideas concerning socialist economy, political economists in the GDR, overcoming their initial doubts, included commodity—money relations and the law of value among their basic elements and anchored them in the edifice of PES. In the second half of the 1950s, the way in which commodity—money relations and the law of value, i.e. market categories, were used in the GDR’s planned economy was to lead to the so-called revisionism controversy.

GDR economists (see, for example, Lemnitz 1949) spoke for some time of a special kind of commodity production or, with reference to the Western free market systems, of the different position of the law of value. The basic difference was that commodity producers in socialism were linked by the social ownership of the means of production and the planned economy, production was not regulated and the proportions of the economy not achieved exclusively through the market. The coordinating function of market price mechanism typical of a free market system did not apply in a planned economy, which allegedly was a completely different, much higher organization and system of social production and would systematically ascertain what and how much society needs.

The various theoretical areas of PES also began to take shape. Special efforts were made with regard to monetary, price, reproduction and growth theory. The concept of the unified socialist financial system was coined in the process. A theoretical money concept was developed, starting with some passages of Marx’s monetary and labour value theories while carefully avoiding others, which overturned the initial banal conceptions of money in socialism. Money began to be discussed as a characteristic of socialist economics. Preference was given to a money concept in which money was considered mainly as a vehicle of socialist production and ownership relations, as a category of systematic social planning. Money was regarded as a mere executor of predominantly material and quantitative planning. In other words, the role attributed to it was passive.

Following the discussions on the commodity—money relation and the law of value in socialism, spurred on by the economics conference ‘Commodity Production and the Law of Value in the Transitional Period’ in 1958, in response to noticeable problems with state pricing and under the influence of the debates in the Soviet Union concerning the law of value, agreement was reached on central state plan prices within PES. This would

have to be equivalent to the value in a fixed-price system and was to be based on the law of value. The accepted principle was that prices would have to be adapted to value on a national economic scale, and the socially necessary labour input would be the decisive basis.

Economists in the GDR started searching for a suitable price type in line with Marx's theory of value and price and particularly the price of production concept (cost price plus average profit) he developed in *Das Kapital*. The search involved several quite heated controversies (see Bardmann 1986)—a consequence of accepting market categories and the law of value in a socialist economy. The main points of contention were the method for ascertaining socially necessary labour inputs and the definition of what those inputs actually were. One progressive aspect of the debate was that the existence of value categories and a commodity-producing society were accepted as preconditions. However, questions relating to the political system needed in the GDR in order to exploit or apply value categories in line with Marxian vocabulary were ignored.

Efforts relating to reproduction theory were largely concerned with showing that, in principle, Marx's laws on expanded reproduction retained its validity during the development of the socialist economy. The controversy over the relation of Department I (production of the means of production) to Department II (production of the means of consumption) achieved particular significance. Priority was given to growth in the production of means of production and it was considered an economic law of socialism. Following the working-class protests on 17 June 1953 and the new course of temporarily increased consumer goods production proclaimed by the SED in their aftermath, the view was expressed that the priority growth of Department I did not necessarily imply that this department must always expand faster than Department II. In the subsequent dispute the SED left no doubt that the priority of Department I had the character of an objective law.

In the late 1950s and early 1960s exhaustion of the potential for extensively expanded reproduction, the migration of qualified human resources into the Federal Republic and the unrealistic goals set by the V SED Party Congress (1958) led to serious disproportions and bottlenecks in the national economy, ultimately culminating in the abandonment of the seven-year plan adopted in 1958. The need for intensively expanded production based more on efficiency and qualitative aspects of economic development, the comparatively high rates of growth achieved in Western industrialized countries, economic competition between the systems and fresh ideas from non-Marxist growth theory led to a deeper analysis of the laws, factors and categories involved in expanded production and the measurement of total social production in material and value terms.

## THE REVISIONISM DEBATE

At first, the discussion carried on by the party regarding the object of PES was marked by doubts among GDR economists in the early 1950s over the justification of PES as a separate scientific discipline. At that time, it was mainly Kohlmeier, Oelsner, Behrens, Naumann, Lemmnitz, Altmann and Wolf who continually emphasized its necessity. Presenting it as a qualitatively higher level in the development of Marxist economic theory, they considered it a scientific basis for the construction of a new society (Altmann *et al.* 1951). After this general declaration of belief in a PES in its own right, Stalin's (1952) *Economic Problems* came as something of a shock. Two aspects were strongly featured in its reception by GDR economists. In the first place they emphasized that Stalin's definition of the subject was tied to economic laws or, more precisely, to the objective character of the economic laws. Stalin's theory of the objective character of the economic laws replaced the previously prevailing view that the economic laws under socialism were simply a generalization of the economic actions and economic policy of the party and state. This approach was used in Marxist political economy in an attempt to objectivize its scientific subject. It was a step back from previously held opinions 'which in effect meant that humankind, the state, could arbitrarily abolish, create, amend, transmute economic laws' (Naumann 1953:15). At the same time, it offered the chance to distinguish between the existence of such laws and their exploitation. Scientific knowledge or knowledge of relevant economic interrelations thus came to be regarded as necessary for appropriate action.

Second, difficulty was experienced with the standpoint that production relations alone constituted the subject of PES. Productive forces were still ignored. The view, expressed for instance by Altmann (1955), that social relations between people in the production sphere, or in other words the totality of production relations constituted its subject prevailed until the latter half of the 1950s. This resolves the fundamental dialectic relation between productive forces and production relations, thereby eliminating it from the definition of the subject. Indeed, the exclusion of productive forces, the actual dynamic component in this mutual relationship, led almost directly to the consideration of the subject of political economy as a steady state that does not change as long as the ownership relations do not change. In effect, motion and development, the driving force of economy, was lost. From 1957/8 onwards, GDR economists searched intensively, supported by GDR philosophical research into productive forces, for a theoretical approach that would improve their ability to take interrelations between productive forces and production relations into account in a definition of the subject of PES without having expressly to revise the old view.

The theoretical debate concerning commodity production and the law of value was doubtless among the most remarkable conducted in the

GDR on PES. Initially it was a relatively autonomous scientific discussion. Later known as the revisionism debate, it was to become one of the most shameful events dominated by party and power politics in the history of science in the GDR. Largely initiated by the Academy conference of March 1955 and given extra impetus by contributions from Polish economist W. Brus (1955) during the conference and in *Wirtschaftswissenschaft*, the debate centred around deficits that had arisen in the GDR's planned economy as identified by economists such as Behrens, Kohlmeier, Arne Benary (1929–71), Kurt Vieweg (1911–76) and Wolf, who also criticized their fellow economists. Their reproach was that the grave functional shortcomings in the state socialist economy had 'scarcely been analysed, not even empirically studied by socialist economists while they considered their main task to be propaganda rather than research and the development of economic theory' (Behrens 1957:105). In view of this assessment they proposed the replacement of the centralist administrative control by economic control using market categories for regulative purposes. The dictatorial omnipotence of the state, they suggested, should be overcome by the development of democratic resources in the economy and in society.

Central dogmas propagated by the GDR's official economics and the economic management system based on them were for the first time presented as problems within the framework of Marxist traditions of thought. The debate was sparked off by two factors. In the first place, serious economic discrepancies and the need to explain them in practical and theoretical terms had materialized in the GDR in the mid-1950s. The first five-year plan (1951–5) had failed to yield the expected results. On the other hand, the thaw that followed the Stalin era in the state socialist societies had led to a certain slackening in their system of ideological supremacy. Hence, PES offered occasional room for theoretical debates, including the removal of taboos placed on certain topics during the Stalin period. Two aspects of the discussion deserve our attention.

First, arguments were directed against excessive centralization and bureaucratization in the economic steering system and towards the enforced decentralization of economic processes and decision-making. Behrens (1957:117–18) wrote:

But, just as centralization is not the obligatory form in which the socialist state is run, the central directive is not the obligatory form by which the socialist economy is managed. As the economic laws of socialist production take hold, i.e. as socialist production relations consolidate themselves, management of the economy by central directive must decrease in proportion, otherwise it will become a brake on further development.

Management of the economy should rather be undertaken with as much initiative and independence as possible from below. It was emphasized that the system used to steer the economy hitherto had been inadequate to ensure that the interests of the economic subjects were taken into account at the various levels of the economy. Therefore, the more widespread use of economic steering methods was proposed and reasons were presented for giving more consideration to the market, a restricted degree of free pricing, profitability and monetary categories. To show clearly the content of his concern, Kohlmeier (1956b:186) used the formulation: 'Socialism is also (national and international) market economy'. Elsewhere he remarked: 'Being unaware of the complex objective economic mechanism, we often thought we could replace hard economic compulsion by internal enterprise conferences, party projects, the deployment of agitators, etc.... We tried often enough to "administer away" the economic factors' (Kohlmeier 1956c: 449). He polemized vehemently against what he considered to be a false perception that the law of value is a necessary evil, the radius of action of which must be rigorously pruned. He attributed a key role to money, a functioning monetary and financial system and an independent issue bank in the economization of the economy. In the

as we must now state plainly—faulty planning system, the State Bank was...not an economic organ, but an administrative authority.... We must more energetically turn the State Bank into an institution that, by means of credit, interest, offsetting and the issuing of cash, controls the reproduction process more independently, flexibly and rationally than hitherto in such a way that it takes place proportionally.

(Kohlmeier 1956a:11/12)

Behrens (1957) emphasized that pricing principles must take into account the fact that only a price system that conforms to the objective economic laws helps to consolidate economic accounting principles in enterprises, increases productivity of labour and reduces costs. He also spoke in favour of permitting free pricing within strictly defined limits on the consumer goods market and the exploitation of the law of supply and demand for creating an—economically correct—price system. Since the state cannot replace economic processes by decrees and directives, it also cannot replace the law of value. To allow the law of value to act implies flexible price policies and variable prices instead of a rigid price policy and fixed prices.

Second, conceptions were developed for a far-reaching decentralization of the GDR's economy through a 'self-management of the economy by the working people'. Referring to the maturity of economic relations in the GDR, Benary (1957:89) stressed: 'Self-management of the economy can and must now replace the administration of the economy by the centralized state

apparatus'. Behrens (1957) argued that the planning of the economy should not be carried out centrally by a supreme economic authority, the State Plan Commission, down to the very last detail, but that the specific economic processes and activities should be carried out under self-management and under responsibility on the basis of master indices specifying the direction of development. This, however, would mean that enterprises would have economic independence. Under the given circumstances, this attempt by critical economists to think out new solutions to fundamental problems besetting the GDR's economy provoked a fierce, politically tinged reaction which found its climax in the reproach of revisionism from the SED leadership. The serious accusation of 'denying certain principles of Marxism-Leninism under the flag of "free" scientific dispute and the struggle against dogmatism' (Kampfert 1957:2) was raised. Those opposing the reformist economists attacked particularly the idea of decentralizing the economy, alleging that this would erode the organizational function of the socialist state for the economy (Naumann 1957). This represented a fundamental underestimation of the role of state and party. And the idea of a banking and financing system was equivalent to disparaging the importance of the socialist state in the construction of socialism.

On the issue of the law of value and the more consistent consideration of market categories in steering the economy, the reproach was that the actual roots of the revisionist error lay precisely in the discussion of the role and use of the law of value in the socialist economy. In the final analysis, this law had been regarded as the central economic law of the transitional period (Kampfert 1957). But then the basic economic law of socialism and the law of systematic planned proportional development of economy would be forced into the background.

Behrens (1958) answered these accusations. In 1960 he also published a 'self-criticism', admitting to having opposed the party line. Behrens (1960) considered the two decisive errors in his thinking to be that the withering away of the state in the transitional period had also been related to the elimination of the organizational function of the state for the economy, which, he had thought, should be replaced by self-management of the economy. At the same time, he had wanted to overcome the contradictions in steering mechanism for the economy by expanding the radius of action of the law of value instead of by strengthening the organizational function of the state for the economy on the basis of democratic centralism. Behrens' *Ware, Wert und Wertgesetz* (Commodity, Value and the Law of Value) appeared in 1961. The manuscript had been completed in September 1958, but had been revised several times owing to pressure from the SED. In it, he accused himself of having objectively supported the softening-up policies pursued by the imperialists against the German Democratic Republic with his thesis of the beginning of the withering away of the state during the transitional period.

His 1958 statement was again the target of a fierce polemic. Special importance was attached to showing that Behrens had not yet overcome his false opinions. And his standpoints arose ‘not from a few false opinions, but...from a revisionist conception’ (Bichtler and Zieschang 1958:49). He represented a basic view that was not Marxist—Leninist, but bourgeois. Behrens (1958) had defended his opinion that the conflicts within GDR economics must be sought not only in the subjective failure of individuals, but also in objective causes within the current system of planning and management. In other words, he favoured an explanation based on the inherent conditions of a planned economy.

The board of editors of *Wirtschaftswissenschaft* (1958:29), in contrast, enquired polemically if it was a coincidence that ‘Behrens had not mentioned once that the real causes of our shortages and production difficulties must be sought in the division of Germany and active sabotage against our Republic by West German imperialism and in the retarded development of the consciousness of many working people’, i.e. it was inclined to see the causes as lying outside the steering mechanism of the planned economy. Kohlmeier (1958a), challenged by Ulbricht to publicly consider his views, admitted to political errors in his self-criticism. They had led him to theoretical errors. He referred directly to his thesis on more independence for the State Bank—he withdrew it. ‘To maintain that our State Bank has not been an economic organ, but an “administrative authority” “naturally” [contradicts] the facts’ (Kohlmeier 1958b:237).

Although this debate was nipped in the bud by political duress and led to considerable scientific and professional discrimination against those concerned, it was of major significance. The strong ideological grip surrounding the theory of value categories and market had been forced for the first time in the GDR. Together with the debates on the law of value in the USSR, the dispute sensitized the GDR PES for this topic from 1958 onwards. This is shown by the economics conference on the topic in 1958, an increase in the number of publications dealing with it in the GDR and the publication of a book presenting controversial views of Soviet economists. And the debate was also the prelude to the subsequent period of the New Economic System (NES).

The dispute showed that the GDR’s economic theory contained a certain potential for criticism. It revealed capability for innovative thought on economics. And it also showed clearly that the SED ruled, through its power policy, over conceptions for change and the bounds of discussion. Thoughts of this kind were unable to make headway against the dictatorship of official economics. When the party ruled on science to the detriment of competent economists and convinced Marxists, it did more than depress the whole fraternity of economists. It eroded their willingness

to work productively. It burdened the atmosphere for open dialogue. And in this way the controversy had traumatic consequences for the development of economic theory in the GDR.

### **Economic theory in the GDR from 1963 to 1971**

One of the most interesting periods of economic theory in the GDR lasted from 1963 to 1971. These were the years of the NES, its introduction and abandonment. NES is the abbreviation for ‘New Economic System for the Planning and Management of the Economy’. Essentially an attempt undertaken from above to bring the Soviet-type administrative centralistic economic model into line with the existing system, it failed in all respects. It was above all meant to improve efficiency. Its instigators had no intention of reforming the GDR’s political and legal systems, although this was essential for successful economic reform.

Many Western economists saw the NES as the first comprehensive decentralizing reform in Eastern Europe (Keren 1992). The GDR was assured that it was the first socialist country to draw practical consequences from a critical systems analysis and the unsatisfactory development of its economy. Their economists were also told that they could ‘be justifiably proud of having, in constant dispute with dogmatists, supplied numerous independent theoretical and political economic contributions’ which, at least for a while, ‘far exceeded reforms discussed, planned and carried out in the Soviet Union and the other “fraternal socialist countries”’ (Beyer 1967:358).

Economic theory experienced a phase, admittedly short, of unprecedented challenge and development in the context of NES. Its institutional structure and research potential expanded, new disciplines were established within economics, and economists were involved to some degree in the drafting and discussion of economic and social strategies. Changes also took place within its theoretical profile, processes involving a provisional dismantling of dogmas within traditional PES. More specifically, a declared basic principle of the Soviet political economic doctrine was declared problematic—the universal validity in time and space of the Soviet model for steering a socialist economy.

### *On a few turning points*

Although party decisions always played a central role in official economics, this was especially evident during the period now under discussion, as shown by the VI SED Party Congress in January 1963 and the developments it inaugurated. The Congress declared the comprehensive construction of socialism—instead of communism, a formula invented by Party Secretary Ulbricht—a strategic task and resolved to reform the system used for planning



and steering the national economy. The ‘Guideline for the New Economic System for the Planning and Management of the Economy’ was presented in June 1963. During the VII SED Party Congress in 1967 socialism was no longer considered a brief transitional phase in the development of society, but a relatively independent socio-economic formation. A resolution was adopted to create the developed social system of socialism for the GDR. The proclaimed ‘Economic System of Socialism’ (ESS) was regarded as its central element, a qualitative continuation of the NES. Its essential details were later presented in the book *Politische Ökonomie des Sozialismus und ihre Anwendung in der DDR* (Political Economy of Socialism and its Application in the GDR) (Autorenkollektiv 1969).

This put the Liberman discussion, which had started in the USSR in the autumn of 1962, in a new light. Dealing with the efficiency of production, the realizability of the goods produced and the interests of consumers in the activities of enterprises, the article ‘Plan, profit and bonus’ by E.G. Liberman, a Charkov economist, appeared in *Pravda* on 9 September 1962, and was immediately published in the GDR (Liberman 1962). Naturally, it set off a chain of discussions noting explicitly that the problems addressed were ‘equally significant for economic life of the GDR and for the Soviet economy’ (Kratsch 1963:113).

The fall of Khrushchev and the commencement of the Brezhnev era in October 1964 was a political watershed for state socialism. In the Soviet Union, the change inaugurated a gradual shift in general political strategy. The initial ‘thaw’ was soon followed by a strategy aimed at securing power in the hegemonized regions. The suppression of the Prague Spring in August 1968 testified to the change in strategy that took place under Brezhnev. Plurality of thought and theory, diversity of systems and the search for alternatives, new approaches and solutions to overcome the increasingly evident stagnation and instability were understood as ideological and political risks and therefore suppressed.

The efforts launched by Czechoslovakian economists such as O.Šik, J. Goldmann, K.Kouba, O.Turek, J.Kosta and M.Horálek to found and establish a socialist market economy in the CSSR were something of a trauma also for GDR economists. Through their works, these economists supplied their GDR colleagues with productive ideas on the NES and for the discussion of theoretical and practical problems of socialist planned economies in general. Reinhold, for instance, wrote an introductory comment for Šik’s book *Ökonomie-Interessen-Politik* (Economy, Interests, Politics) when it was published in the GDR in 1966. *Otto Reinhold* (b. 1925), one of the architects of the NES and director of the (party) Institute of Social Sciences, noted that the NES was a sign of the great advances made by economists in their research, but that considerable gaps remained: ‘This book makes a valuable contribution towards closing these gaps’ (Reinhold 1966:5).

While putting their project into practice, the reformist Czechoslovakia economists around Štik became the target of, in the first place, politically motivated criticism from GDR economists, especially after spring 1968. Their views on a socialist market economy were denounced politically and ideologically as intellectual preparation for the counter-revolution. After the Prague Spring had come to a violent end, the reformers served the GDR economists as a reference model for modern economic revisionism for many years.

In the course of the clash between the theory and practice of the socialist market economy in the CSSR, the SED leadership increased its disciplinary hold on GDR economists. The mere suspicion of approximation to the ideas of the Czechoslovak reformers was sufficient to earn GDR economists public political criticism or official 'dissuasion' from the party, as shown in the cases of Behrens (1968) and Kohlmeier (1968). The somewhat greater leeway allowed for independent thought in the early days of the NES was again rigorously restricted in view of developments in the CSSR.

The replacement of W.Ulbricht by E.Honecker at the head of the SED leadership in 1970–1, the consequent termination of the NES project and the reorientation of the social and economic strategies of the SED at its VII Party Congress brought this subperiod to an end.

#### *On the application of economic theory in configuring the NES*

The introduction and modifications of the NES were prepared exclusively by committees within the SED leadership and adopted at party congresses. The decisive initiators among the party leadership were Erich Apel and Günter Mittag. Actual scientific work did not start until the party congress was over and the 'Guideline' adopted.

A relatively large number of economists were involved in elaborating the substantial design of the NES, but ultimate responsibility and overall control lay definitely with the major party institutes. Reinhold, Berger, Koziolok and Wolf formed the hard core of economists involved in elaborating the NES. Berger and Reinhold's work *Zu den wissenschaftlichen Grundlagen des neuen ökonomischen Systems der Planung und Leitung* (On the Scientific Basis of the New Economic System of Planning and Management) (1966) and the already mentioned book *Politische Ökonomie des Sozialismus* (Autorenkollektiv 1969) were to become the standard works of the period.

How should the contribution of GDR economic theory to the NES be assessed? Apel (1964), the party functionary initially responsible, defined the economists' research objective: under the leadership of the SED, they were to adapt their work exactly to the various stages of implementation of the new economic system for planning and managing the economy. For the economists, it meant contributing creatively to the perfection of the scientific

foundation for planning. This research brief foresaw no far-reaching problems caused for instance by the political system. As most of the economists involved regarded the general issue of the political system as settled once and for all or strictly taboo, the field of study was demarcated. Reformist considerations therefore concentrated on the ways and means of planning and steering the economy, the inertia of bureaucratic management methods, the inadequate application of economic accounting or shortcomings in the use of material incentives. The economists involved saw opportunities and a need for decisive change only in this area, the area of the mechanism of the economy.

The attempt to reform the GDR's planned economy gave economics a comparatively wide scope for considering ideas from various sources compared with former times. Exclusive restriction to the dogmas of traditional Soviet economics and consideration of the Soviet economic model as the sole source of wisdom was eased to some extent. It is no coincidence that ideas among economists were more markedly pluralistic and internationalist during this period. The spectrum of books and articles published in the GDR became broader and the view wider. Kohlmeier and Behr edited Piero Sraffa's *Production of Commodities by Means of Commodities* in 1968. After the publication of Oskar Lange's *Ganzheit und Entwicklung in kybernetischer Sicht* (Entirety and Development from a Cybernetics Point of View) and *Optimale Entscheidungen* (Optimal Decisions), Maier and Hess edited his two-volume *Politische Ökonomie* (Political Economy). Works by Janos Kornai (e.g. 1967) and Churchman, Ackoff, Arnoff appeared in translation. Kratsch edited Grigori A. Feldman's *Zur Wachstumstheorie des Nationaleinkommens* (On the Theory of Growth of the National Income), and representatives of the Soviet mathematical school appeared in print.

### *The expansion of the system of economics*

Logically, economics experienced a considerable impetus institutionally, in its disciplines and in terms of resources from 1963 onwards. For instance, the *Beirat für ökonomische Forschung bei der Leitung der Staatlichen Plankommission* (Economic Research Council to the Board of the State Plan Commission) was set up in June 1963. This body served as a central institution for planning, coordinating and directing economic research in the GDR. Acting as adviser to the various levels of command and those responsible for the economy, it set up a large number of working groups and several coordination sectors. Its publication series *Planung und Leitung der Volkswirtschaft* (Planning and Management of the Economy) dealt with important problems of the NES and was based on the results of research undertaken by its working groups.

The Ökonomisches Forschungsinstitut bei der Staatlichen Plankommission (Institute of Economics at the State Planning Commission) was also established in 1963. It developed into a research centre for questions relating to the NES and played a major part in its development. The Zentralinstitut für sozialistische Wirtschaftsführung beim ZK der SED (Central Institute Attached to the Central Committee of the SED for Socialist Economic Management) was set up in autumn 1965. Headed by Koziolak, its research was concerned with theoretical and practical aspects of socialist economic management. As regards its teaching activities, it became a centre of further training for high-ranking managerial staff employed in the GDR's economy. And finally, the Academy Institute was engaged on problems of NES and the basic research they led to (see Bichtler 1986). In other words, it studied socialist economic growth theory as part of PES.

Examples of new economics disciplines and theoretical sectors that were set up and established include: socialist business economics, Marxist-Leninist organizational sciences, economic cybernetics, operations research, Marxist—Leninist management science, systems, information and model theory, the theory of socialist economic management, educational economics and market research, and the theory of growth, circulation and foreign trade. Progress in these areas was particularly rapid under the influence of philosophy, mathematics, cybernetics and computer science. The increased attention paid once again to business economics assumed special significance. Following the attacks mounted against bourgeois business management studies in the late 1940s and early 1950s, the abandonment of the term and the dissemination of knowledge of business economics through the subjects 'organization and planning of the nationally owned enterprise', 'industrial economies' and 'socialist business economies' came into force in 1967.

### *On some developments in the economic theory of socialism*

National economic planning was now understood in 'a more comprehensive manner than hitherto, namely as the theory of forecasting, planning and managing economic reproduction processes with central state planning organically linked to independent management by socialist commodity producers' (Ebert *et al.* 1969:376). Special attention was given to developing a functioning forecasting system within the planning edifice. This broached the subject of the previously undefined distinction between forecast and plan. One expression of the theoretical and practical importance attached to forecasting during the NES era was the establishment of the new scientific discipline 'forecasting'. *Heinz-Dieter Hausteин* (b. 1932), originally an industrial economist, succeeded in acquiring a scientific reputation in this field both nationally and internationally (see, for instance, Hausteин 1968, 1969).

ON COMMODITY PRODUCTION UNDER SOCIALISM AND THE  
PLAN-MARKET DISCUSSION

The basic idea behind the NES project was to improve the economic steering of the economy. This involved reducing bureaucracy in the planning and management system, increasing the economic independence of the enterprises and their amalgamations (VVBs) and establishing a new relationship between centralization and decentralization. And its purpose was also to orientate economic activity more strongly towards the market and profitability by means of the 'system of economic levers'. This approach demanded above all a more committed acceptance of the existence of commodity production in socialism and of value and market categories. A distinct change had taken place in PES. Owing to this and the urgent need to modernize the planned economy, GDR economists temporarily received a certain degree of latitude for quite an intensive discussion on plan and market and the role and function of the market and market categories in the socialist system. The discussion was greatly stimulated by previous negative experience with the centralized state steering mechanism, the debate among Yugoslavian, Polish and Czechoslovak economists concerning the conception of a free market socialism, the successes of the social market economy in the Federal Republic and Behrens', Benary's and Kohlmeier's earlier ideas for reforms.

It was initially generally agreed that 'the market [would have] constantly to decide whether the results of the work of an enterprise are acknowledged and confirmed as socially necessary labour' even in socialism (Berger and Reinhold 1966:97). A controversy arose over how the market perceived this function. Kalweit *et al.* (1966), for instance, posited that the basic proportions of the social link between production and consumption would be fixed in the central plan and not later in the market place. *Waldfried Schliesser* (b. 1932) rejected this standpoint, believing rather that the socialist market alone would decide whether the labour expended individually by the enterprise was indeed socially necessary labour and to be accepted as such (Schliesser 1966). *Werner Kalweit* (b. 1926), one of the most active participants in the plan-market discussion at the time, countered this with the remark that what appears on the market as a planning failure, is often a consequence of inadequate mastery of the economic laws which will quickly be overcome (Kalweit 1966). *Harry Maier* (b. 1934) observed that a view of planning 'that assumes that the distribution of social labour among the various spheres of production as conceived in the plan implies *a priori* that this labour is direct social labour in the sense of the social total labour in labour theory of value...would be of a highly perfectionist character' (Maier 1967:190).

The plan-market discussion was directed mainly by the economists from the party institutes. It was difficult to adopt a deviating viewpoint owing to their official status. Moreover, most of the media had to submit all

contributions dealing with the theory and practice of the planned economy to the appropriate departments of the party Central Committee for review. In addition, the editorial boards consisted mainly of representatives from party institutions. The basic canon was that the acknowledgement of a regulatory function of the market was out of the question. Hence, the socialist society required 'owing to its overall structure no "objective regulator" beyond the conscious action of society, its members and collectives' (Friedrich and Koziolok 1967:90). The view (of Ebert *et al.* 1969:162–3) that the market as a decisive indicator was an irrational detour bringing economic losses, so that in the mutual relations between plan and market the plan remains the decisive instrument of economic coordination, can be regarded as typical. An anonymous market mechanism was deemed theoretically untenable, politically harmful and disorientating in practice.

The development and implementation of market economy socialism in the CSSR underscored the official line. Thereafter, real or possible intellectual borrowing from the reform economists of the Prague Spring was punished by the party out of power-political calculations. Naturally, declarations in favour of market and efficiency-oriented thinking and action were not completely abolished. But during the ESS phase inaugurated by the VII Party Congress (1967) questions relating to commodity production and market categories were very definitely discussed in terms of their determinability through centralized state planning. The focus was shifted to the character of a planned socialist commodity production, a planned market and planned value categories. The change was expressed in a renewal of the trend towards increased state centralization in economic practice. Withdrawal from the original goals of the NES reform project had started.

From 1967 a policy of dissociation from standpoints attributing greater economic importance to the market set in. For instance, Behrens had to fend off fierce attacks on his contribution to the *Capital* conference in Frankfurt am Main (Behrens 1968). The response of Reinhold, Nick and others to his criticism of administrative centralistic economic steering and his plea for more economy, self-management and group ownership were more than highly polemic. In fact it became the vehicle for clarifying the growing role of the state, central state planning and management and the benefits of social ownership in the new phase of socialist development (see Reinhold 1968).

#### *Developments in monetary theory*

The stronger market orientation of socialist commodity producers required by the NES and the reorganization of banking in the GDR in 1967/8 directed the attention of PES more urgently towards monetary categories and relations. The hitherto relatively low analytic standards of this theory was a

result of the minor importance of money in the planned economy. (A typical slogan in GDR economic circles was: ‘Money’s no obstacle!’) The changed postulate that commodity production and value categories were real economic phenomena in socialism implied a similarly changed understanding of money in line with specific socialist conditions. And ultimately it formed the basis for the theory of socialist credit money, on which work started during the 1960s, but which did not assume importance until the 1970s and 1980s.

The development of economic theories in state socialism was always characterized by close links to political economic and ideological issues. However, during the 1960s this characteristic became stronger. G.Schürer, head of the State Plan Commission (SPK), demanded an end to the schematic distinction between basic and applied research, between research and the application of its results in practice. All researchers had a duty to orientate their research consistently towards practical requirements. In other words, the NES period was not only a prime time for economics, but also a time of pragmatism and the restriction of research to the day-to-day needs of economic policy.

The actual starting point for the ideas concerning monetary economics during the 1960s was the book *Das Finanzsystem der DDR* (The Financial System of the GDR) (Autorenkollektiv 1962). Its monetary theory was based on the first volume of Marx’s *Das Kapital* and the Soviet textbook *Political Economy*, of which the fourth edition had become available in German translation (Anon. 1961). Its thesis that money had a new social content in socialism and reflected socialist production relations served as the basis for considering the socialist monetary, financial and currency system as a phenomenon specific to socialist society.

Once the decision had been made in favour of the NES, the monetary and financial problems involved in its development became the main focus of scientific interest and questions relating to monetary theory became increasingly topical. Much of the work done at the time was not concerned explicitly with monetary theory, but pursued rather political economic aims in order to align the economic mechanism more strongly with a market economy. This was the general direction of work published by, among others, Kalweit *et al.* (1966), Berger and Reinhold (1966), and Koziolok (1967).

The liberation of value categories from dogma doubtless represented progress for the development of theory, but it was soon to be ruined by eliminating objective contradictions by definition and ignoring reactions between the general and the specific (see Ebert *et al.* 1969). Ultimately, the more marked penetration of the GDR’s economy by commodity—money relations and their clear theoretical definition led not to increased importance of the market, but to an expansion of the available planning instruments (see Kohlmey 1968).

But the development of monetary and financial economic theory during the 1960s was also problematic from the theoretical standpoint. Most publications dealt with the manifestations of money in their concrete political economic and practical form. Fundamental theoretical research, in contrast, made little progress. Basic questions of monetary theory in socialism, for instance, ‘why socialist production relations necessarily manifest themselves in the material form of money, or...which specific objective cause in the economic relations of socialism necessitate the monetary form’ (Kronrod 1963:163), remained open. This applied equally to questions such as the value of money, the form of circulation and the objective laws governing the circulation of money. These issues could scarcely be answered convincingly with Marx. And scientific borrowing from non-Marxist monetary theory was generally disapproved of for class, i.e. political ideological, reasons. Therefore, the detailed subsystems socialist price, public finance, credit, currency and foreign trade theory, as well as the closed system of economic levers of the NES had to dispense with a consistent monetary and value theoretical basis.

The main result was confusion. But the theoretical deficit could not be rectified within the context of this historical theoretical constellation. The deformation of the monetary, credit and financial system acknowledged by GDR economists as the GDR was nearing its end (see Tannert 1990) was rooted in the dilemmas facing monetary and financial economic research during the 1960s. This opened the doors of the GDR’s monetary and financial systems to political economic manipulation. Even gross violations against economically founded requirements of monetary and financial development could be legitimated by means of the theory of the unified socialist financial system.

#### *Developments in price theory*

The chapter on ‘Prices’ is among the most interesting in the period under discussion. Naturally, in view of the original purpose of the NES, market- and efficiency-oriented activity depends on the quality of the given price system. Monetary steering and control is only possible under the condition of a functioning price system. The history of political economic theory in the GDR shows that no relatively closed and independent socialist price theory existed.

The discussion of price theory and pricing, widely known as the pricetype controversy, was an expression of the search for a new, uniform pricing principle. At times very polemic, the price-type controversy went on for virtually a decade. It was closely linked to the activities developed during the industrial price reform introduced in several stages from 1964 to 1967. It can also be seen in the context of the measures taken by the 1969 industrial price control system to introduce the funds-related price type.



The socialist price was always treated as a plan price set by the central state (see Autorenkollektiv 1969:391). A price originating in the market was out of the question. The plan price was intended to replace the socially necessary labour input. There were no differences of opinion among GDR economists. It was emphasized that industrial prices that differed from input without reason would impair the effectiveness of the economic system. The calculation or measurement of the socially necessary labour input (also known as full labour input) in line with Marx's determination of the magnitude of value was a difficult theoretical and practical hurdle as well as a source of fierce controversy. The main bone of contention in this intra-Marxist polemic was the interpretation or application of Marxian value theory for the state socialist planned economy. More specifically, it was about the components to be considered relevant when ascertaining the value or input and the ways of measuring them.

The question of establishing a price corresponding to value gradually became the core issue of the price-type controversy. The price type was to be suitable for the requirements of expanded socialist reproduction. Starting from Marx's production price, the search for a suitable socialist price type began. The problem was the choice of a basis for the markup which the socialist price was to include. Proponents of the value price concept proposed that the surplus should be distributed on the basis of the living labour input. Only living labour, they maintained, could create value and be transferred. Proponents of the funds price concept argued for the production funds (capital assets) used up in the generation of goods. The latter clearly dominated in the price-type controversy. Most GDR economists finally agreed that the funds price would after all reinforce the meaning of prices in the economy (see Mann 1969). Although the necessity of introducing a dynamic view of prices was emphasized (see Ebert *et al.* 1969:332) and, conceptionally, flexible prices orientated towards world markets were envisaged, no decisive progress was made in this direction. Prioritization and the conditions of central state planning prevented really long-term price dynamism and flexibility. The party leadership refused to relinquish the main instrument for control of the GDR's economy on principle. Schürer (1996:59), head of the State Planning Commission, wrote that W.Halbritter, head of the Price Board, repeatedly submitted proposals for far-reaching price reforms, but simply did not pass the hurdle of the adoption of a resolution. It was only with the greatest difficulty that he succeeded in reforming industrial prices.

Compared with the previous state of affairs, GDR price theory had made unmistakable progress during the 1960s. However, the fact that, at about the same time, a much more fundamental discussion of the inherent scientific bounds of socialist price theory and a challenge to the blockade-like political

implications of the socialist price conception were developing among economists in Hungary, Poland and the CSSR puts this assessment into perspective and points to distinct differences.

*Developments in reproduction and growth theory*

Theoretical developments from 1963 to 1971 were marked by comparatively intensive work on the topic of economic growth. This was because from the second half of the 1950s onwards the requirements of scientific and technical progress had become increasingly apparent in the economy, leading to major changes in the character of the social reproduction process. In the early 1960s the GDR found itself in a serious growth crisis that demanded theoretical and practical responses. The strategic social goals proclaimed at the party congresses in 1963 and 1967 demanded a reorganization of the GDR's planned economy and its realignment towards intensive expanded reproduction. In other words, from then on economic development had to take place on a qualitatively new foundation. Moreover, the competition between the two systems in Germany just after the failure of the 'overtake without catching up' action demanded a course set on rapid growth to avoid being forced into the use of defensive argumentation in discourse with its own population. Such an economic upturn could not be achieved without rapid growth and a high accumulation rate. However, it had already become apparent that, despite all efforts, very little useful knowledge existed in this theoretical sector. Where Wolf (1966) euphemistically spoke of the necessity of deepening and perfecting the theory of expanded socialist reproduction and the theory of national income, Berger and Reinhold were more explicit. They declared that a socialist growth theory still had 'to be created. Unfortunately, the political economy of socialism has not yet solved this problem' (Berger and Reinhold 1966:81).

With regard to the development of the theory, the fact that the debate on national income and growth largely detached itself from the traditional criterion of growth in gross production can be considered a step forward. The development of the national income and its growth, or, more accurately, the development of the real, available national income, became the focus of theoretical and practical attention. And this gave the discussion on synthetic criteria of economic growth, and thus also the topic of efficiency, a decisive impetus.

A characteristic feature of economic theory in the GDR was that the competition between the systems was an integral part of the discussions centring around growth theory, i.e. the compulsion to grow derived from its necessity. This naturally gave the discussion a strong ideological flavour. Economic growth was not only discussed in the context of rationality and efficiency. Far more, it served to prove that state socialism was a society of

a higher order. In short, the discussion could not overcome a strong compulsion to legitimate the existing system and the wisdom and far-sightedness of SED policy. At this time, little thought was given to what the ecological consequences of strict orientation on rapid growth would inevitably be or which had already materialized. Only few economists in the GDR had been sensitized to such issues in the 1960s.

### **Economics in the GDR from 1971 to autumn 1989**

This was the period generally known as the Honecker era. It began with the enthronement of Erich Honecker as head of the SED in May 1971 and acquired its profile at the VIII Party Congress held in the same year. The resolutions adopted and orientation given by the 1971 Party Congress continued to mark economic and social development, and thus economics, until the autumn of 1989. The political turnaround, the deposition of Honecker and the subsequent collapse of SED rule and state socialism finally marked the historical end of GDR economic theory as state-endorsed economics.

#### *On a few historical turning points*

Major internal and external events and processes during the period from 1971 to 1989 were not without effect on the structure and scientific profile of economics in the GDR. The Party Congress in June 1971 was such an internal event, bringing a change in the party's theory of socialism and society particularly in relation to the political system. Ulbricht's favoured concept of the 'developed social system of socialism' was replaced by the 'developed socialist society' (DSS).

This change was far more wide-ranging than a mere substitution of terms. It marked the abandonment of the attempt undertaken under the NES to establish a more independent GDR-type state socialism with a systematic theoretical basis. It was a declaration of war on, as it was put in official party language, the 'pseudoscientific theory of socialism as a relatively independent socio-economic formation that had become widespread during the second half of the 1960s' (Anon. 1978:557). The course that emerged was again strongly oriented towards the basic Soviet model of socialism and was accompanied by intensified efforts towards integration within the CMEA. Above all, however, the subsequent years saw the re-establishment of an economy subject to a strictly centralized administration. The first steps taken under the NES to decentralize planning and management processes were replaced by increased recentralization, numerous central directives and planning and balancing requirements.

At the same time, the proclaimed formation of the DSS was linked to a definite change in economic policy. The economic policy, pursued since the

late 1960s, of concentrating resources on growth industries that would determine the structure of the economy under the conditions of the scientific-technological revolution had been conducted with complete disregard for the proportions of the economy or public consumption. Now, the proportional development of the economy received top priority. The advocated policy and the unity of economic and social policy aimed at the fulfilment of consumptive demand among the GDR's population, an improvement in its living and working conditions.

The approach of the VIII Party Congress of the SED was to serve as the programmatic foundation for socio-economic development in the GDR until the end of the Honecker era. In 1976, emphasis was placed on the further development of the DSS to create the basic conditions for the gradual transition to communism, the continuation of the unity of economic and social policy, and the current possession of a truly modern conception of socialism.

The year 1972 was historic in that the SED leadership orientated its policy in massive form towards the nationalization of enterprises that until then had managed to survive in private hands or with state participation. The year 1976 brought a deep incision of a different kind. The expulsion of the poet Wolf Biermann in November, the protests it aroused among intellectuals in the GDR and the subsequent repression of dissidents by state and party were a turning point in intellectual life in the GDR. It marked the open eruption of a conflict between political power and critical oppositional spirit that had long been smouldering, but was now no longer to be suppressed.

Biermann's expulsion also acted as a signal. It revealed that the cautious liberation of intellectual and cultural life that appeared to offer more scope for considering new problems and for debate in the humanities, economics and social science at the start of the Honecker era was not of a lasting character. Certain expectations of reform and democratization of the political and ideological system from above turned out to be illusory and self-deceptive. The hopes for internal transformation of the system sparked by the change from Ulbricht to Honecker and the increasing diplomatic recognition of the GDR in the early 1970s were dashed.

The year 1985 marked the beginning of the *glasnost and perestroika* policies associated with M.Gorbachev. Pinned to these policies and the corresponding changes inaugurated in the Soviet Union, hopes that a new concept of socialism and fundamental reforms would lead the way out of the stagnation of state socialism were especially high in the GDR. Although the SED leadership did not officially reject *glasnost* and *perestroika*, it left no doubts regarding their rejection and the fundamental gulf separating it from the changes in the Soviet Union. More importantly, the hoped-for analogous change of course failed to materialize in the GDR, blocked by the allegedly so successful SED policy of continuity and renewal. To be sure, the new

thinking was cited in the GDR, but on the whole it had no impact on socio-economic life or the Marxist-Leninist social sciences. For a variety of reasons, the forces favouring reform were unable to assert themselves against a party leadership intent on retaining its position of power.

### *The further structure of economics*

Economics and economic research were harnessed even more consistently to the system for the planning and management of the economy. Henceforth, its research topics and terms of reference were to be derived directly from the tasks and goals of the current five-year plan. Economics was to be more directly targeted on current economic problems that existed during the NES period. This remained a fixed maxim until the demise of the GDR's official economics. As shown in subsequent years, there was no inducement to develop theories based on intrascientific principles. The practical efficacy of economic theory was considered the measure of all things.

It should be noted in this context that the first central research plan for Marxist-Leninist social sciences had been adopted in 1972 for the period up to 1975. Later developing into a permanent institution for steering and regulating the official sciences, it replaced a resolution adopted by the SED Politburo in October 1968 defining the position, function and tasks of the social sciences. A good quarter of the topics outlined in the plan were intended for the economics profession. The plan defined all principal topics and areas of research, the main tasks to be dealt with by the various disciplines of economics during the period concerned, the planning of the principal economics conferences, publications and textbooks and the tasks involved in improving work with cadres.

The special position, i.e. primacy, of political economy within the system of economic science was stressed. As its crucial element, political economy was to present the theoretical basis and the generalization of the results of all economics disciplines and to ensure their theoretical methodological unity. The special emphasis on the role of political economy was a reflex to harsh criticism expressed by the upper echelons of the SED. Previously, these had discerned tendencies to detach branches and boundary disciplines from political economy. Orthodox political economy with its traditional dogmas of basis and superstructure and dialectics of productive forces and relations of production was reinvested with its former rights. It banished the systems theory which had been discussed among the GDR's economics profession and treated the economy, being an economic system, as a purely theoretical object. And the question of the transition from socialism to communism, which had been forced into the theoretical background by the concept of the developed social system of socialism emerged again as a topic of political economic research into socialism with the postulation of a gradual transition to communism. Finally, the DSS with its process character became regarded

as a first phase of the uniform communist social system. The time-honoured concept of socialism and communism as its two phases was back in favour. The investigation and description of the economic laws of the transition between the phases and their common and specific features was once again an important subject of PES.

Changes can also be discerned in the structure of economics. For instance, the value now attached to economic planning and socialist business economics alongside political economy increased. On the other hand, Marxist—Leninist organizational science, which had been strongly supported during the second half of the 1960s, disappeared. The theory of socialist business management developed into a science of economic management. Finally, the history of political economy, economic history, statistics and electronic data processing received comparatively more attention and were, to some extent, able to re-establish themselves as areas of independent scientific study. Greater emphasis than in the past was also given to defining the function and political character of economic theory. Proceeding from former opinions regarding political economy that both an ideological and a productive function must be assumed, attention focused on demonstrating the unity of the two functions and their validity for all economics disciplines. It was maintained, for instance, that without a far-reaching understanding of the political interrelations, without a political approach to the economic tasks' the theoretical problems of economic development cannot be solved either (see Anon. 1972:1283). Consequently, economists had to prove themselves as agents of the working class and adopt a political approach to all questions of training, education and research.

The establishment of a scientific council for economic research in April 1972 was a new milestone. It marked a notable modification to the system for the management and regulation of economics in the GDR in that a council responsible for all disciplines was set up in the same way as it had been for philosophy, sociology and history. Without a research brief of its own, this organ was to represent the centre of economics research in the country. The establishment of the council basically rounded *off* the institutional structure typical of economics in the GDR. The purpose of this council, attached to the Academy of Sciences and headed by Koziólek, was principally to map out the basic directions of research, initiate the discussion of relevant problems, ensure that new knowledge in economics was applied to economic practice in the GDR and coordinate the content of the various research activities. A further expression of the changes that were taking place in the structure of economic theory was the complete revision of the teaching of economics in 1972. A new curriculum for the now uniform basic economic studies came into force in the GDR which simultaneously included new curricula for the various disciplines. And university research into economics invested considerable intellectual and financial effort in the elaboration of new textbooks.

No major changes in the personnel structure in economics in the GDR occurred between 1971 and 1989. Owing to this lack of change, the party could be assured of ideological loyalty within the economics community. However, it was also an eloquent expression of the fear of change and the lack of mobility and flexibility that were characteristic of the system. Representatives of the older economists varied in behaviour. Some of them, such as Kuczynski, Lemnitz and Kohlmey, remained active in science and continued to contribute to various debates. Some focused their research on the analysis of capitalism, although, as in the case of Kuczynski, not always voluntarily. Others, like Oelsner, withdrew from active scientific work after retirement. Behrens, following his searing criticism of the dogma-ridden political economy of socialism at the Marx conference in Frankfurt (Main), was politically banned and driven into internal exile. Thenceforth he was allowed only to study the history of political economy. His critical final account of GDR state socialism appeared posthumously only after the political turnaround (Behrens 1992).

Those representatives of the middle-aged economist generation who had already acquired a reputation during the Ulbricht era, especially in the 1960s, such as Reinhold, Koziolak, Wolf, Berger, Friedrich, Kaiweit, Mann, Maier, Bichtler, Haustein and Stiemerling, with few exceptions (Wolf, Berger and, later, Maier), remained at centre stage of official economics in the 1970s and 1980s. Further representatives of this generation, such as Harry Nick, Wolfgang Heinrichs, Waldfried Schliesser and Klaus Steinitz, became more prominent in connection with problem-oriented analyses and issues. Recruited mainly from party institutes and the institute of the Academy of Science, economists of this generation occupied the most important positions in the GDR's economic institutions. They dominated the editorial boards and peer review organizations of scientific periodicals and publishing houses. The advancement of the younger generation of economists in the GDR, such as Norbert Peche, Hans-Peter Krüger, Ulrich Busch, Wilfried Ettl and Rainer König, was hindered by the numerous members of the middle generation.

A feature characteristic of the GDR's official economics was also that, when the textbook *Politische Ökonomie* (Autorenkollektiv 1969) was scrapped in the course of the attacks launched against Ulbricht's economic conception in 1971, many authors rapidly mutated into critics. The same people had no difficulty in furnishing political economic arguments for Honecker's DSS only a short time later.

Attention must, finally, also be drawn to the joint commission of economists from the USSR and GDR set up in 1971. Certain efforts had been made under Ulbricht to develop a more independent GDR-type model of socialism, and their most important theoretical aspects found expression in the above-mentioned textbook *Politische Ökonomie*. Under Honecker, the orientation was again more strongly towards the basic Soviet model. The

significance of the commission was reconsidered, however, with the onset of the Gorbachev era. The range of divergent approaches had already in earlier times been broader among Soviet economists, and the art of dispute considerably more advanced than among GDR economists.

### *The road to the 'perfection' theory*

During the 1970s and 1980s economics was governed largely by its categorical deployment for the task of fashioning the so-called 'developed socialist society' (DSS). This new fixed point of the political system during the Honecker era proved to be of a normative character for the entire theory of socialist economics in the GDR, defining its research and terms of reference, publications and language, or rather reducing them to within this programmatic framework. From the mid-1970s on, the development of the GDR's planned economy was characterized by numerous changes in procedure and hectically staged modifications to its steering mechanisms aimed at stabilizing and mobilizing its capacity. Known officially as the perfection of the management, planning and economic accountancy, these activities needed a basis and justification furnished by economics, the profile of which therefore degenerated into an economic theory devoted to perfection.

This brief outline is not intended as criticism of the basic quality of the academic discipline during the time concerned. It detracts in no way from the serious endeavours of GDR economists to perform empirical and theoretical work of a standard meeting the serious scientific standards of their subject within the framework of the generally accepted research programme. However, they finally allowed their scientific results, which were often quite respectable, to be absorbed in the general phraseology used by the proclaimed economics of perfection without apparent resistance.

### *The situation of hard core political economy*

The party's severe official criticism of the 1969 textbook *Politische Ökonomie* (Autorenkollektiv 1969) (the so-called 'Mittag Bible' after Günter Mittag, the party functionary responsible for economic issues) left economics in the GDR without an officially endorsed standard work for teaching purposes. The vacuum was filled in a way known from the past: Soviet textbooks on political economy, for instance by N.A.Zagolov, G.A.Koslov, A.F.Rumyantzev, I.I.Kusminov and D.K.Trifonov, were published in quick succession in German translation between 1972 and 1976. This naturally also set unambiguous signposts for science policy in the GDR's economic theory.

Political economists in the GDR simultaneously received the order to prepare their own standard texts. This led in 1973 and 1974 to the



publication of introductions to the political economy of capitalism (PEC) and PES and a textbook on the political economy of capitalism and socialism destined for general introductions into political economy. Additional booklets on PEC and PES for teaching purposes were published in 1973 and 1976 respectively and served as precursors of new PEC and PES textbooks for students of economics. The new standard work on PEC finally appeared in 1980, but people waited in vain for publication of the book on PES. Ultimately presented as a manuscript for print after several rounds of discussions and numerous revisions undertaken on the instructions of the SED leadership, the book failed to receive endorsement at a session of the Politburo. The authors, under the leadership of Schliesser, were reproached mainly for grave deficiencies in their theoretical scientific processing, presentation and evaluation of the economic policy of the party of the working class. The project was then put on ice to achieve the necessary maturity.

While characterizing the economy of developed socialism, the problem of its material-technical basis aroused special theoretical interest. It was not regarded merely as the foundation for stable economic growth, high productivity and economic efficiency. The SED's economic conception attached central importance to its perfection, which was even declared a vital issue for the GDR's planned economy (see Nick 1980). The research potential devoted to it was correspondingly large. Concrete analysis of the existing material conditions of production and forecasts of future radical changes were of outstanding practical significance. The discussion on the material-technical basis of socialism reached a climax in the latter half of the 1970s and the early 1980s, (see, for example, Haustein 1975, Knobloch and Roos 1978, Nick 1980, Langendorf 1981, Koziolok 1981). However, existing shortcomings and functional deficiencies were scarcely studied with regard to their structural dimension. Their possible and real roots in the political system were simply not regarded as topics.

Discussion of the economic laws of socialism was of essential importance to the profile of economics during the 1970s and 1980s. PES was anything but a satisfactory starting point. With economic laws defined as the material interrelations between actions involved in the economic activity of people, the first question was whether they are objective or not. This sparked off a lengthy, tedious debate without, as Ruben (1996) remarked, recourse to the philosophical methodological fundamentals of scientific cognition. Second, the various categories of economic laws (specific, general and special laws) were considered. Third, the systems character of the laws played an important role, and in this connection the principal topic of discussion was the position of the fundamental economic law of socialism, i.e. the law of planned proportional development of economy, and the law of value. And fourth, the debate focused on the relations between law, action and subjectivity, between effect, knowledge

and utilization of the laws. Discussion was especially intense on the point of whether conscious knowledge of the economic laws was necessary for them to come into effect under socialism. This view, posited for instance by Ebert *et al.* (1969) with reference to Soviet economists, was rejected by other economists such as Reinhold (1972) and Schliesser (1980), who argued that this, incorrectly, would make the objective nature of the laws dependent on knowledge and conscious use of them. Moreover, it would lead to a subjective element within the objective economic laws. On the other hand, the transparency of the interaction between objective and subjective factors was to be enhanced. To deny such an interaction would encourage ‘subjectivism and voluntarism’ and lead ‘to the false thesis of the omnipotence of politics’ (Schliesser 1980:15). It must be considered one of the ironies of history that this correct perception had found so little attention in practice in the GDR’s economy since the mid-1970s. The well-worn SED slogan ‘What the VIII Party Congress decided will come about!’ was basically a classical example of the contemporary vision of the omnipotence of politics in the GDR’s economy.

The discussion of the traditional categories production relations and productive forces was revived among political economists in the GDR, especially during the 1970s. The material background was the formation of the DSS, rapid progress in science and technology and its consequences for the economy, socialization processes in industry, agriculture and the service sector, the formation of *Kombinate*, changes in the relations between nationally owned and private property and, after 1971, the accelerating pace of integration within CMEA.

The form of value debate shows that discussions querying the theory and practice of the socialist planned economy were also going on at this time. Interdisciplinary research into philosophical problems of political economy which had been loosely in place at Berlin’s Humboldt University since 1977 led to publications on questions of philosophy and economics in the periodical *Deutsche Zeitschrift für Philosophie* (German Journal of Philosophy). Hans Wagner (b. 1929), a political economist teaching at Humboldt University, and Peter Ruben from the Academy Institute for Philosophy published an article on the socialist form of value (Ruben and Wagner 1980). Starting from Marx’s analysis of forms of value and referring to Sraffa (1968), they raised new questions about value, price, the law of value and commodity production in a planned economy. Their ideas on a socialist form of value, which met with both approval and critical doubts, went much further than contemporary opinions on the subject among political economists in the GDR—and therefore promptly became a target of criticism from the official economics community. Wagner and Ruben were accused of presenting a conception of value deviating from Marxism-Leninism and adopting the views of the bourgeois economist Sraffa in counter-articles and peer reviews from such economists

as Lemnitz, Heinrichs and Meissner (see also Rauh 1991). In other words, the two were sentenced ideologically as others had been during the revisionism debate of the 1950s. Ruben, Wagner and others involved in the discussion were the target of considerable political, scientific and personal repression and regimentation. At the same time, the value form debate served the apparatus responsible for maintaining the ideological supremacy of the SED as a platform for tightening its disciplinary grip on social scientists in the GDR.

*Developments in certain theoretical areas*

What became known as the debate on monetary theory among GDR economists was in fact part of a much broader discussion successively covering several theoretical areas. Among them were those representing the continuation, under changed conditions, of research initiated under NES and concerned with practical aspects of the monetary mechanism. It was maintained that money conveyed the social relations inherent in socialism and was historically and logically an indispensable category of socialism which was to be consciously and actively exploited and utilized. This led to considerable controversy.

In 1973, the Scientific Council for Economic Research undertook an initial review of the outcome of the discussion, intending to draw concrete conclusions for the preparation of the five-year plan for the period 1976–80. The debate continued, however, and turned to more fundamental questions (see, for instance, Schliesser 1974). The discussion finally came more or less to an end, but without consensus having been reached, with the publication of the book *Zur Einheit von materieller und finanzieller Planung* (On the Unity of Material and Financial Planning) (Autorenkollektiv 1975). From the theoretical viewpoint, probably the most important result was that the discussion revealed clearly the complexity of the socialist economic structure when money was included in the model and the consequent implicit rejection of conceptions of a centralized administrative economy. However, the theoretical deficit that had already hindered the elaboration of a clear concept for arranging commodity-money relations and the monetary instruments had not been eliminated. Consequently, the discussion concerning the character of money in socialism and its role and form was far from over.

Because of the outstanding importance of this issue for the overall edifice of political economy, a bitter controversy arose over the theoretical definition of money in socialism. Interestingly, the principal actors did not assume the same roles as during the 1960s when the dispute was between those favouring and those opposing a market-oriented approach. This time opinions differed on whether money should be defined as paper money (based on gold) or credit money (without a gold basis). The two positions simultaneously argued for opposing definitions of monetary value, measure

of value, price and credit. The front line ran straight through the former advocates of a market-oriented approach. Coalitions were formed between former opponents, and former allies found themselves in opposing camps.

Controversy was unavoidable. However, when it finally surfaced, the discussion was held, at least as far as publications were concerned, on the safe ground of Marxist theory of value and monetary theory. K.Kolloch, for instance, emphasized this explicitly in order to underscore his 'complete dissociation from all kinds of bourgeois monetary theory...that may accidentally be approached if the Marxist foundation and starting position is not adhered to consistently and carefully enough' (Kolloch 1980:920). All this was in vain, as subsequent disputes showed, because only a little later Lemnitz (1981) reproached those who wished to demonetize gold for departing from Marxian value and monetary theory or wishing to undermine it. A similar reproach was, as remarked earlier, also aimed at Wagner and Ruben. Lemnitz wrote: 'The economic basis of the socialist monetary system was and is the monetary value [of] gold' (Lemnitz 1981:1432). He rejected the term credit money to characterize socialist money out of principle as, he maintained, it was a specific capitalist economic category.

The treatment of money as an ingredient of the socialist planned economy was typical of the 1980s.

As an objective category of socialist commodity production, in socialism money has a new content that differs fundamentally from all previous social systems. Its characteristic is that money functions on the basis of the conditions and requirements of the economic laws of socialism, so that monetary processes do not take place spontaneously, but are embedded in the planning of the entire reproduction process.

(Ehlert *et al.* 1984:306)

This definition describes the actual situation that had manifested itself and been consolidated during the centralistic response of the 1970s and 1980s to the reformist efforts of the 1960s. It corresponded to the perception of socialist production as a primarily planned process. In contrast, commodity production was counted among the characteristic features of lesser depth and was therefore considered secondary.

This position was theoretically extremely inadequate and inconsistent. However, it showed that a consistent conception of money that was really appropriate for socialist conditions of reproduction could obviously not be developed on the basis of Marxian value and monetary theory. But, outside of this ideological frame, discussion was possible only within strict limits. This constant recursion to Marx explains why the theoretical discussions of money in the GDR tried repeatedly in vain to answer the same questions, but never got beyond a certain explanation for money in socialism.

In the economic policy pursued under Honecker prices based on the socially necessary labour input were considered to be the starting point for the correct function of virtually all value categories. It therefore seems legitimate to consider price theory current at the time. One noteworthy phenomenon must be mentioned at the start: from about 1976 on there was explicit talk of an independent socialist price theory. U.Schöne (1981:42) defined price theory as a separate and relatively closed discipline in PES. The immediate subject of socialist price theory was identified as ‘the laws of systematic formation of prices and their conscious utilization in the price policy of the socialist state’ (Ambree *et al.* 1977:11). These laws were a consequence of the system of economic laws of socialism. Prices themselves were regarded as the nervous system of the economy.

Taking up the traditional axioms of PES, price theory in the GDR saw both its historical and conceptional foundation solely in Marx’s labour theory of value (see Ambree *et al.* 1977). Marx’s labour theory of value was understood as the ‘irrevocable basis of all price theory that claims a scientific basis’ (Schöne 1981:52). In view of this, it is scarcely surprising that the optimal price theory proposed by Soviet economists V.V. Novozhilov, V.S.Nemchinov and L.V.Kantorovich received a generally critical reception when presented in the GDR (see, for instance, Mann 1976; Ambree *et al.*). Most GDR economists regarded formation of prices based on marginal productivities instead of the socially necessary labour input as suspicious and a step away from the Marxian theory of value. And, of course, the approach of the Hungarian A.Brody (1970), oriented specifically to the problem of economic measurement, also aroused no appreciable scientific interest.

The changes in price policy introduced in June 1976 and November 1983 are particularly relevant in this connection. They regulated the formation and adjustment of industrial prices within the framework of central state calculation guidelines. Under the flag ‘price-performance relation’, the changes were aimed primarily at new and improved up-market technical goods. Their purpose was to stimulate the development and production of new low-cost goods with improved properties in use. As these goods were identified by their improved use properties, their higher price compared with former goods of the same kind was considered justified. The fierce controversy this sparked off among GDR economists focused especially on the principle of ‘same utility=same price’, the concept of value in use, questions relating to the relations between value in use, value and price and the role of value in use as a factor in price formation. In other words, the discussion centred around the role of value in use in the definition of value and price (see, among others, Stöbe 1977, Ambree *et al.* 1977, Elz 1979). The measurability of value in use, it turned out, was ‘one of the most contentious problems of marxist price theory, and not only of price theory, but of economics itself (Stöbe 1977:1488).

GDR economists gradually became aware that price theory urgently needed further development. Highly problematic effects of the price policies in force, the need to adapt price structures in the GDR to changed internal and external conditions, the changed costing guidelines introduced half way (1983) through the current five-year plan period and the now appreciable deficits in the theoretical model for explaining prices called for reflection on the postulates of socialist price theory and, therefore, on the price policy derived therefrom. Occupied primarily with the perfection of diverse centralist administrative price regulations, the guild of GDR economists concerned with prices failed to consider the socialist plan price itself, its basis and its implications. There is little sign of a serious search for alternative price theories. Thus, even the quite extensive scientific endeavours to analyse prices on the domestic, CMEA and world markets, to shed a more differentiating light on the various factors of formation of prices and to take supply and demand more strongly into account in the formation of socialist prices (for instance Langner 1975) remained without major impact.

Finally, the economic policy of intensifying the process of economic reproduction declared under Honecker in 1971 and the consequences arising for the GDR's economy from the radical changes that took place in the world economy in the mid-1970s added considerable weight to the theory of reproduction. A more comprehensive understanding of efficiency in general developed within economic theory in the GDR. All funds and resources, all factors of production, including the scarce fuel and raw material resources, and the environment were scrutinized from the standpoint of their effectiveness (see Heinrichs 1984, Braun 1985). The strong emphasis on efficiency was to further scientific efforts to measure economic efficiency.

From about 1973 on, growth theory was subordinated to reproduction theory. Its further existence as a separate theory was thenceforth considered unnecessary in the GDR. After all, this far from glorious chapter of economic theory in the GDR began at just the time when growth theory and research into it was receiving increased attention internationally. The analysis of growth and structural problems, as ran the explanation, was 'possible...only on the basis and within the framework of the Marxist—Leninist theory of reproduction', and it would be out of the question to 'develop a growth theory outside of or parallel to the Marxist-Leninist theory of reproduction' (Bichtler 1986:173). The discussion of growth among GDR economists was characterized by quite contradictory standpoints and heavily ideologized for a considerable time. For instance, a high rate of growth was considered a hallmark of developed socialism and a proof of its economic efficiency until well into the second half of the 1970s. Economic growth was regarded as a prerequisite for fulfilment of the main task, the qualitative improvement of the material and cultural conditions of life in the GDR. Nick (1977:54–5) formulated it programmatically: 'Communism without economic growth

would not be a different communism, but none at all'. Certainly, Maier (1977) spoke of a policy of growth for the sake of growth being foreign to socialism and called for the selection of the correct rate of growth, but he nevertheless finally pointed to the definite superiority of state socialism in developing stable, rapid growth. The theoretical economic debate on the contradictions inherent in uninhibited growth initiated by the report of the Club of Rome was doubtless heard from the West. But the limits to growth were interpreted as the limits to capitalism. The questions raised by W.Harich (1975) and R.Bahro (1977) concerning a communism without growth were regarded by most as suspicious and externally instigated.

The question of the basis on which economic growth would be achieved was regarded as the crux of the matter. Growth in the national income produced was not considered identical to socio-economic progress, to maintaining proportionality, to increasing effectiveness and the better satisfaction of needs. In other words, the growth debate gained in depth and consciousness of the problem. The achievement of qualitative growth was considered to be by no means assured. On the contrary, it was linked directly to various conditions such as the strengthening of the material-technical basis, more optimal mastery of the science—technique—production cycle, the qualitative transformation of the material-technical system of productive forces or improvements in the productivity and effectiveness potential. However, despite all progress, the discussion on economic growth in the GDR failed to identify the fundamental structural causes of the perceived growth problems that arose from the logic of the planned economy system itself.

The role of environmental economics within economic theory in the GDR also deserves attention. Like economic growth, in the early 1970s ecological issues were regarded as a problem confronting capitalist industrial society as a result of their race for profit. Conflicts between humanity and nature were thought to be foreign to socialism. Moreover, socialist society had conditions and instruments at its disposal to meet the ecological challenge. Thus, the environmental issue in the GDR was initially part of the ideological struggle between the systems (see Plate 1982).

Towards the end of the 1970s, environmental awareness grew considerably in the GDR because of the practical consequences of ecological damage and the increasingly apparent conflict between economics and ecology. Natural scientists and philosophers had broached the subject in their analyses and remarked that the notion that nature is there waiting to be used and everything else will look after itself is still strangely prevalent. The economists soon followed, such as H.Paucke, G.Streibel, H.Roos, D.Graf, G.Schirmer and M.Braun. They went further than dealing just with the solution of the ecological issue as an integral part of the perfection of DSS. They even supported the idea of a general ecologization of production. Instead of repairing ecological damage after

the event, it was to be minimized or prevented as far as possible beforehand by the selection of appropriate techniques and technologies. The topics dealt with in this context on the basis of knowledge gleaned from the international literature and discussion included the urgency of harmonizing natural and production circular flows, the need for an environmentally compatible production structure using alternative techniques and the urgent necessity of changes in living, production and consumption patterns. Attempts were also made to challenge the current Marxist economic theories, categories and indices, which gave too little attention to ecological issues. The scholars not only pointed to the limitations of labour theory of value, but also to the need to pay much more attention to the economics of natural resources as part of a more comprehensive resource theory (see Roos and Streibel 1979, Graf 1980, Braun and Ettl 1987). There can be no doubt that there was an awareness of the actual ecological situation among GDR economists regardless of the lack of political and economic scope to do anything about it.

### **Economic theory in the GDR from the turnaround to the end**

#### *The eve of the historic upheaval*

The revolution in autumn 1989 brought the downfall of GDR state socialism, although economists in East and West were still pondering the future of the GDR's economy in the spring of 1990 and its path of future development (see Heine *et al.* 1990). The turnaround inaugurated the final chapter of economic theory in the GDR. The political economy of Marxism had naturally not considered processes of this kind. Whether any comfort can be gleaned from the fact that this problem is not exclusive to Marxist economics and social sciences is irrelevant, since 'what theory had known from the start that socialism was doomed?' (Beyme 1994:10).

Economics in the GDR neither anticipated nor played a major role in initiating in the turnaround. It was neither conceptionally prepared nor played a substantive role. Unquestionably, economists at various establishments had been illuminating increasingly critically the grave functional problems of the GDR's planned economy since the mid-1980s in studies and various working groups, at symposiums and in informal circles. Warnings about the need for reform, renewal or modernization of the economy had been given, and doubts over the economic and social strategic course of the party leadership aired. Proposals had been addressed to various party and state levels.

But what was lacking was a fundamental economic criticism of the system. No thoughts were lost on the legitimacy of the economic order or the worthiness of its existence. There is little sign that the essence of the



central economic dogmas of Marxism was considered problematic or that attempts were made to challenge the relevance of Marx's or Lenin's theorems on account of their historical context. And the productivity and fertility of other types of economic theory were never seriously considered. Nor was any search conducted beyond the framework of the known economic system for general alternatives. The GDR's economy was still regarded as capable of development within limits, and the majority of the profession thought its perfection eminently possible. In addition, hypothetical hopes were pinned on a reformist communist leadership soon, perhaps, to emerge. Stultified in its theoretical progress by decades of monostructural thought and chained to the declared programmes and behavioural code of the state party, this economic theory was unable to escape the inherent ossification of post-Stalinist socialism.

It is among the ironies of the history of economics, but simultaneously typical of economics in the GDR, that a Marxist economic theory with economists schooled to think in terms of the sharpening contradiction between outmoded production and power relations on the one hand and progressive productive forces on the other should fail to notice the need for revolutionary economic and social change. Unless GDR economists had ceased at all to ponder upon historic turning points and transformations, they clearly lacked the vision or the social conditions to approach the truth, at least regarding their own economic system. Occasional major public attempts undertaken to analyse the structure and prospects for change of the state socialist economy evoked such strong responses from the ruling politburocratic circles that the individual and the whole profession were shocked into submission. As a result, economics degenerated into a legitimatizing ideology. And its 'awareness of problems was not encouraged; in fact all public discussion was suppressed by ideological dogma, such as the demand for open partiality of the sciences or the unconditional primacy of politics' (Peche *et al* 1990:7).

It was for this reason that the meetings of the interdisciplinary research group on philosophical questions of political economy headed by Wagner and the philosopher Steininger at Berlin's Humboldt University became a valued forum for critical discussion of the theory and practice of the state socialist economy. It was also at this university that a research project on the theory of socialism was initiated in 1988 with considerable encouragement from the stimulating political economist *Dieter Klein* (b. 1931). The project united predominantly young philosophers, economists and legal theoreticians who gathered to reach agreement on the need for radical change in the GDR and in European state socialism. In June/July 1989 they documented their views in the sensational study *Überlegungen zu Problemen und Perspektiven des gesellschaftlichen und wirtschaftlichen Wandels in der DDR und anderen sozialistischen Staaten des RGW* (Thoughts on problems and prospects of social and economic change in

the GDR and other socialist states in the CMEA) (Brie *et al.* 1990). A group that came into existence at the Berlin University of Economics in 1988 and included, among others, Ch.Luft, E.Faude, W.Schliesser, E.Sachse, H.-J. Dubrowsky and H.Knop, had developed quite far-reaching ideas and proposals for the future of the GDR's economy on the basis of the longer term collection and analysis of a great deal of empirical data. And economists such as N.Peche, K.Steinitz, D.Walter and W.Ettl at the Academy Institute had been critically analysing the economic position of the GDR for some time and, on the basis of their analysis, had also outlined the contours of a reform programme.

Altogether, the GDR's economic theory found itself caught between traditional party loyalty and attempts to find a reformist approach. On the eve of the turnaround, however, there was virtually no sign that some superior emancipation, a self-determinate renewal of economics as a whole was impending or could spark off radical economic and social change.

### *On the final efforts of the economics profession in the GDR*

The turnaround proved to have three important consequences for economics. First, the officially endorsed economics theory of the GDR lost its status with the ending of the SED's reign, the scrapping of Marxism-Leninism as a state doctrine and, at the latest, the political results and consequences of the elections in March 1990. The central structures of an institutionalized, ruling science were dismantled step by step. The Politburo as the last instance of scientific truth and knowledge, the central research plan for the social sciences, the highly organized apparatus for guiding and checking their disciplines, the concentration of science potential with the Central Committee of the SED, the cadre policy steered by the party, the suppression and discipline of critical scientific spirit, the regulation of discourse by the central economic councils and their advisory bodies, the direct or indirect imposition of results of economics research, the selective access to data, sources and literature, the prevention of free dispute, the monopoly on definitions—all these phenomena of a repressive rule within economics and the social sciences in general were consigned to history. The demand for legitimation of the system, its economic structures and mechanisms, its élite, its power apparatus and its generation of knowledge to rule belonged definitively to the past.

Second, the historical fall of the GDR's economic system brought all economics disciplines associated with it to an end. Their main subject, the planned economy, had ceased to exist. A holistic view of the economy and economic policy, economic institutions, interests and driving forces, objective laws and trends, instruments and methods of economic management, ideas on international economics, theoretical and methodological foundations had foundered.

Third, the clientele hitherto responsible for the official economics to which scientific activities were addressed had vanished in the radical changes in the political structures and the transformation of the economic and social scene. Although the historical rupture found the economics profession of the GDR totally unprepared, the period from November 1989 to October 1990 was a brief, but exciting, phase of intensive scientific activity.

Seen scientifically, it can be said that the efforts of GDR economists were first devoted to a critical analysis of the economic theory and policies of state socialism or, in short, to rendering account (see Ebel 1990). Attention focused in particular on the symptoms and deeper causes of the crisis of the GDR's planned economy. The design of the economic reform was a major topic and the subject of numerous publications and conferences, such as that held at the Berlin University of Economics (see Anon. 1990). The majority of economists favoured a complete break with the structures and logic of the remains of the GDR's economy. Peche, and colleagues (1990), however, wished to consider economic reform only as a radical change in the existing system for planning and managing the economy. A departure from the logic of the past system was needed. At the same time, a separate social *and* political identity of the economy of the GDR needed to be preserved. This should allow not only a large measure of economic democracy, the maintenance and encouragement of social and ecological security and enhanced quality of life for all citizens of the country, but also the 'prevalence of social ownership relations in the key areas of the economy' (Autorenkollektiv 1990:321–2).

Schliesser's (1990) problem of market economy and socialist identity and Peche's (1990) belief in a socialist market economy, a market embedded in democratic—socialist structures showed the continued latency of the idea of socialism and relatively firm ties of GDR economists to models of socialism, however strange they may have been. From the viewpoint of contemporary history, however, this can be explained by the circumstance that their contributions were written or published between January and March 1990. Subsequently, from April 1990 at the latest, GDR economists such as K.Müller (1990) made it clear that it was no longer a matter of economic reform, but one of economic transformation.

The relations between market and plan and between money and plan were regarded as the chief obstacles to a fundamental change towards a market economy. Opinions that have been in place for years, it was said, must be overcome, especially in the question of the relation between plan and market. It would not simply be a matter of 'repair work, the replacement of parts of the economic mechanism, but of the development of a qualitatively different mechanism in which the efficiency of an economic unit will be judged on the market place' (Höhme 1990:31). In the question of market and plan it was time 'finally to abandon the disastrous formula

that central planning equals socialism and that market equals capitalism' (Peché 1990:62). It was, Peché went on, logical that without real commodity and monetary relations, and therefore without a functioning market, there is no economic life, but at the most an administration imitating a commodity economy.

The attention given to monetary and currency issues is one of the striking aspects of this closing period of GDR economics. The main subjects of debate were the instability of money in planned economy systems, cardinal deficits in the monetary and currency theories of Marxist economics, the conditions and criteria of monetary stability, the conditions needed to achieve convertibility of GDR currency and the consequences this would have for the GDR-mark, the necessity and consequences of reorganizing the banking system to suit the principles of a market economy and the reasons for selecting concrete exchange rates when converting currencies. It was emphasized that difficulties with money and its stability are intrinsic to the planned economy, whereas the functional mechanism of a market economy is based on money and the actions of monetary categories and that such an economy must therefore be a monetary one. It was simultaneously stressed that the stability of the inherent value of money must be seen as a core criterion of currency convertibility, and that convertibility is a basic requirement of a free market system.

In view of the short time the GDR economists had to review their theoretical edifice, free themselves from the concepts of the former official economics and develop ideas for economic reform, their approaches and argumentation were fully appropriate to the situation and scientifically cogent. In their publications they showed not only a notable awareness of practical problems, but also even a feeling for the challenges this historically unique transformation of a system presented to economics. Also remarkable was their realization of the ambivalence and tension inherent in the selected economic transformation model. It was precisely this that was marginalized by most economists in the Federal Republic. The last chapter of economic theory in the GDR consisted in the liberation of its structure from stifling indoctrination, Stereotypic scholasticism and extra scientific heteronomy in the course of the turnaround. But this was no substitute for the equally necessary self-liberation of GDR economists from questionable Stereotypic trains of thought, partially obsolete doctrines of economics, a reductionist view of methods and a catastrophically limited understanding of practice. This process started between the turnaround and the end of the GDR. Articles and empirical analyses from this period did more than give the impression that scientific self-liberation had commenced and differentiation was taking place. They also expressed an ability to learn, existing potential and competence to develop economics at levels acceptable to the scientific community.

*What is left?*

Naturally, the question of the bottom line remains. The limitations and deficits of the GDR's official economics have been discussed. In its traditional constitution as a closed scientific system imperatively linked to party, ideology and state and with products frequently available free of theoretical charge it was inevitably doomed. But the system was far from homogeneous. It had a definite internal differentiation of its own. However, the profile and relevance of this structure, like its specific milieu, faded behind the closedness of the system, as it did also during the first years after the turnaround when science could not avoid the openly account settling and revelational character of political feature articles.

Although the system of GDR economics was, as an official system, fairly uniformly subordinated to the ideological constants and theorems of Marxism-Leninism and the declared political goals of the party, the system was nevertheless made up of separately acting economists, each with his or her own research results and contributions to the debate. The necessary objective bottom line of the balance sheet of economics in the GDR will, in the future, have to take more account of the phenomena and processes that took place within science, its milieu and culture and the profiles, knowledge and results of the individual economists.

In view of the open-ended nature of development, only the future will be able to give a convincing answer to the question: What is left? Precisely because the GDR was caught up in the storm of history, its economists can only now—as far as they have a chance to practice science—find out which past scientific investments yielded really viable products, a truly competitive output. The question naturally also includes the topic of the future of a research programme characterized especially in the GDR by closed ranks and devotion to the traditional Marxist way of thinking. With Marxism now completely debunked in the scientific sense, time alone will show the extent to which the theoretical system is capable of self-reflective criticism, productivity and innovation. Only then will it become apparent whether former GDR economists are capable of appropriate contributions. And, if so, of what kind they will be—then as part of the economics science of a reunified Germany.

**Notes**

1. The section on 'Developments in monetary theory' was written by Ulrich Busch, who also contributed the paragraphs on monetary theory in a later section. Valuable comments on earlier versions of this chapter by F.Haffner, H.-D.Haustein, H.Maier, G.Leptin, H.-J.Wagener and by U.Busch are gratefully acknowledged. Special thanks go to P.Blüher, J.Rademacher, J.Bach, F.Cramm, Chr.Müller and K.Müller who as research assistants provided many informative materials.

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# YUGOSLAV ECONOMICS FACING REFORM AND DISSOLUTION

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## Introduction

The main subject of Yugoslav economics after World War II was systemic reform. Its contribution was constrained by the, for the most part genuine, belief of the most influential economists in self-management, though there were serious disagreements about what was meant by self-management. The opposition to the mainstream consisted largely of those who believed in central planning, liberal economics being either irrelevant or subsumed in some way by the economics of self-management. Thus, when after decades of reforming and perfecting the self-management system, systemic transformation was to be faced, the economics profession lost much of its rhetoric and its credibility. Indeed, the minority of those advocating either centralization or economic nationalism gained the upper hand in many places. As a consequence, the dissolution of self-management and of Yugoslavia essentially sidelined the mainstream economists and in some cases increased significantly the influence of what one would expect to be an anachronistic alternative of socialists and nationalists.

In this chapter, I will give an account of what I consider to be the failure of Yugoslav economics.<sup>1</sup> By 'failure' I mean the inability of the economics profession to come to terms with its main professional challenges, that is, the provision of clear answers to certain pressing problems: the understanding of the socialist economic reality, the substance of the necessary reforms and the clean 'balance sheet' of the Yugoslav disintegration. In many other respects, the economics profession was successful. It made Yugoslav economics known in the world, it increased significantly the standards of teaching and research, and it was increasingly socially and politically influential. Nevertheless, it failed to offer clear and unambiguous answers to the most pressing issues at hand.

The failure will be seen in more detail once an extensive and comprehensive history of economics in Yugoslavia is attempted.<sup>2</sup> Much of what seemed relevant at the time will have to be treated almost like a curiosity. Some of the issues debated that seemed at the time to be of the utmost intellectual importance will be seen as basically misguided. Even the language used will be incomprehensible to many. The terminology and vocabulary used, the subject matter and the paramount questions discussed, all that is often no longer even of historical interest. Read against the background of the vital problems the country has been facing for decades, one gets the feeling of overwhelming intellectual and professional failure.

The story of the failure will be told in the following way. First, I put down some theoretical considerations from the sociology of science. Second, I discuss the self-management commitment. Third, I go through the main points of the never ending debate on economic reform. Fourth, I outline the case for the opposition. Fifth, I explain the phenomenon of missing liberalism. Sixth, I describe the dissolution of the Yugoslav economics profession and the various modes of adaptation. Finally, I summarize the argument.

### **Science as a profession in an ideological world**

The Yugoslav economics profession believed in self-management. To understand the source of this belief and of its persistence, I will rely on some simple ideas from the sociology of science as they pertain to the 'profession' and the Vocation' of the scientists, i.e. to the normative basis of scientific beliefs. The sociology of science distinguishes between external and internal norms that influence the performance of a scientific profession (see Weber 1946, Merton 1975). External norms are those that somehow put the particular profession in its social context. In the case of the social sciences, the social context is external only in a relative sense: it constrains the way the profession functions, but it is also the subject of its study and reflection.

There are many ways in which this interrelationship can be established. In some cases, the social context can be taken to be completely external both institutionally and in terms of epistemology. A scientist may live 'of science' in Weber's sense. There is no empathy either with the institution or with the subject. There are various ways in which such a disenchantment, to use another Weberian expression, can be organized. The one might be said to be thoroughly instrumentalist. For example, science in a totalitarian world may be organized in such a way that the profession has to work for the authorities and has to communicate with them in an ideological language like that of Marxism or Leninism. Thus, the profession might have to express whatever understanding of the totalitarian world it has, taking into account and, in

fact, relying on these external constraints, the ideological control being the most important one. Another possibility is for the profession to internalize some of the constraints, for instance the ideological language. In that case, it will treat the external conditions in an instrumentalist fashion only to the extent that it has not internalized them. This 'partial empathy' with the circumstances and with the subject is often the basis on which the social sciences function in an ideological world. It, indeed, is very difficult for scientists to completely dissent from the ideology of their political society. That will be especially difficult in the case of policy sciences. It is often the case that, at least for rhetorical reasons, a scientist will try to sound convinced in what he or she is arguing for, because nothing is as persuasive as a sincere persuasion.

Apart from these external norms, there are internal norms. These are of two kinds: institutional and methodological. On the one hand, there are those internal norms that pertain to the profession as a social institution. Two leading types could be distinguished. The profession can be organized in an authoritarian manner. That kind of an organization may be quite complex. There is no point in going into more detailed analysis. In totalitarian societies, ideally, science as a profession would be organized in a hierarchical manner with the supreme ideological authority in the position of control. But the concrete form that it will take is an empirical question. By contrast, science can be awarded (some or full) autonomy. That might be based on the principle of intellectual freedom. Again, the actual organization may be quite complex and may differ in place and time. The main difference from the authoritarian organization is that autonomous science relies to a greater or lesser extent on the authority of the argument, rather than on the argument from authority. In most cases, the actual organization will be a mixed one. Complete autonomy is impossible in ideological states. In the social sciences, authority will reside either in the authority of the party or of some other organization or the authority of certain individuals by virtue of their political or ideological positions. The authority structure may be rather loose and decentralized, involving significant competition and a degree of intellectual autonomy. This is especially the case if the profession in a country is somewhat opened to the international professional life. Then, the internal professional norms become, at least partly, those of the pluralistic world rather than those of the monolithic ideology. On the other hand, there are internal norms that pertain to the scientific discipline and have a distinct epistemological flavour. For the most part, these will be methodological. In the social sciences, for instance, a kind of positivism has been influential, holding that the realism of theories is irrelevant. If it turns out that a theory, which on the face of it sounds incredible, fits the facts (in some sense), there is no other test it has to pass (see Friedman 1953). This could be called an extremely entrepreneurial methodology of science.<sup>3</sup> Another is the



methodology of individualism (in its many variants). It restricts the positivist methodology by requiring that all explanations and theories should be consistent with individual reasons and actions (see Gligorov 1995). Finally, various types of collectivist methodologies can be accepted. In contrast with individualism, collectivist methodologies require that all explanations and theories rely on some idea of collective reasons and actions. These methodologies, as well as a number of others, comprise norms internal to science that compete for the attention of the working scientists. The major characteristic of Yugoslav economics was that it was collectivist. This collectivism combined well with the over-riding idea of self-management.

There can be any number of different ways to combine external and internal norms of science as a profession. Even in an ideological world, there will be a variety of ways in which actual scientific work will be organized and carried out. The totalitarian ideal saw science as a social service that was to be organized in a strictly authoritarian way and was to be committed to some basic ideological and methodological rules. The actual scientific work did not conform to that ideal. However, it was not completely detached from it either. The interrelationship between the totalitarian ideal and the actual scientific work, both via the external and the internal norms, determines the evolution of the science as a profession in an ideological world. This can be seen clearly in the Yugoslav case and especially in the example of the economics profession. The institutional and ideological controls were increasingly decentralized and relaxed. As often happens in ideological societies, specialization developed with the scientific interest becoming increasingly separated from the more dogmatic one. Yugoslav economics was converging with the economics taught in the West, with which it was communicating though it was not integrated in it, and the level of its professionalism was increasing all the time. The system of external and internal norms as it developed in Yugoslavia was such that:

- there was a political structure of authority that could over-ride the authority of the scientific argument;
- there was an internal structure of authority that was to an extent a reflection of the outside one, but also depended on the authority of the ideological belief that the profession internalized; and
- there was a methodological commitment to collectivism of one sort or another.

This system evolved with the authority structure becoming looser and looser and with methodological collectivism giving way either to positivism or to individualism. Thus, there was significant progress in the level of intellectual freedom. Still, the institutional and ideological control was always present. The two main mechanisms of control were money and beliefs. Both are

interesting to analyse. This is not the place to discuss demand for and supply of economic knowledge in Yugoslavia in any detail. It will be enough to just outline the main points. In this section I discuss only the monetary aspect. In the next I will outline the mechanism of ideological commitment.

As in most other countries, three main sources of demand for economics can be identified: government, students and business. The main suppliers of economics were university departments and research institutes. They were, for the most part, closely connected both institutionally and in terms of personnel. However, because of the organization of the economy as well as of the government, the demand was mostly for the type of knowledge and expertise that could be used for concrete political and business purposes. Most of the students had to be taught those subjects that were going to be useful to them in their future occupations. Firms were interested in studies that they could use in the environment they were dealing with, and the government was interested in studies that it could use for both systemic and policy purposes constrained by the character of the regime they were running. Therefore, the institutional control was not direct and crude either in terms of coercion or corruption, but it was transmitted by the way the demand for economic knowledge was formed.

This had significant effects on university programmes, on research projects, and on selection of personnel in a rather obvious way. The programmes included many subjects and material that had to do with what was specific to Yugoslavia. Research was also skewed towards more systemic questions, towards some ideological dilemmas, and towards certain specific policy issues. Finally, the interests and the capabilities of those who chose to work in the profession reflected the predominant structure of the teaching programmes and of the research subjects. Thus, there was certain specialization in the economics profession that reflected the specific Yugoslav demand for economic knowledge. There was, of course, an evolution reflecting the evolution of the Yugoslav society and the scientific evolution also. But institutional evolution is always rather slow and this is especially the case in an ideological world, as the ideology, in normal times, evolves even slower than the institutions themselves.

The whole system raises the subtle issues of the strength of intellectual conviction and of the level of reliance on professional dignity. There was some trade-off between the two, of course. However, for most economists the issue of intellectual corruption did not come up because they shared, to one degree or another, the prevalent ideological convictions. For those, admittedly a minority, who had to face the trade-off every day, adaptation was a constant problem. In time, the market for economic knowledge diversified and segmented so that the professional and ideological opportunities increased, though the choices were not necessarily made easier, either intellectually or professionally. Indeed, rather than liberating the profession, the diversification led to its dissolution.

### The ideology of self-management

The interesting fact about Yugoslav economics was that, to a large degree, economists did believe in self-management. By this I mean that self-management was not relegated to the preface or to the introduction of the books and articles written, as was the case with Marxism or 'the classics' and even with party documents or pronouncements of the general secretary in some of the other socialist countries. Self-management was the theory used to explain and analyse the Yugoslav economic development and to advise the Yugoslav government and the ruling party. Moreover, it was a kind of a theoretical vision or scientific ideology used for more general theoretical purposes. The formation, the persistence and the adaptation of this belief, i.e. the economics profession's commitment to it, is the main subject of this section.

Without going into any theory of epistemological commitment, I just want to connect the three main normative factors discussed above with the persistence of the belief in self-management. Thus, I will take that the commitment to self-management was influenced and reinforced by:

- external institutional factors;
- internal institutional factors; and
- theoretical factors.

I will analyse these in turn.

### *Social institutions*

The Yugoslav economic and political system combined so-called social ownership<sup>4</sup> with the market. It was neither a centrally planned economy nor a market economy. But it was not simply a mixture of the two. It came into being and evolved with two main systemic constraints: socialism, as the most general framework of the Yugoslav system, and non-integration into the Soviet socialist system. In accordance with the latter, Yugoslavia abolished central planning, but, in the light of the former, restrictions on private ownership and on the creation of markets were retained. Also, Yugoslavia opened up to the world market and cooperated with the international financial institutions, but did not introduce either currency convertibility or a liberal system of foreign trade. As a consequence, the Yugoslav economy was a mixture of free markets, repressed markets, and missing markets. It experienced market clearing conditions in some cases, shortages in others, and complete lack of certain goods and services in still others. This mixture was reflected in the price system (with free prices, multiple prices and black market prices) as well as in the institutional arrangements that relied on all kinds of prohibitions, restrictions and exceptions.

Apart from the social ownership system, that was quite a peculiar one, there was also a specific fiscal system that combined taxes with contributions in a rather complex and increasingly decentralized way. This fiscal system was a reflection of another important characteristic of the Yugoslav economy, federalism. The issue of the economic rationale of federalism was important from the very beginning, but became increasingly important and divisive. The fiscal aspect was central because the political as well as the professional debates were concentrated on the issue of who exploits whom in the Yugoslav federation. For the most part, the development of the Yugoslav system moved in the direction of fiscal federalism with quite significant devolution of fiscal rights and responsibilities. Altogether, the Yugoslav economic system combined markets with social ownership and with a peculiar system of fiscal federalism. The whole construct was justified by the idea of self-management that was supposed somehow to glue everything together.

### *Normative justification*

This so-called system of self-management did not arise spontaneously. It also did not rely on some typical socialist instruments to persist. Finally, it was not all that easy to find it advocated by either Marx or by his followers. Therefore, a lot had to be done to supply it with theoretical and ideological justification. This justification was based on three essential elements.

First was the negative one. As opposed to a liberal capitalist market economy, self-management is, it was claimed, more efficient and more just. It is more efficient because it can mobilize so-called collective entrepreneurship and it is more just because it relies on some kind of profit (or income)-sharing. The second justification was also a negative one. As opposed to centrally planned economies, self-management can make use of the market (though not of all the markets). It is important to note that the market was looked upon from an instrumentalist point of view. Markets were there by design, they were not spontaneous institutions. The third was a more complex and a more positive justification. Self-management was seen as a type of economic organization that could combine the advantages of decentralized decision-making with some more general collectivist commitments. The latter were mainly based on the role of the working class (later on generalized to something called 'the working people') and of the nation (understood in an ambiguous way as ethnic and political entity). This was reinforced by the collectivist methodology, the acceptance of which was mentioned above. Therefore, self-management was ideologically endorsed because of a belief that it could be proved (1) that it was a more efficient economic system, (2) that it was more just, and (3) that it was more in accordance with the specific political and social configuration of Yugoslavia.

In the course of forty or so years of self-management in Yugoslavia, different aspects of the commitment were more prevalent than others. Also, some economists chose to underline one aspect more than the others. Nevertheless, all of the three were present in practically everything that was written by the economics profession.

The strength of the self-management commitment can be classified in several ways. To take a kind of benchmark case, one could define the extreme or complete ideological commitment to self-management as a full belief in all of the three elements described above plus the conviction that it is the best organization of economic activity in general circumstances (see especially Horvat 1984). This does not amount to saying that self-management is a solution to every problem everywhere and at all times. But, there were those who believed that, from an institutional point of view, it is the best way to organize an economy and social life in general. To get an idea of how ambitious the whole intellectual project was, see Horvat *et al.* (1975).

The majority of the economists were committed to self-management in a more modest way. Some believed that it is preferable to the available alternatives (e.g. capitalism or central planning). Some pointed to specific advantages that the system was capable of bringing about,<sup>5</sup> while others argued that it is the preferred option for Yugoslavia (because it was a multinational state and because it was socialist), and some combined all three reasons together. For instance, there was an argument that self-management was inferior to capitalism in terms of efficiency, but not in terms of opportunity costs, i.e. it is not less efficient if transformation costs are taken into account.<sup>6</sup> The same could be said for those whose preferences were on the side of centralized socialism, but who were ready to accept self-management on feasibility grounds. There were any number of strategies of theoretical and ideological justification of self-management that led to, on the whole, a sincere commitment to this type of economic organization.

### *Theoretical considerations*

The belief, once formed, tended to persist and to have, in fact, significant survival value. It was reinforced by economic theory and by facts. There is nothing unusual about it. Beliefs tend to persist anyway. For instance, those who believed in central planning in Yugoslavia relied on the same theoretical dilemmas and on the same set of facts to argue their case, as did the admittedly smaller number of those who believed in liberalism and capitalism. Such beliefs were reinforced by two factors.

On the one hand, economic theory generally was and is split on key theoretical issues. It was even more the case when the Soviet system was around. For every pro-market argument there was a Keynesian or a Marxist

criticism to be found. For every pro-planning advocacy, there was a liberal or a Marxist criticism to be found. On the other hand, for any analysis of the disappointing performance of the Yugoslav economy there were quite a number of those showing how poor the performance of the other socialist economies was, and for every analysis showing the advantages of capitalism there was an alternative one discussing either the disappointing performance of, for instance, Latin American capitalist economies or the superiority of the fast-growing authoritarian Asian economies or both.

Therefore, on theoretical as well as on empirical grounds the ideological commitment to self-management was constantly reinforced. This left the economics profession in a difficult situation once self-management collapsed. Much of what was done in so-called self-management economics and the economics of socially owned enterprises simply lost relevance. More importantly, the credibility of the whole economics profession suffered a severe blow. Thus, together with the collapse of self-management socialism the economics of the system collapsed. As a consequence, the economics profession lost its standing in the public and underwent a process of internal diversification and eventually of dissolution.

The process of dissolution cannot be discussed here in any detail. Only two things can be mentioned. The economics association broke up with the country and communication was essentially discontinued. The main media of communication, the journals, the papers, the newspapers, stopped reaching the audience they used to reach before. In addition, much of the accumulated economic knowledge was lost for new generations because it was contained in languages that were not read regularly any more. The dissolution will be permanent, as far as I can see, at least in the two aspects mentioned. It will be reinforced by the general irrelevance of much of the economics that was produced in former Yugoslavia, because it dealt with subjects like self-management and federalism that have lost their public, though not necessarily all their theoretical and policy importance.

### **Reforms are forever**

The main subject for Yugoslav economics, in terms of content as well as in terms of approach, was that of systemic and policy reform. Socialist and federal Yugoslavia went through a number of significant reforms that were mainly aimed at perfecting both the socialist, i.e. self-management, system and the federal system.

The first major reform was the one that took place after the break with the Soviet Union (1949–52). It saw the introduction of workers' self-management and a significant reduction in state intervention (see, for example, Milenkovitch 1971). The second major reform came in the second part of the 1960s. It basically abolished the remnants of central planning, introduced commercial banking instead of state investment funds and

announced the intention of the government to make the Yugoslav currency, the dinar, convertible. The prelude to this reform saw one of the first major economic debates (1961–2) in which most of the economists who were to play significant roles afterwards took part (see Horvat 1985). The major subjects of the debate were the role of public, i.e. state, investments and the role of the central government. With this debate, one can say that the advocates of central planning and of planning in general were sidelined and pushed into the opposition.

The third reform came a decade later (1974) and was intended partly to petrify the self-management system and partly to further decentralize economic decision-making power in order to increase the role of the republics and provinces. With this reform the emerging transformation economics was essentially halted and the era of the unlimited glorification of self-management began. The fourth attempted reform (1982–8) could be associated with the series of changes (mainly in the areas of foreign trade and price liberalization), that were prompted by the balance of payments crises and by rising inflation together with the crumbling of the so-called world socialist system. In that period the preferred subject to study and write about was that of crisis. Reading through the publications, the astonishing dimension of professional failure cannot be missed (a good summary is Korosic 1988). Finally, the fifth and truly systemic reform took place in December 1989 (though it was prepared for by the reforms in 1986–7). This was designed to put Yugoslavia on the path to systemic transformation and was similar to that introduced in Poland at about the same time. However, in 1991 the country disintegrated.

As I will discuss in a later section, the legacy of the Yugoslav system and reforms lives on in the successor states. Thus, the subject is not of purely historical interest. Also, most of the reform debates were not purely ideological, but involved sincere efforts at looking for the answers to some of the more pressing issues familiar from the so-called socialist calculation debate. This was possible because there was a certain amount of scientific freedom, because there was an interest about what was going on in economics in the West (a number of significant works were translated), because there was an awareness of the reform literature in the Soviet Union and in the socialist world as a whole, and, finally, because there was an exciting intellectual subject to study. There were a number of important topics that stand out in all of the reform debates and efforts. I will go through a number of them.

### *Plan and market*

As in other socialist economies, one of the debates was centred around the relationship between the plan and the market. Unlike other socialist economies, for the most part, that was not the central debate. Initially, i.e.

from the early 1950s till the early 1960s, this debate was rather important. Afterwards, it simmered on in academic and political debates, but never succeeded in pushing to the forefront. The main theoretical dilemma of the whole debate could be summarized simply: Is planning the instrument of the market, or is the market an instrument of the state, i.e. of the central plan or some other type of so-called collective conscious activity (see Horvat 1964)? The invention of self-management helped to solve this dilemma, at least for most economists, in favour of the market. In Yugoslavia, it was accepted early on that the plan has to be an instrument of the market, because the self-management idea worked against centralized solutions. Once decision-making was decentralized to the level of the enterprises, there was no obvious room for central planning (and even for decentralized planning). Therefore, there was no other allocative instrument but the market that could be relied on.

The main question in Yugoslavia was not the distribution of responsibilities between the plan and the market, but quite another question: How much market? Given that there was no central planning but a commitment to socialism, reinforced by the commitment to self-management, the question was where are the limits to the market to be drawn, not in terms of planning but in terms of socialism and self-management?<sup>7</sup> This major dilemma surfaced in the 1960s and led to the first major Yugoslav crisis (1968–72) that ended in a rather unfavourable way. In the mid-1960s, with the increasing problems of external sector imbalances as well as growing budget deficits, a major reform was undertaken with three essential elements:

- Stabilization of the dinar, after initial devaluation, with the intention of moving towards currency convertibility.
- Price and trade liberalization with reliance on macroeconomic policy control.
- Introduction of commercial banking including foreign currency savings accounts with interest paid at competitive rates in foreign currencies.

However, a host of new problems emerged. It was realized that for the Yugoslav dinar to remain stable, it had to become convertible. Also, for investments to flow into the economy, either the abolished public investment funds had to be reintroduced or some kind of tradable property rights had to be introduced to enable capital and investment mobility. In other words, the need for the introduction of foreign exchange and equity markets was realized. Indeed, with the advantage of hindsight, one can see how close Yugoslavia was to systemic transformation already in the mid-1960s (see Bajt 1986).

These reforms, that were discussed and even planned, ran against a coalition of nationalists and socialists. The nationalists were against the



convertibility of the currency because it implied a greater independence of the central bank and a greater role for the central budget. Socialists, on the other hand, could not accept the legalization of private ownership outside of agriculture and some services. The nationalists objected to the increasing role of economic policy that convertibility implied, socialists objected to the possibility of privatization. With the left-wing student demonstrations in June 1968, with the separatist demonstrations in Kosovo (a Serbian province inhabited mainly by Albanians) in the same year, and with the rise of nationalism in Croatia in the 1968–71 period, the ruling communist party moved towards a consensus that centred around a generalized idea of self-management. It involved four elements:

- The main market reforms were retained.
- Currency convertibility was not introduced.
- No equity market and no privatization were allowed.
- The fiscal system was significantly decentralized while the transfers to the developing regions became essentially automatic.

Though a return to central planning was advocated by some, this was never considered to be a serious alternative. Thus, the adherence to the market mechanism was retained, though its development was sapped by the retention of the so-called social ownership and by the non-introduction of a convertible currency. In addition, the fiscal powers were decentralized, while the less-developed regions were compensated through the setting up of the so-called ‘fund for the less developed republics and provinces’. These changes defused the crisis, but they introduced institutional solutions that were to be a source of constant frustration in the coming years.

### *Normal price*

With the market versus plan dilemma resolved in favour of the (restricted) market, the main subject of consideration became the allocative and distributive properties of the market in a self-management economy. A theoretical confrontation emerged that centred around the question of the so-called ‘normal price’ in a self-management economy. It is not altogether easy to describe what, if anything, this prolonged and often heated debate was all about. I will point out only two elements and then look at some of the consequences. The question debated was what were the normal, i.e. equilibrium, prices for a self-management economy given that the normal price of a capitalist economy covers the so-called costs of production plus a normal profit?

The first problem was with the use of the term and concept of ‘profits’. Some argued that self-managed firms cannot have profit-maximization as

their objective function. Thus, they suggested that self-managed enterprises have income maximization as their objective function. The firm's income was defined in such a way that it comprised both wages and profits. Then, an employee in a self-managed firm was assumed to be maximizing the average of the firm's income. So, the firm as a collective of self-managing employees maximizes the firm's income, and every employee has an interest in doing so because it increases the average income per employee. The advantage of this solution was thought to be in the fact that the enterprise could be completely autonomous in its decision-making while at the same time not being a privately owned, capitalist enterprise (for the problems firms faced in their everyday business in such an institutional environment see Ostojic 1984).

The second problem emerged from the properties of the incomemaximization idea. It is obvious that firm-specific averages do not necessarily equalize across an industry or over the whole economy. Thus, there is no way to characterize the equilibrium allocation of the factors of production. There were suggestions to take industry-specific averages as normative for the firms or to try to solve the problem of efficient allocation of resources through the so-called system of self-management agreements or in some other way, but none proved to be satisfactory (for the role of the so-called 'agreements of the associated labour' see Kardelj 1978a,b).

The opposite approach adopted the so-called 'specific production price' as normal for a self-management economy. What was specific about it was that the self-management economy was supposed to be maximizing profits, but under the condition of non-existence of either labour or capital markets. What the proposal involved was a modification of the Lange process applied to profit-determination. In more specific proposals, the mechanism boiled down to a centrally administered average profit rate that was to be added to some, again, centrally determined or negotiated average wage. Given that, firms were free to set their levels of production and face the market.

These suggestions had a hard time getting accepted because of their unattractive non-market and centralizing features. Because of that, it was the former school that was politically (though not professionally) more influential in the 1970s and in early 1980s. However, with the disintegration of the self-management economy, the latter school could more easily adapt to the process of liberalization (or nationalization for that matter). This was because of the fact that all they needed to do was to substitute the normative, i.e. administrative, determination of wages and profits by appropriate market mechanisms (see Madzar 1995). On the other hand, the former school had to give up everything they stood for in order to just stay in the profession.<sup>8</sup>

*Macroeconomics*

As central planning was abolished rather early, Yugoslavia had to manage its economy, at least in part, by the usual macroeconomic means. This was reinforced by its long-standing relationship with the IMF and the World Bank. Unlike other socialist countries, Yugoslavia was a member of these organizations and had a close relationship with them. There were four specific problems of Yugoslav economic policy: exchange rate dilemmas, monetary policy problems, fiscal disequilibria, and incomes policy (mainly related to wage-push problems).

After rejecting the option of going for convertibility of the dinar, Yugoslavia continued to rely on multiple exchange rates. There were official rates, rates that included an export subsidy, interindustry rates, black-market rates, and special rates. The problem was compounded by the fact that Yugoslavia had a significant trade with the Soviet Union and the other socialist countries, where convertible roubles were used. This exchange rate regime created a maze with a lot of incentives for rent-seeking as well as for discrimination complaints. It is interesting, however, that the economics profession did not support strongly any kind of clear exchange rate policy. There was no clear support for the convertibility of the Yugoslav dinar (see Bajt 1986). All kinds of arguments were raised to show that the policy of convertibility was difficult, undesirable, unmanageable, complex, required a more developed economy, and the like. There was also the awareness that the institutional as well as the foreign trade changes could lead to other political and income effects that were not altogether easy to calculate.

In respect of the exchange rate policy, Yugoslavia is a typical example of the trap of inactivity in which a country can fall due to conflicting expectations of its various political forces. This is also the trap that the economics profession fell into, not coming out with any clear suggestion one way or the other (major exceptions were Bajt 1986 and Cicin-Sain 1989). This was probably the consequence of the experience of the 1970s, when Yugoslavia had a virtually fixed exchange rate regime with moderate inflation that led to continuous appreciation of the Yugoslav dinar and to significant deterioration in the trade balance and in the current account. These imbalances were met by an increasing inflow of foreign credits that led to the virtual bankruptcy of the country in the early 1980s. Probably for that reason, managed exchange rates were seen as preferable to any exchange rate policy commitment. Thus, exchange rate policy became the subject of a significant, but professionally not altogether rewarding debate. Still, as the 1980s came to a close, there was increasing consensus on the need to liberalize the foreign trade regime, to take hold of the exchange rate in one way or another and to eliminate the system of multiple exchange rates (see Cicin-Sain 1989).

Yugoslavia developed a two-tier banking system in the 1960s. In the 1970s the banking system was reformed to conform more to the territorial principle. The central bank was decentralized in order to meet the same principle. Apart from the federal central bank, central banks of republics and provinces were introduced. Though the latter did not have all that much power, they did reflect a drift in the understanding of monetary policy. Indeed, the view that was incorporated in the 1974 Constitution was that the monetary system was to be the same for Yugoslavia as a whole, but monetary policy authority was with the republics and provinces. This decentralization of monetary sovereignty, like many other reforms in Yugoslavia, only increased frustrations. The monetary policy, to the extent that there was one, was set in the way decisions were made in the country in general (and that is a complex subject in itself), so that the federal central bank could not feel that it was in any way independent nor could the regional central banks feel that with decentralization they had acquired any kind of responsibility of their own.<sup>9</sup>

This unfortunate state of affairs lingered on, to become a serious issue in the late 1980s. It is interesting that the monetary economists in Yugoslavia, though they disagreed on many things, did not disagree on the basic issue. The dominant view in the late 1980s was that either the Yugoslav central bank had to be made independent with functionally decentralized local central banks, or the system would have to be disintegrated altogether. This became especially obvious when Yugoslavia's ever rising inflation turned into hyperinflation in late 1989. At that point, the need to fix the exchange rate became apparent, the need for the Yugoslav dinar to be convertible was accepted, and the need for disciplined monetary policy could no longer be denied (this involved especially the use of the so-called system of selective credits, i.e. a system of interest subsidization and of seigniorage distribution, and the elimination of the extrabudgetary deficits). However, this did not last long because the otherwise disintegrating country could not hold on to an integrated central banking system. Thus, the alternative option of disintegration prevailed.<sup>10</sup>

Some of the most important political conflicts, not surprisingly, were over fiscal policy. Public finance, however, was not well developed. Most of what was written on this vital subject was a reflection of conflicting regional fiscal interests rather than of anything else. The country used several types of instruments to collect money for various public expenditures. A major debate on the issue of public revenue and public expenditure in the early 1970s was resolved in the following way. The revenues of the federal budget, earmarked mainly for the army, came to a large extent from the contributions of the republics and provinces. The contributions were proportional to the share of the respective regional GDP in the GDP of Yugoslavia. The federal budget, as well as the local budgets, had to be balanced. The local budgets were also decentralized,

with counties and boroughs having some significant fiscal responsibilities. In addition to that, there was the fund for the less-developed republics and provinces (Bosnia and Herzegovina, Montenegro, Macedonia and Kosovo) the revenues of which came from a sort of tax paid by every firm or legal entity. The fund's sources were divided according to a system of quotas (with the largest share going to Kosovo). Apart from that, there were social security contributions which were entirely local. This system of public financing was supported by both the macroeconomists and the economists specializing in development economics. It was only quite late in the whole development that the fiscal and development issues came to be discussed in more depth. However, at that point the issue of 'who exploits whom' became the most prominent one.

The requirement to balance the budget created severe problems for a country accustomed to rent-seeking and special treatments of all kinds. There were significant extrabudgetary deficits that grew over time and reached huge proportions at the time of the disintegration of the country. At that time, a last attempt was made to consolidate the federal budget which failed. In addition, the simmering debate over the above-mentioned fund ended up with its abolition and with some proposals for the possibility of setting up a development bank or some other institution that would work on a commercial rather than a fiscal basis. This came to nothing in the increasingly heated and unacademic debate.

Finally, there was a growing debate about the fairness of the system of contributions, with some advocating a federal income tax system and others looking for a change in the principle of proportionality. The former argued that the system of proportional contributions was not progressive enough, while the latter argued that the proportions should be based on the number of inhabitants not on the share of the local GDP in the overall GDP. This debate was just a prelude to disintegration. Theoretically and politically it amounted to nothing.<sup>11</sup>

As much has been made of the costs and benefits of the transfers either through the federal budget or through the fund for less-developed regions or through extrabudgetary sources, it needs to be pointed out that there is no respectable study showing that there was systematic discrimination against any one region.<sup>12</sup> For all kinds of reasons the issue of regional exploitation was prominent in the debates of some economists that had significant influence on public opinion. However, the concept of exploitation turned out to be difficult to define and the supporting evidence for either a Bolshevik or a nationalist definition was not forthcoming. As soon as that kind of jargon was abandoned, the whole public finance sphere was seen for what it was: a messy system that had some good aspects (decentralization, balanced budget provision) and some bad aspects (a system of too many taxes and a system of transfers that made everybody dissatisfied).

Probably the most debated issue was the connection between the microeconomics and the macroeconomics of self-management. The microeconomics had to do with the incentives for investment while the macroeconomics had to do with the importance of wage-push inflation. The microeconomic debate centred around the so-called Ward (1958) and Furubotn-Pejovich (1970) effects (for extensive and controversial treatments see Suvakovic 1977 and Milovanovic 1990, and also the debate in Dlesk 1986).

The Ward effect asserts that a firm maximizing income will be averse to increasing employment. As an employee maximizes average profit rather than marginal profit, any employee will not be interested in employing extra people if it means that average profit per employee falls. The Furubotn-Pejovich effect appears if the property-rights approach is used to highlight the inefficiencies in the investment function of the self-managed firm. If an employee has a choice between increasing his or her wage or reinvesting the profits in the firm he or she will, under normal circumstances, prefer to increase the wage. The reason is that the employee can choose where to invest the wage. If the employee can expect to earn more by investing in some private undertaking rather than through the increase in the average wage in the firm, he or she will tend to underinvest in the self-managed firm, i.e. the money would go to savings or consumption or private investment.

The macroeconomic implications of these effects looked to many like an obvious case of wage-push inflation. If workers have an incentive to raise their wages, that will put pressure on prices, and, with the persistent disequilibrium between consumption and investment, it will lead, thus many concluded, to rising inflation (see Madzar 1995). On the basis of such or similar thoughts, many economists argued for wage and price controls of one sort or another (see Pjanic 1987). There was some kind of a consensus in the profession that the country had to put up with a trade-off between liberalization and self-management. Only rather late in the debate was the fact stressed that the main problem which self-management faced was efficiency. This problem, it was argued, could to a certain extent be alleviated by an increase in the role of the market, and macroeconomic disequilibria could be dissociated from it and treated in an orthodox manner (see Bajt 1988).

These issues do not exhaust the subjects treated by Yugoslav economics. However, they represent those that were specific to the Yugoslav debates on systemic and policy reforms. Indeed, they flesh out the main obstacles that both economic thinking and economic reform faced. To connect the two, it could be said that the idea of self-management was the main obstacle for the reform of the mid-1960s to evolve into one of systemic transformation while the institutional and ideological internalization of the idea precluded the crisis of the 1980s to evolve into a natural solution or dissolution. Thus the

failure of the Yugoslav system to reform was at the same time the failure of Yugoslav economics to emancipate itself from one kind of ideological commitment or another.

### Two oppositions

The main debates were carried out inside the self-management paradigm. Outside of it, there were two oppositions. There were the adherents of a more orthodox socialism, the left. Somewhat to the side, there were what one might call professional economists with a more or less pragmatic and technocratic outlook.

The left was not necessarily pro-Soviet or pro-Stalinist. It was a mixed bag. Their ideology got somehow consolidated through the emergence of a philosophical school of so-called humanist Marxism. This school came into being in the early 1960s when a group of Zagreb philosophers, with significant cooperation from Belgrade philosophers, started publishing a new philosophical journal *Praxis*. It did not deal all that much with economics and only few economists published there. But, in an ideological regime, it had wider influence as a voice of dissidence.

The journal was very Marxist and very anti-liberal. It was Marxist in the sense of following the teaching of the 'true' Marx, as was indeed fashionable at the time. It was anti-liberal because it stood against reformist methods and especially because it opposed the market. It became a rallying point of rather disparate groups of intellectuals of all professions who argued that 'the true ideals of the revolution have been betrayed'. Their criticism was rather successful because it played on the discrepancy between public ideology and real politics. Publicly, self-management and socialism were the words of the day, while in fact there was an ever increasing role of the market, of income inequality, of private property, of capitalism in general. According to the *Praxis* group, the country was moving in a counter-revolutionary direction (various characterizations were proposed) rather than in the direction of the revolution (again various characterizations were given).

This kind of criticism appealed to a lot of different people. Its importance is not so much in what was really said. Not very many people read the journal anyway. Its circulation was not insignificant for a country like Yugoslavia (probably about 3000 copies per issue on average), but one can safely assume that very few people read the journal regularly or studiously. The importance of the journal was in the fact that it was a voice of dissidence and, even more importantly, that it provided a powerful justification for the disappointed. Rather than being outside of the mainstream ideology, it was a criticism from within. It stood for the same values the official ideology stood for, but exposed almost everything that official politics stood for from the point of view of orthodoxy. It played the same role fundamentalism plays everywhere. It had an added advantage that it coincided with an

outburst of criticism and dissatisfaction both in the East and in the West in the late 1960s. This enhanced its significance and its persuasiveness both inside the country and abroad.

The opposition strengthened the influence of those who were critical of market liberalization. In the late 1960s and the early 1970s the process of liberalization and reform was halted. This, in turn, reinforced the belief of the more orthodox socialists that liberalization is not going to work and that the market has to be balanced with a greater role of the state. Not everybody was for central planning, but in a socialist country there is hardly any other alternative. However, these developments had to be reconciled with an even more forceful outburst of nationalism. Whoever advocated central planning had to first find the centre. As the country was quite decentralized, the more orthodox socialist as well as nationalist antiliberal views could only find a receptive public for their pro-statist and anti-market ideas in the republics and provinces. Thus, the more orthodox opposition broke down into three constituent parts.

- *Marxist-humanists* The journal *Praxis* was banned and the group split up. Mainly the Belgrade faction continued to publish *Praxis International* out of England. In the Yugoslav break-up crisis the group was largely irrelevant and almost nobody today remembers what it was that they stood for. Indeed, they were accused by both the nationalists and the liberals as being ideologically and also personally responsible for much of what happened in the 1970s and 1980s. This was not very persuasive. Some of the members of the group, notably from Belgrade, did play a significant role in the rise of nationalism in the 1980s and in the revival of certain elements of a totalitarian ideology.<sup>13</sup>
- *Nationalists* This turned out to be the largest group. From an economic point of view, practically all that they had to say had to do with the justification of protectionism and state intervention. Of course, they had in mind their ethnic states, not the Yugoslav federation. Indeed, in all the states formed on the territory of former Yugoslavia, centralization is the preferred policy option. Also, protectionism of one kind or another comes naturally to most of the advocates and proponents of the newly independent states.<sup>14</sup>
- *Socialists* Many of those who turned against liberalization and reform chose to develop a rather orthodox socialist view in their economic thinking. Probably the best expression of these ideas can be found in the notorious *Memorandum* of the Serbian Academy of Arts and Sciences (written in the mid-1980s and published officially only in 1995; Mihailovic and Krestic 1995). It essentially stands for regulated markets, for the domination of state property, for protectionism and for centralization of economic policy. Some of the main ideas of this memorandum were incorporated in the Serbian 1990 constitution.<sup>15</sup>



The second opposition was an outcome of growing professionalism. Increasingly, in the economics departments in Yugoslavia, students who pursued graduate studies (often with some stay abroad), adopted a more pragmatic outlook. Rather than getting involved in the never ending ideological disputes, they were looking for theoretical solutions to economic problems that could have practical significance. The followers of this pragmatic outlook can be classified into two groups:

- *Insiders* There were those who, whether they believed in self-management or not, did their work in economics of self-management or parallel to it. In the same way that there was economics of central planning, there was a well-established area of research in the economics of self-management. In Yugoslavia, the best economics quarterly, *Economic Analysis*, published mainly in English by the Institute for Economic Sciences in Belgrade (known as the 'Horvat Institute' because it was founded and headed for a long period by Branko Horvat), was devoted to that branch of economics. Much of what was published in that area had to do with the problems of the system of self-management identified by B.Ward and E.Furubotn and S.Pejovich. The problems, as discussed above, had to do with the microeconomics of self-management, or with the aversion of the self-management firm to increase employment, and with the lack of investment incentives in the same type of firm. Much of what was done in the area either denied the validity of these assertions, or argued that the same problems are faced by every type of firm, or tried to find practical solutions to these problems (see Suvakovic 1977 and also Bajt 1988). Also, extensive work was done on the compatibility of self-management and the market and on the macroeconomics of the whole thing (on the former see Prasnikar 1983, on the latter Bajt 1986, 1988). Again, either compatibility or manageability was sought for and defended.
- *Outsiders* Another type of pragmatic adaptation was to take self-management, indeed the whole system, as given and to look for solutions that would mix it with something else to increase its capacity to problem-solve both at the microeconomic and macroeconomic level. In a sense, one could start by assuming that, after all, economic laws, if there are any, are invariable to institutional arrangements, but do not work irrespective of them. Thus, for instance, the law of demand, assuming that it is valid, works in a self-managed economy as in any other, but not, of course, irrespective of that economy. If that is so, then there is scope for looking at what could be done, given self-management, to decrease the transaction costs of that type of institutionalization by combining it with different institutional arrangements, creating in effect a mixed self-management economy. Thus, there were those who advocated the introduction of equity and other financial markets,

liberalization of labour markets, liberalization of foreign trade and foreign investments and the pursuit of a sound macroeconomic policy. This characterizes most of the work done by the younger generation of economists starting to play a role in the profession in the 1980s. The problem with the pragmatic approach was twofold. On the one hand, professional resources were allocated to an enormous degree to a branch of economics that in normal circumstances takes only a fraction of practising economists. Thus, Yugoslavia over-produced economists whose expertise was self-management. On the other hand, given the nature of the regime, a pragmatist is a fellow traveller. Unlike the dissidents, the pragmatists did not challenge the principal-agent relationship as it were. Thus, although professional economists could be increasingly found in local and federal governments, their influence was defined by the fact that they did accept the framework of decision-making and the constructive nature of pragmatism.

The positive aspect of this was that there was increasing professionalism in economics and there was more possibility for people not interested in ideology to gain experience in the traditional roles played by the economics profession everywhere. Thus, there were projects carried out for the government, there were advices supplied either by institutes or individually, there were those directly responsible for economic policy and there was an increasing number of microeconomic and macroeconomic research projects that had their audience among the various government agencies, in the business community and inside the profession. There were regular studies made both for official consumption and for discussion in the various meetings of the Yugoslav economic association as well as at the meetings of the regional economics associations.<sup>16</sup>

All that, of course, has to be put in the context of the particular ideological and political environment discussed at the beginning of this chapter. The effectiveness of that kind of professional behaviour also has to be understood alongside the external and internal normative constraints that operated in Yugoslav economics. Finally, the fate of professionalism has to be judged starting with the consequences that the dissolution of these norms have had for the different segments of the economics profession. If one takes all that into account, the theoretical contributions, the effectiveness and the success of the pragmatists were very small and inconsequential.

Indeed, most of the leading economists of Yugoslavia have had some role in economic policy or in economic reform. The experience of all of them, whether they were in those positions as ideologues or as technocrats, were disappointing. This is not the place to analyse the role of the so-called Economic Council or that of the smaller Group of Advisers that was formed in the 1980s in order to advise the Yugoslav prime minister. To these, the

roles of the various reform commissions as well as commissions for the various constitutional reforms should be added. Most accounts that have come out tell a tale of disappointment, disillusionment and frustration (see Madzar 1995, Mencinger 1996).

### **Missing liberalism**

An important aspect of economics in Yugoslavia was the conspicuous absence of liberalism. The reason for this was that it was swallowed by the mainstream economics of self-management. There were two main consequences of this fact. For one, the ideas of the liberal market economy developed inside the self-management ideology. Some of the adherents of self-management were also advocates of completely free markets, of decentralized decision-making, and of the minimal state (cf. Bajt 1988). Indeed, self-management was advocated by some as a system of collectivist anarchy. Elements of contractual economics were also incorporated. Moreover, the dominant ideology of self-management was probably very close to classical liberalism (what is now called libertarianism): the main obstacle to efficiency and economic growth was seen, for the most part, in the negative role of the state.

For another thing, the credibility of liberal economic thought, for many people, rested with self-management. The previous fact, of liberal economics being an insider view, contributed significantly to the common destiny that linked liberalism with self-management. As soon as self-management started losing its appeal and supporters, liberal economic thought found itself in the difficult position of trying to extricate itself from the self-management mass. In addition, the fact that liberalism was, to a large extent, appropriated by the adherents of self-management, contributed to the crowding out of those liberals who were not advocating self-management. Therefore, missing liberalism was an outcome of two parallel developments: of liberalism being developed inside the self-management paradigm and of traditional liberalism (i.e. the ideology of private ownership market economy) being pushed to the margin or outside of professional economics.

This did not necessarily create problems for the mainstream economists once self-management became less popular. All that was needed was to substitute the self-management jargon for that of privatization. From the professional point of view, it was, for many economists, an easy task to switch over to the pro-market side which they could claim they were on all along anyhow. The problem was more with the credibility of the profession at the time of systemic transformation. As self-management lost its appeal, the opposing more statist view gained credibility while liberal economics, to the extent that it existed, found itself burdened with a negative prestige accumulated by the proponents of self-management. So, in both cases, when self-management economics was dominant and when it was abandoned, the

liberal economists found, metaphorically speaking, the professional space crowded. This could be called the costs of too great adaptability. At a time when being on the outside was an asset in many quarters, insider liberalism, though it was in many cases involuntary, was not very persuasive. It is perhaps the main political reason why the economics profession failed to play an important role in the violent disintegration of Yugoslavia. Probably the only argument that could have been effective in preventing the violent disintegration of Yugoslavia would have been liberal economics basing the existence, persistence and emergence of states on the consent of the existing or future citizens of that state or of those states. In the clash with socialists and nationalists that followed the dissolution of Socialist Yugoslavia, consent is pointless, authority and power are everything. In such a context, liberal economic and political arguments lose their persuasiveness and become almost incomprehensible. Which is more or less what happened to that admittedly small segment of the economics profession and the intellectual public in general.<sup>17</sup>

### Dissolution and adaptation

The agony of Yugoslavia was relatively long lasting. It took about a decade for the country to start disintegrating and even after it started, it went on for quite a while. In fact, the process is still not over, more than five years after it started. In some parts of the former country, e.g. Bosnia and Herzegovina and the Federal Republic of Yugoslavia (Serbia and Montenegro) it will go on for some considerable period of time.

In the whole process, the role of the economics profession was not all that remarkable. This was so in spite of the fact that the profession was relatively well-developed, professionalized and had significant experience in matters political. However, for the most part:

- 1 it did not make a strong case for the transformation of the Yugoslav economy,
- 2 it did not make a strong case for the minimization of the costs of disintegration,
- 3 it did not even make a strong case for separatism, and
- 4 it was brushed aside by the more radical factions of the profession, i.e. by the nationalists and some other types of fundamentalists.

I will now comment on all of these limitations, point by point.

*Point 1.* During the long period of crisis in the 1980s the economics profession failed to produce a blueprint for radical reform. Though most economists took part in one reform commission or another as well as in one government after another, they disagreed on the fundamentals of practically every question that was ever put forward.

- The case for liberalization was opposed by all kinds of arguments.
- The case for stabilization was difficult to make because it involved major changes in monetary policy and in the role of the central bank.
- Privatization was seen as undermining the self-management system and the ideology at its basis.
- Finally, the case for integration with the European Community was made rather late, after the nationalist forces had become strong and after the political agenda that would lead to the break-up had been set.

If one revisits the debates of those years, it can be seen that the public was bombarded by nationalist and socialist propaganda without the economics profession giving convincing answers to some of the most crucial questions. As a result, the otherwise segmented public became convinced that there was huge exploitation going on in which the concrete region in question was being exploited by almost everybody else. Every reform idea was presented as a scam of one side or the other and every policy measure was seen as essentially ill-advised and self-serving.

There were also some incredible debates on issues like: ‘What is the united, what the integral and what the common market?’ Those who advocated the free market were seen as missing the point of debate. Another subject hotly discussed was: ‘What is economic sovereignty?’ Third was: ‘What is a federation and what a confederation?’ And so on. All of these questions were left unanswered by the profession. The net effect was that, when Yugoslavia faced a crucial test with the 1989 reform, the reform attempt had to work not only against the usual opposition that every stabilization and institutional transformation encounters, but it also hit the stone wall of pseudo-technical and ideological questions that nobody knew how to approach let alone how to answer satisfactorily.

*Point 2.* Once disintegration became almost inevitable, there was very little attempt to work for a procedure that would minimize the costs for everybody involved. Probably the first test that failed was the rather weak answer to the imposition of a Serbian boycott of imports from Slovenia in 1989 (from Serbian economists and from the then federal government of Ante Markovic). There were other developments involving monetary policy (the usurpation of money creation by the Serbian central bank) and the respect for property rights (the seizure of real estate, production, working and office spaces of firms from the other republics while the common country was still in existence; the freezing of the foreign currency assets of Yugoslav citizens in direct contradiction to federal and local laws). There was no general outcry against these developments. There were local outcries that looked worse than they otherwise would have, precisely because they failed to command more general considerations.

Indeed, more popular were those who advocated the more radical, illegal and violent disintegration. Many economists were involved in arguing that just about everything which was institutionalized was illegitimate. For some, monetary authority in Belgrade was illegitimate. For others, doing business outside one's republic was illegitimate. For others, the collection of customs duties was illegitimate. One could add to that taxes, transfers, laws and regulations, in one word everything. Because everything was illegitimate for one reason or another, extraordinary measures were justified, such as the above-mentioned internal trade embargo or the withholding of the taxes collected or the simple confiscation of property belonging to an enterprise from another republic. All that led not to a unified stand by the economics profession but to the disintegration of the profession itself.

*Point 3.* The strongest case for separatism was made by the authors of the *Memorandum* of the Serbian Academy of Arts and Sciences (Mihailovic and Krestic 1995). The economists involved in the writing of this document belonged, at least partly, to the more orthodox socialist opposition discussed above. The claim made was characteristic of the way the case for separatism was argued for in many places. It is a specific case of the second best. The *Memorandum*, first, holds that Serbia was exploited by Slovenia and Croatia throughout the socialist period. Second, it argues for a redress that involves (a) greater centralization and (b) greater role of state intervention. Third, if this is not acceptable, Serbia should get out of Yugoslavia because it is an inferior arrangement from the point of view of its economic (and political) interests.

The same case was made in the other republics, although only the exploitation and disadvantages were seen to go in the opposite direction. Thus, it was argued, either the system had to change such that it reflected the particular economic interests, or the countries should go their separate ways. This kind of argument was made even in Kosovo, which was the main beneficiary of the fund for less-developed regions. Some economists from Kosovo argued that Serbia and Yugoslavia exploited this province rich in coal and metals. But the same was the case in Croatia, Slovenia and even Macedonia.

Thus, it was argued, either the country had to be reformed to redress the institutions of exploitation or every republic should take responsibility for its own resources. As said above, this is a specific case of the second best. What was specific about it was that the comparison was always made against an alternative that was known not to be feasible or was known to be simply utopian. Thus, separatism was argued for because the preferred alternative was not available or was outright impossible. The argument can be summarized in the following way: If Yugoslavia could be what it cannot possibly be, only then it would be preferred to the creation of separate states.

It did not occur to most economists that the break-up would lead to a significant depression due to the fact that everybody was going to lose

significant markets (even if the disintegration had been peaceful which was not really expected by anybody). Indeed, in almost every analysis, with a few exceptions, it was assumed that the separatist states and their economies would achieve increases in growth as if they were going to be relieved of a huge burden. This followed from the nationalist arguments about the extent of interregional exploitation. Indeed, some economists in Serbia wrote as if they expected the economy, for instance of Slovenia, to collapse and that of Serbia to flourish after the break-up of the common country. However, not many non-nationalist economists felt that they had a professional duty to warn the public of the huge costs that the break-up of the country implied (as an exception see Mencinger 1996).

*Point 4.* There is no simple way to describe the situation the economics profession finds itself in the successor states of the former Yugoslavia. In some states, for instance in Slovenia and Macedonia, there has been a gradual development. In others, for example Serbia and Croatia, the changes have been more radical. Finally, in Bosnia and Herzegovina the profession is in a very difficult position indeed. Every one of these countries deserves a separate study. I am not sure that it will be an easy task for anybody to undertake it. It may actually be too early. Some economists have had the luck, if luck that be, to see their ideas realized. It will be interesting to see how this process of exchange between ideas and reality progresses. On the basis of what has transpired so far, some preliminary analysis, assessments and evaluations can be made for the purposes of rounding up this chapter.

There have been some major efforts by the economists in the successor states of former Yugoslavia. Most notably, the Slovene profession has come up with a strategy for long-term development (a major work involving practically the whole profession), a similar work is under way in Macedonia, and a preliminary work on the reconstruction and development strategy has been completed in Bosnia and Herzegovina (with more work to come).<sup>18</sup> Nothing similar exists for Croatia and Serbia. The economics profession in Croatia is split over the transformation strategy pursued by the government and the central bank (some being involved in it, some voicing concerns with particular aspects of it, and some opposing it). In Serbia, only recently a group of independent economists have come up with a major statement on the need for a radical reform (see Dinkic and Vukotic 1997). Prior to that, a number of independent institutes and a high-level group of economists working for the governor of the central bank came with similar proposals. In addition, there was a major conference of economists from the former Yugoslavia held in Paris in June 1995.

Some cross-fertilization has occurred with the Slovene economists being involved in the Macedonia and Bosnia and Herzegovina projects and with the Serbian and Croatian economists being engaged in the latter project. How are these efforts to be assessed in view of the argument developed in this chapter? There are three aspects that I want to highlight: ideological,

professional and generational. Their development can be classified as continuous and discontinuous. I will take up these two types in turn. A clear case of continuous development can be observed in Slovenia. There, all the three changes have been gradual. The ideological commitment to self-management or some aspects of it is still to be found. In addition, an overall commitment to the inherited institutions is detectable. The evolution of the profession has been rather gradual, because of gradual changes in beliefs and because the level of professionalism was higher in Slovenia than in some of the other former Yugoslavia states. Finally, the generational change follows a similar gradual path with younger, essentially professional and non-ideological, economists playing an ever more pronounced role both in the profession and in public life.

Another type of continuity can be discerned in Macedonia. Though the ideology of Marxism and self-management has been abandoned, their legacy is to be found in the language used and in the analytical apparatus relied on. In the professional and generational sense, the bulk of the profession is still steeped in the inherited knowledge with younger economists, still in minority, breaking away professionally and ideologically. But the two sides cannot be put in opposition to one another as the profession seems to be keeping together.

An adverse type of continuity seems to be showing up in Yugoslavia (Serbia and Montenegro). There, a coalition of socialists and nationalists dominated the economics profession with the more liberal economists being pushed into the position of dissidence. With the political and economic deterioration of the country, the liberal economists have become more influential. This development does not only reflect the ideological change but the change in the level of professionalism as well as the change of generations.

The developments in Bosnia and Herzegovina are much more difficult to assess in just a few sentences. Discontinuity has been brought upon the profession by events rather than by ideological or professional developments. The ideological challenges that Bosnia and Herzegovina faced were and still are much more serious than in most other former Yugoslavia states. Also, the generational change has been forced and uneven. Finally, the professional development was disrupted and it has been recovering slowly and erratically. Like much else in Bosnia and Herzegovina, the economics profession will have to be recreated almost from scratch.

The developments in Croatia present a mixture of continuity and discontinuity. There are four main groups of economists to be discerned. There are hard-core nationalists who seem to be pushed to the sidelines (though most of them never really had a significant role in the profession anyhow, their influence stemming mainly from public activities). The younger, more professional group of economists, connected with the government and the central bank, seem to have adopted the ideology of



liberal-nationalism. The bulk of the profession, however, displays significant generational and professional continuity. Finally, there are a number of economists, notably Horvat, who exhibit strong consistency with their former ideological and professional commitments.

If all these developments are put together, the overall judgement on the ability of the Yugoslav and former Yugoslav economics profession to deal with the reform and transition problems can be sustained. The overall ability of the profession to deal with the problems they have been facing differed from one country to another, but nowhere it can be assessed to have been remarkable. In some cases, the failures have been far-reaching indeed (like in the case of Yugoslavia and Croatia), while in others the profession has been rather successful (Slovenia) or not all that unsuccessful (Macedonia). But the achievements were certainly not up to the tasks.

### Conclusion

I have argued that the Yugoslav economics profession has developed in an ideological environment. It had, for the most part, adapted to it and in fact structured most of its interests around the idea of self-management. With the failure of self-management, the profession, that was otherwise gaining influence, lost its credibility and was overtaken in many parts of the former country by a more ideological, essentially nationalistic, faction. For that reason, it has, with some exceptions, failed to make its influence felt in the process of the disintegration of the country. Most economists would agree, I guess, that the way the country chose to disintegrate was inferior from an economic point of view. But the profession did not find a way to make that point clear at the time when it mattered.

### Notes

- 1 I am not going to cover the history of Yugoslav economics in general and I cannot include all the relevant authors and certainly not all relevant contributions. Much of historical and theoretical importance will have to be left out. The purpose of the chapter is to give an account of the ability of the economics profession to deal with the most pressing issues it faced given the ideological and institutional constraints.
- 2 There is no lack of studies on Yugoslav economic thought and on the Yugoslav economic system: e.g. Milenkovich (1971), Tyson (1970), Estrin (1983), Sacks (1983), Lydall (1984, 1989). However, there is a need for reassessment in view of the dissolution of the country and of the profession. This chapter can be looked upon as a methodological introduction to such a study.
- 3 I discuss Weber's understanding of this idea in Gligorov (1996a).
- 4 There is no easy way to define social ownership. Indeed, one of the main debates in Yugoslav economics was over the meaning of this concept. For one account see Maksimovic (1988), for another Bajt (1988).

- 5 This was the position of some of those who were committed to social ownership and to self-management as a natural way to organize at least the managing of this property. See, for instance, Maksimovic (1988).
- 6 That is one way in which the position of Aleksander Bajt can be understood. See especially Bajt (1988).
- 7 I discussed the issue in 'Socialism as the obstacle' in 1971 (reprinted in Gligorov 1985).
- 8 The intellectual developments of the members of this school would be interesting to study. Some of them, e.g. M.Korac and the late A.Vacic, both from Belgrade, turned rather nationalistic. The same is true of the leading Zagreb member of the school, J. Sirotkovic. Some of the younger followers both in Belgrade and Zagreb moved out of the subject and started doing professional economics or went into business. But this is not exceptional. Some of the proponents of the other point of view adapted to the growing nationalism (e.g. notably, the late Z.Pjanic and I.Maksimovic), while others started doing economics.
- 9 This system was inaugurated by the major reform of the banking system in the second half of the 1970s that was intellectually designed by the members of the so-called 'theory of income' school. A major statement of the school and on the whole subject is to be found in Korac (1977).
- 10 The history of the disintegration of the Yugoslav central and commercial banking system is extremely important and enlightening, but it does not belong here (though a number of well-known economists clearly played a role in the process too).
- 11 The major early statement on the economic functions of the federation is to be found in Horvat (1970b). His proposal was seen as arguing for too much centralization. In comparison with later proposals for the strengthening of the functions of the central bank and of the federal budget, the difference is mainly in the fact that the former proposal advocated a significant role of the federal government in promoting economic growth mainly through public investment.
- 12 Though there are assertions to that effect, see Mihailovic (1981). For two recent treatments of the subject see Dubravcic (1993) and Madzar (1996). The latter is easily the best treatment of the subject. Characteristically, it came out after the country had already disintegrated.
- 13 By far the worst cases are the two Belgrade philosophers M.Markovic and L.Tadic. A very influential role in the rise of the Serbian nationalism was played by the fiction writer D.Cosic, who was also an occasional contributor to *Praxis*. On the other hand, most Zagreb members of *Praxis* (R.Supek, G.Petrovic, M.Kangrga, Z.Puhovski) remained at odds with the nationalists and some (e.g. Puhovski) are playing a significant role in the human rights movement.
- 14 Some of the worst advocates of nationalism came from the economics profession (though literature and the historical sciences lead in numbers). In Croatia, S.Djodan and H. Sosic and in Serbia K.Mihailovic. There is actually very little to be said and very little that has been said by the other members of the economics profession about the former two. On K.Mihailovic see Milanovic (1995) and Dinkic (1995).
- 15 The main contributors to the writing of the economic articles of the constitution were, to the best of my knowledge, the economists I.Maksimovic and O.Kovac. The constitution essentially defends the idea of social ownership.
- 16 Two major publications were the monthly report *Privredna kretanja*, put out for the federal government by the Institut Pravne fakultete in Ljubljana and the annual *Red Book* put out by the Zagreb Ekonomski institut on the occasion of the yearly Opatija meetings of the Yugoslav economic association. The former

- publication dealt exclusively with macroeconomics and was essentially a professional publication. The latter dealt with sectoral issues also and devoted significant attention to systemic issues.
- 17 The role the economists in the liberal parties and groups would be worth studying, because there are quite a number of them in all of the new states. For instance, Slovenia's main party in the ruling coalition is the Liberal-Democratic Party and a number of liberal economists play a significant role (e.g. B.Kovac). In Zagreb, the coalition led by the Liberal Party attracted a number of prominent liberal economists in 1990 (e.g. A.Cicin-Sain, D.Kalodjera). In Serbia, more liberal economists played or are playing an important role in the Democratic Party (M.Milovanovic, B.Mijatovic, I.Vujacic, M.Labus). In Macedonia the Liberal Party also attracts a number of economists. The same is true of the Liberal Alliance in Montenegro. However, all of these parties, with the exception of the Slovenian one and for some time the Macedonian one, have been marginalized.
  - 18 The summary of the Slovenian strategy can be found in Senjur *et al.* (1995). The Macedonian work is contained in about twenty three research papers written for the Macedonian Academy of Arts and Sciences in the second half of 1996. The work on Bosnia and Herzegovina has been published by the UNDP (1997).

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## APPENDIX: SHORT BIOGRAPHIES OF EMINENT EAST EUROPEAN ECONOMISTS

This book is not intended to serve as a ‘who’s who’ for East European economists. Nevertheless it was thought useful to add short biographies of the two or three most eminent economists in each country. In the first chapter, it has been stated that only very few of the economists working under state socialism achieved international recognition, notably Kantorovich and Novozhilov of the Soviet Union, Kalecki and Lange of Poland, and Kornai of Hungary. Šik of Czechoslovakia is widely known, though not as an economic theoretician, but as reformer and protagonist of the Prague Spring. This reflects the situation of the profession in Central and Eastern Europe which is the main theme of the book: at its best economics under communism was a policy-oriented science, tinkering, within the given limits, with the economic order and analysing alternative development strategies. Such an approach is always highly contingent upon the historical situation. It does not lend itself to elegant abstract theorizing or, as less benign critics will have it, to playing in a sandbox out of space and time (McCloskey 1996). Hence, the protagonists are country specific and their fame remains within the historical policy boundaries. It is interesting to note that these were not the boundaries of the socialist system as a whole, but rather national ones. What is called the invisible college in the West, supported by an international infrastructure of learned journals, publishing houses and scientific conferences, never existed in the East. There was, at most, an informal, rather private, exchange of views, above all between Hungarian, Czechoslovak and Polish economists.

In the interview project mentioned earlier (Wagener 1997) we have tried to document the assessment of East European economists by the profession. Of course, Kantorovich, Kalecki, Lange and Kornai were well known all over the region. There are, however, certain exceptions: in Russia access to ideas from other socialist countries seems to have been very limited. Hence, the highest valued economists there were almost exclusively Soviet. In East Germany neither Kalecki nor Kornai, both no avowed Marxists, were found

to be in high esteem. On the whole, it can be concluded from this study that the group of eminent economists, about whose impact there existed wide consensus among the national as well as the international socialist scientific community, is extremely small. The names which follow may be considered the least contested sample.

McCloskey, D.N., 1996: *The Vices of Economists. The Virtues of the Bourgeoisie* Amsterdam: Amsterdam University Press.

Wagener, H.-J., 1997: Second thoughts? economics and economists under socialism. *Kyklos* 50, 165–87.

*Aleksander Bajt* Born in 1921, Bajt holds a degree in law from the University of Ljubljana. He was probably the most influential economist in the field of macroeconomics in Yugoslavia. He taught at the law department of the University of Ljubljana before he retired. Presently he lives in Ljubljana.

Apart from teaching, Bajt acted for many years as director of the Institute for Economic Research of the law department at the University of Ljubljana. The institute published a monthly report, *Privredna kretanja* in Serbo-Croat or *Gospodarska gibanja* in Slovenian, on the macroeconomic developments of Yugoslavia since the mid-1960s. It was the most influential and most reliable macroeconomic publication in Yugoslavia throughout the whole period. Financed by the Yugoslav federal government, it was distributed to a list of institutional subscribers but was not publicly available. The institute and the publication continued to work in the same format in the Republic of Slovenia.

Bajt's main publications are in the areas of macroeconomic theory and policy. His two books published in the second half of the 1980s, *Alternativna ekonomska politika* (Alternative Economic Policy) (1986) and *Samoupravni oblik drustvene svojine* (Self-managed Form of Social Ownership) (1988), attracted a great deal of attention and debate. In 1989 Aleksander Bajt briefly joined the group of advisers of the then Yugoslav prime minister Ante Markovic, but left due to policy disagreements over the planned reform.

*Fritz Behrens* Behrens was one of East Germany's most widely known economists and a pioneer of Marxist political economy in Central and Eastern Europe. Born in 1909, he studied economics and statistics at the University of Leipzig from 1931 to 1935 where he received his PhD in 1936. Returning to Leipzig after a ten year stay at several statistical institutes in Berlin and Prague, Behrens taught political economy, statistics, economic planning, economic policy and history of political economy from 1946 to 1954. In 1947 he was appointed to a chair of political economy. In 1954 Behrens was called to Berlin in order to take part in founding the Institute of Economics at the Academy of Sciences.



At the institute Behrens was appointed deputy director and head of the department on the GDR economy. One year later (1955) he was appointed deputy chairman of the State Commission of Planning and head of the Central Office of Statistics. He is generally credited with the edition of the first volumes of the *Statistisches Jahrbuch der Deutschen Demokratischen Republik* (Statistical Yearbook of the German Democratic Republic). In 1956, Behrens was elected full member of the German Academy of Sciences. From 1957 to 1968, the year of his retirement, he worked again at the academy institute. Behrens died in 1980.

Behrens' research interests were focused on theory and method of the political economy, history of economic thought, labour productivity, and theoretical and practical questions of the socialist planned economy with special emphasis on the law of value and the system of planning. He made major efforts to modernize traditional Marxist political economy and to reform the GDR system of planned economy. In 1956 he co-authored with his assistant Arne Benary the booklet *Zur ökonomischen Theorie und ökonomischen Politik in der Übergangsperiode* (On the Economic Theory and Economic Policy in the Transitional Period). This contribution called for improvements in the economic mechanism of the GDR by introducing market categories and a new approach to the law of value in a planned economy. The booklet caused the 'revisionism debate' in GDR economics, which terminated Behrens' political influence. In a paper on 'Kritik der politischen Ökonomie und ökonomische Theorie des Sozialismus' (Critique of the political economy and the economic theory of socialism), presented to the international Marx conference in Frankfurt (Main), he criticized the deeply rooted inefficiency of the socialist economy and pointed to theoretical limits of orthodox political economy. This contribution was also little appreciated in official circles in East Berlin. In his posthumously (1992) published book *Abschied von der sozialen Utopie* (Parting with Social Utopia) Behrens called attention to the role of structural defects of state socialism and emphasized the necessity of introducing a new political and economic system in Central and Eastern Europe.

*Włodzimierz Brus* Born 1921 in Plock (Poland), Brus studied economics in Saratow and Leningrad and received his PhD from the Warsaw Main School of Trade. There he also was appointed to a chair of economics. From 1956 he taught at Warsaw University, and from 1950 to 1957 he held a chair of economics at the Institute of Social Sciences attached to the Central Committee of the Polish United Workers Party.

From 1957 to 1962 Brus was deputy president of the Economic Council, an advising body to the government, and one of the authors of an outline for a reform programme. He was purged from the university during the anti-semitic and anti-revisionist wave of 1968. In 1972 Brus left Poland for Great Britain. After spending a year at the university of Glasgow, he moved to

Oxford where he became fellow of St. Antony's College and later of Wolfson College. In 1976 he was appointed professor of Oxford University. He is now retired.

From the early 1950s, Brus was one of the best known champions of reforms, arguing for decentralization and democratization of the Polish economy. He is one of the main authors of the 1957 outline of a reform project which was, however, ignored by the authorities. His most influential book, *General Problems of Functioning of a Socialist Economy* (1961), has been translated into many languages and was treated as 'a bible' for reformers in several communist countries.

While at Oxford he was one of the authors of an economic history of six Central and East European countries. Rigid Marxist until the early 1950s, he termed his further evolution as the transition from revisionism to pragmatism.

*Josef Goldmann* Goldmann (1912–84) studied at the London School of Economics and graduated in Law from the Charles University in Prague. During World War II he assisted Michal Kalecki with planning for war in Great Britain. At Oxford and London he became acquainted with prominent British economists such as J.Robinson, R.Kahn, R.Stone and others. In the *Oxford Review of Statistics* he published short papers on household expenditure. After the war Goldmann shaped national planning in Czechoslovakia as deputy minister of the State Planning Commission. These activities, however, were ill rewarded, and in the political trials of the 1950s he was sentenced to life imprisonment. In the 1960s, after rehabilitation, Goldmann started his research career anew at the Institute of Economics of the Czechoslovak Academy of Sciences.

Goldmann's major contribution is in the field of theoretical analysis and empirical tests of business cycles in socialist centrally planned economies. His book, co-authored with K.Kouba, *Economic Growth in Czechoslovakia*, initiated a wide discussion among scholars of comparative economics. Goldmann applied Kalecki's model of economic growth in which he introduced a new term: the effects of systemic change. He took active part in the debate on economic reform in the period of the Prague Spring, but his views on the effects of decentralization remained reserved. He kept in close contact with J.Kornai and T.Bauer from Hungary and M.Kalecki, W.Brus and K.Laski from Poland.

As head of department in the Institute of Economics he influenced numerous young scholars who became members of his research team. He produced short-term macroeconomic analyses and forecasts which were recognized as relatively independent compared to the official ones. In this way he was able to address negative trends in the Czechoslovak economy of the 1970s and 1980s. In his last book, *Strategy of Economic Growth*, Goldmann envisaged economic reforms which were heavily influenced by the Hungarian experience. The book appeared only after his death in 1985.

*Branko Horvat* Born in 1928, Horvat became the leading Yugoslav economist in the post-World War II period. He holds degrees from Zagreb University and from the University of Manchester. In the early 1960s he established in Belgrade the Institute for Economic Sciences—the most important economic research institution in the socialist period in Yugoslavia. As he was not given a teaching position at the University of Belgrade, Horvat started an independent graduate programme within the Institute of Economic Sciences. The degrees issued there were not recognized in Yugoslavia, but were accepted abroad. A number of his students were later to become leading Yugoslav economists. The Institute published a quarterly, *Economic Analysis*, mainly in English. Practically all important theoretical debates on self-management were carried on in this journal. Later on, it became the official journal of the International Association for the Economics of Self-management. In the 1970s, Horvat moved to Zagreb and joined the department of economics there. He is now retired and lives in Zagreb.

Horvat published a huge number of books and articles. They fall in three genres. The bulk of his publications deal with economic theory in the area of self-management and Yugoslav economics (but also theory of value and macroeconomics). In addition, he has written in the area of socio-economics, the most well-known, and widely acclaimed, book-length essay being *The Political Economy of Socialism* (1984). Finally, he has written on political issues, e.g. a book on the Kosovo problem that precipitated a large debate in the increasingly nationalistic public atmosphere in Yugoslavia in the 1980s. Horvat has written and still writes widely on current economic and political events in magazines and newspapers. Currently he is active within the Social Democratic Party of Croatia and is a vigorous critic of the current government.

*Michal Kalecki* Born in Łódź in 1899, Kalecki studied at Warsaw and Gdansk Polytechnics. Because of lack of finance he had to drop his studies shortly before finishing. Afterwards he worked for several years as an economic journalist. In 1929 Kalecki started as a self-educated economist at the Institute of Research on Business Cycles and Prices in Warsaw headed by E.Lipinski.

His main achievements of this period were two pioneering studies, both co-authored with the statistician Ludwik Landau, *An Estimate of National Income in 1929* and particularly *An Attempt at a Business Cycle Theory* (1933), regarded by many authors as an anticipation of J.M.Keynes' *General Theory*. In 1934 Kalecki went as a fellow of the Rockefeller Foundation to Stockholm University and, after several months, proceeded to the London School of Economics. The years 1938–9 were spent in Cambridge where he was considered a student of J.M.Keynes, and in 1940–4 he worked at the Oxford Institute of Statistics. He elaborated and published an alternative (to

that of Keynes) programme of rationing for war time which provoked many controversies. In 1945–6 he worked with the International Labour Office in Montreal and was appointed deputy director of the UN division preparing the World Economic Reports at the end of 1946.

From 1955 until his death in 1970 Kalecki lived in Warsaw, teaching at the Main School of Planning and Statistics and working as adviser to the government. In this capacity he co-authored (with W.Brus) three main legislative acts which legalized workers' councils and reduced the control of the state over state enterprises. In 1957–62 Kalecki co-chaired (with O.Lange) the Economic Council preparing the well-known *Theses for Economic Reforms*, ignored by the government. The same happened with his plan for long-term economic development of Poland.

His main interest, while in Poland, was the theory of growth of a planned economy under conditions of lack of capital and of unemployment, and the theory of income distribution. Kalecki retired in 1965 from the government job after an open conflict with Wladyslaw Gomulka over the next five-year plan. During the anti-semitic campaign in 1968 his school was disbanded, and a year later he left the Main School of Planning. The last years of his life were spent in isolation.

Kalecki, M., 1990: *Collected Works* (J-Osiatynski ed.). Oxford: Oxford University Press.

*Leonid Kantorovich* Kantorovich shared with T.C.Koopmans the Nobel Prize for Economics in 1975. He is so far the only economist from (former) socialist countries to have been thus honoured. And in his case, the prize was awarded for essentially mathematical achievement in the 1930s and 1940s. Kantorovich, together with George Dantzig, is the co-founder of linear programming, a mathematical method with important economic applications.

Kantorovich was born in 1912, the son of a St. Petersburg doctor. His exceptional mathematical gifts soon became apparent, and he graduated from the department of mathematics of Leningrad University at the age of 18. Only four years later he became professor of mathematics at the same university. Kantorovich remained in Leningrad until 1960, when he moved to the recently founded Siberian Branch of the Academy of Sciences in Akademgorodok outside Novosibirsk. In 1971 Kantorovich finally moved to Moscow, where he worked in various governmental research institutions until his death in 1986. His life thus spanned the period from the late pre-revolutionary time until early *perestroika*, and his career took him to all the three main research centres of the USSR.

The young Kantorovich was anxious to develop socially useful mathematics. The request of a Leningrad Veneer Trust to help to rationalize their process was the practical need, out of which evolved linear programming (Kantorovich 1939). The application to the macrolevel

followed in a manuscript written by 1942 but only published in 1959 (Kantorovich 1959). Later, he concentrated upon dynamic models (Kantorovich 1976) and the economics of technical change. Kantorovich's early work developed linear programming and laid the foundations of optimal planning theory. His later work has not had similar impact. In addition, Kantorovich did important work in different parts of pure mathematics, especially function theory.

Kantorovich's starting point was central planning. Never joining the communist party, he remained a mathematician whose views on the appropriate institutional framework of the Soviet economy evolved over time, but never crystallized into a consistent reform framework. In spite of that, his importance cannot be overestimated. Kantorovich not only made an important—if at the time completely neglected—contribution to mathematical economics, he also taught the best of a generation of Soviet economists a new and superior way of thinking.

Kantorovich, L.V., 1939: *Matematicheskie metody organizatsii i planirovaniya proizvodstva*. Leningrad. English version: Mathematical methods of organizing and planning production. *Management Science* July 1960.

Kantorovich, L.V., 1959: *Ekonomicheskii raschet nailuchshego ispolzovaniya resursov*. Moscow. English version: *The Best Use of Economic Resources*. Oxford: Oxford University Press, 1965.

Kantorovich, L.V., 1976: *Essays in Optimal Planning*. New York.

*Václav Klaus* Born in 1941, Klaus graduated in 1963 in foreign trade from the University of Economics in Prague. He did postgraduate studies in Italy in 1966 and in 1969 at Cornell. After 1964 he was affiliated to the Institute of Economics of the Czechoslovak Academy of Sciences from which he received his PhD. In 1970 Klaus had to leave academia due to political reasons. He was sent to an 'internship' at the Czechoslovak State Bank where he was employed for another sixteen years. Klaus' function as secretary of the Czech Society for Science and Technology was important in organizing seminars at the State Bank during the first half of the 1980s. These soon became recognized as a platform for unorthodox economic thought, bringing together scholars from the universities, state officials, and also economists under publication ban.

In 1987 Klaus joined the Prognostic Institute of the Czechoslovak Academy of Sciences as a senior researcher. During the Velvet Revolution of 1989 he was among the first to prepare an economic programme for the Civic Forum. In December 1989 he became minister of finance in the federal government and, in 1991, vice-premier. In 1991 Klaus entered full-scale politics and founded the Civic Democratic Party, initially a faction of the Civic Forum, and was elected chairman. After successful parliamentary elections, Klaus became prime minister of the Czech government.

At the centre of Klaus' scholarly interests were monetary and financial issues. His PhD thesis was on the theory of inflation. From the very start of his professional life he leaned towards modern mainstream economics. He never had any 'red' or 'pink' period. The only exception may be a short-lived admiration of J. Vanek's ideas on self-management during his stay at Cornell. Klaus was initially focused on Keynesian and post-Keynesian literature, but he soon discovered the more conservative world of Hayek and Friedman. In the 1970s he was banned from publishing. Since the end of the 1970s, when his papers could reappear in specialized journals (mainly *Finance a úver* and *Politická ekonomie*) the list of his publications started to rise rapidly again. His ideas shaped the first economic programmes after the Velvet Revolution. His former research team, consisting of D. Tr?íska, I. Koc?árník, T. Jez?ek, K. Dyba and V. Rudlovc?ák, exerted a crucial influence on the reform programme officially adopted as economic reform in 1990. There is no doubt, that Václav Klaus influenced both Czech economic thought and—perhaps even more—economic reforms in the 1990s.

*Gunther Kohlmey* Kohlmey (b. 1913) is one of a small number of GDR economists who have gained international reputation. The development of East German economics, its theoretical concepts and institutions is closely connected with his contributions and activities. His name stands for numerous stimulating and innovative ideas within East German Marxist economic theory.

Kohlmey studied economics from 1932 to 1936 in Freiburg and Berlin where he received his doctorate in 1938. After deserting from Hitler's army, he worked as assistant and teacher in Soviet anti-fascist schools from 1943 to 1947. After his return to Germany he was one of the founders of the Deutsche Verwaltungsakademie (German Academy of Administration) in Forst-Zinna. In 1949 Kohlmey was appointed professor of political economy. From 1953 to 1955 he prepared the foundations for the Institute of Economics at the German Academy of Sciences in Berlin where he served as director from 1955 to 1958. Since 1955 Kohlmey taught political economy of socialism and international economics at Humboldt University of Berlin and later (from 1961 to 1969) at the University of Economics in Berlin. In 1953 he founded the economics journal *Wirtschaftswissenschaft* and from 1956 to 1959 was editor of the bulletin *Geld und Kredit*. Kohlmey was the first GDR economist invited to present a paper to an International Economic Association (IEA) congress.

Kohlmey's academic interests are mainly focused on monetary and international economics. In the 1950s he published numerous papers on monetary problems. Criticizing the overcentralized socialist planned economy, Kohlmey underlined the necessity of putting more emphasis on market and money categories and reducing the state activities in the monetary and banking sector, remarks which fell under the verdict of

‘revisionism’. His academic work on international economics, especially at the end of the 1950s and in the 1960s, dealt with the economic relationship between East and West, the theory of international values and the theory of socialist international division of labour. In this context Kohlmeier was trying to create a sophisticated Marxist theory of the world market.

His attempts to improve traditional Marxist economic theory and the system of economic coordination have led to tough political reactions. In the mid-1950s Kohlmeier was accused of ‘revisionism’. At the end of the 1960s when he was trying to combine systems theory with the political economy of socialism (see his 1968 article ‘Planen als Steuern und Regeln’ (Planning as control with and without feedback), leading party officials and conservative economists started new attacks.

*Janos Kornai* Born in Budapest in 1928, Kornai studied arts at Budapest University. He started his professional career as a journalist. In 1947, at the age of 19 he joined the editorial staff of the main communist daily, *Szabad Nép*, where the gifted young man advanced to the position of economic editor. After the first Imre Nagy government came to power in July 1953, a revision of the Stalinist system began both in the economy and in politics. Kornai became a member of a group of reform-minded journalists staunchly supporting Nagy’s policy. When Nagy was ousted from power, Kornai was fired in 1955. He joined the Institute of Economics of the Hungarian Academy of Sciences founded by the Nagy government.

As a scholar, Kornai made his debut in 1956 with a critical analysis of the functioning of the centrally planned economy. The study appeared in book form in Hungarian in 1957 and in English in 1959 under the title of *Overcentralization in Economic Administration*. It was the first scholarly book published in the West after 1945 by a Hungarian economist living in Hungary.

After the suppression of the 1956 revolt Kornai was removed from the Institute of Economics in 1958 and put on the sidelines of academic activity. He turned to mathematical economics and did research first in the Institute of Textile Industry (1958–63) and later in the Computing Center of the Hungarian Academy of Sciences (1963–67). An important product of this research was the study on ‘Two-level planning’ written together with the mathematician Tamás Lipták (published in English in 1965). His voluminous book *Mathematical Planning of Structural Decisions* (1967) won international acclaim.

Since the middle of the 1960s Kornai has been visiting professor to many prestigious universities in Britain, the USA and Sweden. Due to the changed socio-political atmosphere in Hungary, Kornai was offered in 1967 the position of research professor at the Institute of Economics and so he returned to the place where he began his scientific career.

Among his major theoretical works in the last three decades, four books ignited widespread discussions and left significant marks on economic thinking. *Anti-Equilibrium* (1971) gave a thorough critique of Walrasian general equilibrium economics. In *Economics of Shortage* (1980) Kornai used the idea of the soft budget constraint, borrowed from microeconomic theory, to explain the endemic nature of shortages in a state-owned economy or in a paternalistic public sector of a market economy. The *Road to a Free Economy* (1990) expounded his blueprint for transition of the former socialist countries to full-fledged market economies. *The Socialist System* (1992) is the first post-transition assessment of the planned economy.

Kornai is currently professor of economics at Harvard University, Cambridge, Mass., and permanent fellow at Collegium Budapest, Institute for Advanced Studies. He is a member of the Hungarian Academy of Sciences and other academies, honorary doctor of several universities and honorary member of numerous learned societies.

*Oskar Ryszard Lange* Born 1904 in Tomaszów Mazowiecki, Lange studied law and economics at the Jagiellonian University of Krakow and became assistant professor of this University. In 1934 he went to the United States, staying mainly at the University of Chicago (1938–45). Back in Poland, he taught statistics at the Main School of Planning and Statistics and, since 1956, economics at the University of Warsaw.

Influenced by concepts of the Austrian school of Marxism, Lange was active in the socialist movement, and regarded as one of the most influential theoreticians of socialism generally and of socialist economics in particular. In 1934 he published the first version of his market socialism. In the late 1930s and early 1940s he worked on the theory of general equilibrium, developed some concepts of Keynes and tried to include Keynes' theory into a neoclassical framework. At present, Lange is known in the West mainly as author of *On the Economic Theory of Socialism* (1936/7) which is widely regarded as one of the best expositions of market socialism. This work stimulates debates and controversies to this day.

Involved in the politics of a communist regime, Lange tried (mostly unsuccessfully) to 'westernize' Soviet Marxism. In 1957–62 he co-chaired (with M.Kalecki) the Economic Council preparing an outline of economic reforms based on central planning, decentralized management and workers' participation. It was—as the then prime minister put it—'neither rejected nor accepted'. In the 1960s, when hopes for substantial reforms were waning, Lange devoted his research effort and teaching to what Benjamin Ward had called 'the formalist revolution'. Econometrics, the theory of optimal decision-making, praxiology and economic cybernetics became his areas of work.

Lange used to term himself an old Menshevik, saying that he never believed that the Bolsheviks could create socialism. He believed however,



that in hoisting Russia from barbarity by his barbaric methods Stalin was digging the grave of Stalinism. Rapid industrialization and the educational revolution would create a culturally advanced society which would inevitably burst the fetters of bureaucratic hierarchy and repression. In the last years of his life Lange became very disappointed. He died in 1965 in London.

*Edward Lipinski* Born 1888 in Nowe Miasto, Lipinski studied economics in Leipzig and Zurich. Connected with the socialist movement since his early youth, Lipinski initiated labour inspection and organized labour statistics in Poland. From 1923 until his retirement he taught at the Main School of Commerce in Warsaw. From 1927 to 1965 he was editor of the quarterly *Ekonomista* and he chaired for a couple of decades the Polish Economic Association. In 1929–39 he founded and directed the Institute of Research on Business Cycles and Prices which was a forge of economists and played a very important role in the development of economic thought.

Lipinski was an ardent critic of both the mainstream neoclassical economics and the theory of optimal central planning and particularly of the illusion connected with the computerization of planning. In his opinion, both concepts are great barriers to the knowledge of the economic process which is social by its essence. He termed himself a utopian socialist tracing new phenomena which have an impact on the alienation of work and workers. Greatly influenced by Marx's *Das Kapital*, he authored one of the most interesting interpretations of Marx's thinking, distinguishing what was the outcome of the romantic revolutionary and of the researcher of a new civilization.

Arguing for employees' participation and enterprise autonomy, Lipinski criticized so-called 'real socialism' for adopting and accepting values and moral norms of a bourgeois society. He tried for many years to propell reforms of the political system and the command economy. Disillusioned by the lack of any substantial changes, he became one of the most powerful intellectual opponents of the communist system. 'There is no socialism on the knees. Either we shall all participate in building it or we shall live in a world of fictions, totally compromising socialist traditions and Polish historical traditions.' In 1977 he became founder and member of the Committee of Workers Defence. Lipinski died in Warsaw in 1986 at the age of 98.

Lipinski, E., 1961: *Teoria ekonomii i aktualne zagadnienia gospodarcze* (Theory of Economics and Current Economic Problems). Warsaw.

Lipinski, E., 1969: *Marks i zagadnienia współczesności* (Marx and Problems of the Present Time). Warsaw.

*Vasili Nemchinov* Born in 1894, Nemchinov was the son of a minor central bank official. He graduated from the Moscow Commercial Institute in 1917, and spent the next years gathering statistics on population, social structure

and agricultural production. These statistics were used and misused by the authorities during and after collectivization. After Stalin's death, Nemchinov campaigned for the publication and better techniques of statistics.

Nemchinov, who only joined the party in 1940, was primarily a great organizer. Director of A.K. Timiryazev Agricultural Institute from 1940, he fought bravely against Lysenko in the late 1940s. Forced to leave the institute, he shared his time between the party academy and Council for the Study of Productive Resources. From 1953 to 1959 Nemchinov was the administrative head of Academy of Sciences economics research and until 1962 he was a member of the presidium of the Academy. In 1958, he established the first Soviet research unit of mathematical economics. In 1963 this became the basis of the Central Economic Mathematical Institute (TsEMI) in Moscow. Nemchinov died in 1964.

The official acceptance of mathematical economics was crowned by the Lenin Prize given to Kantorovich, V.V. Novozhilov and (posthumously) Nemchinov in 1965. In this trio, Nemchinov's role was primarily that of an organizer. He had many skills. Empirical knowledge of the Soviet countryside and statistics was one of them. For Nemchinov, economics could never be art for the sake of art. He was therefore very interested in such applications as input—output and data processing. Nevertheless he is also remembered for his outline for radical economic reform, discussed in Chapter 2 of this volume.

Nemchinov, V.S., 1967–69: *Izbrannye proizvedeniya*, 6 vols. Moscow.

*Viktor Novozhilov* Novozhilov, who was born in Kharkov in 1892 and died in Leningrad in 1970, was both an important bridge between pre-revolutionary and Soviet reform economics and—together with Kantorovich and Nemchinov—one of the three founders of the optimal planning school.

Novozhilov was educated in Kiev, but lived in Leningrad from 1922. In one of his early publications he presented ideas somewhat similar to those developed much later by Kornai in his economics of shortage. But Novozhilov became famous for having reinvented, applied and popularized the fundamental economic concept of opportunity cost. He did that in a series of papers in the 1940s. Similar to Kantorovich, Novozhilov's theoretical work was founded on an appreciation of the practical problems of project evaluation encountered when working at the Leningrad Engineering Economics Institute. Also similar to Kantorovich, Novozhilov's studies took the structure of demand as given—determined by the authorities—and concentrated upon the supply side of the planning task. But here the fundamental similarity ends. While Kantorovich as a mathematician concentrated upon the formal problem, Novozhilov cast the planning problem as one of minimizing total labour input. This made it

possible to interpret optimal planning in a way consistent with suitably interpreted Marxian value theory, something that was highly useful in the USSR. A similar interpretation of Marxian theory was later presented in the West by Michio Morishima and others.

Novozhilov shared the Lenin Prize with the other founders of optimal planning in 1965. In many ways a quintessential Leningrad intellectual, he was also important as a teacher and role model.

Novozhilov, V.V., 1967: *Problemy izmereniya zutrat i rezultatov pri optimalnom planirovanii* (Problems of Comparing Costs and Results under Optimal Planning). Moscow: Nauka.

Novozhilov, V.V., 1972: *Voprosy razvitiia sotsialisticheskoi ekonomiki* (Questions of Socialist Economic Development). Moscow: Nauka.

György Péter Péter was born in Budapest in 1903, the son of a physician by profession, who later became known as a statistician and economist. Péter himself studied mathematics and his first job was with a private life insurance company. In 1932 he joined the illegal communist party, was arrested in 1936 and the next year condemned to fifteen years' imprisonment.

In 1945 Péter was appointed general manager of the National Social Insurance Institute. From 1948 to 1968 he was president of the Central Statistical Office and simultaneously (in 1950–64) head of the Department of Statistics at the Budapest University of Economics. His scholarly activity was concentrated in these decades. As a person in charge of national statistics, he understood that his duty was not only to provide reliable statistical data on the state of the economy and society but also to undertake their honest analysis, without mincing matters. On the basis of his analytical work Péter wrote a series of articles that appeared also in book form (see Péter 1956). Péter's seminal articles gave the first comprehensive critique of command economy that was openly published in a socialist country. Péter took part in the commission chaired by I.Varga that prepared a proposal for a market-oriented reform of the Hungarian economy in 1957.

Because of his 'revisionist' views Péter was permanently out of favour with the leadership of the communist party. However, it was only after the Soviet military suppression of the Czechoslovakian dissent in 1968 that the Hungarian leadership decided to get rid of him. In November 1968 he was relieved of his office, and a criminal investigation was set up on the ridiculous pretext that Péter violated the Hungarian exchange control regulations while pursuing his numismatic hobby. In December he was taken into police custody, and on 4 January, 1969 he committed suicide.

*Nikolai Petrakov* Petrakov is the archetypical reform economist of the 1960s who rose to a politically responsible position under Gorbachev. Born in the

terror year of 1937, he was profoundly influenced both by Khrushchev's destalinization in 1956 and by the 1959 publication of Kantorovich's *magnum opus*. Though he has never been a practising mathematical economist, Petrakov soon joined the Moscow Central Economic Mathematical Institute (TsEMI). He was long the deputy director of the institute. In late 1989 Gorbachev invited Petrakov to become his economic adviser. He stepped down a year later as a protest against increasing concessions to economic conservatives. He also condemned the use of violence in the Baltics. Since 1991 he has been the director of Institute of Problems of the Market Economy, an offspring of TsEMI.

Petrakov, who joined the party in 1964, became known as a debater, popularizer and interpreter of optimal planning theory. He was quick to abandon, however, any centralizing and overly technocratic interpretations of the theory. He had no understanding of computopias. In 1968–71 he was perhaps the most vocal proponent of markets among Soviet academic economists. Therefore, he was also strongly criticized by the conservatives. After 1971, he had severe problems in getting published.

As Gorbachev's adviser, Petrakov was unable to maintain the reform momentum of the Soviet government.

Petrakov, N.Ya., 1966: *Nekotorye aspekty diskussii ob ekonomicheskikh metodov khozyaistvovanii* (Some aspects from the Discussion on Economic Methods of Organizing the Economy). Moscow.

Petrakov, N.Ya., 1971: *Khozyaistvennaya reforma: plan i ekonomicheskii samostoyatel'nost'* (Economic Reform: the Plan and Economic Independence). Moscow.

*Ota Šik* Šik was born in 1919. In the 1930s he belonged to the circle of young Marxists who in view of the social misery of the Great Depression were searching for a more just society. After the occupation of Czechoslovakia by Hitler's Germany he participated in the resistance. In 1941 the Gestapo arrested Šik and deported him to the concentration camp Mauthausen where he fortunately survived.

After the liberation Šik devoted himself to the study of Marxist economic theory and soon became one of the most recognized experts in this field. He taught political economy, from 1957 as full professor, at the party-run Higher School for Political Sciences and later at the Institute for Social Sciences, specializing in graduate education and research. Having advocated in his first articles the Stalinist economic doctrine, Šik discovered by the mid-1950s the weakness of this theory. His fundamental criticism of the ruling version of political economy, concerning in particular the property concept and the role of interests and motivation in economic life, was laid down in his book *Ekonomika, zájmy, politika* (Economy, Interests, Politics) published in 1962.

In the light of an alarming crisis in the Czechoslovak economy in the early 1960s, Šik was entrusted by the communist leadership with the elaboration of a reform concept. A team of scholars from the Prague Institute of Economics and the State Reform Commission, both being directed by Šik, did the theoretical and organizational work. Besides numerous articles and essays, two books by Šik played an outstanding role in this context: *K problematice socialistických zbožíních vztahů* (On Problems of Socialist Commodity Relations) (1964) and an extended and updated version: *Plan and Market under Socialism* (1968). In these writings Šik conceives of the new system as characterized by a synthesis of macroeconomic planning and built-in market mechanisms. The third basic element of the reform of 1968, namely workers' participation, was not yet considered in the two books.

After the defeat of the Prague Spring, Šik emigrated to Switzerland where he was appointed professor of economics at the Hochschule für Wirtschaft und Sozialwissenschaften in St. Gallen. Here he developed a specific theory of a third way, explained in his book *Ein Wirtschaftssystem der Zukunft* (An Economic System for the Future) (1985), envisaging an alternative system both to Soviet command and Western market economy. Criticizing these systems and their theoretical foundations, the author postulates an alternative model whose focal points are: (1) workers' participation in decision-making and profit-taking; (2) macroeconomic planning of income distribution; (3) using a regulated market mechanism.

*Miroslav Toms* Born in 1944, Toms graduated from the Prague School of Economics in 1966. The first papers of this brilliant student were published in *Politická ekonomie* in 1964. He received his PhD degree from the Institute of Economics of the Czechoslovak Academy of Sciences in 1968 to which he was affiliated from 1965. He spent the academic year 1969–70 at Michigan University. From the mid-1970s till his premature death in 1988 he was vice-director of the Institute of Economics.

Toms first studied the process of industrialization in the USA. He gained reputation through his book *Two Models of Economic Growth* (1965), co-authored with M. Hájek. For the first time in Czech literature they analysed extensive and intensive types of economic growth based on a Kaleckian model. The model was applied to Czechoslovak data, revealing characteristics which differentiated Czechoslovakia from the developed industrialized economies. The book of Toms and Hájek sparked off a debate among economists which later influenced the 1968 reforms. Toms found inspiration in the Polish School (Kalecki, Lange, Laski, Brus) and in the Soviet discussions of the 1920s (Feldman, Akulenko) and his knowledge of modern economics was impressive. He was the first to bring back home the Cambridge controversy on capital theory. At Michigan Toms lectured on Feldman's and Kalecki's models of economic growth. There, he also acquainted himself with econometrics and

macroeconomic models. Toms' PhD thesis, considered his *magnum opus*, focused on comparative economics, dealing with the works of Marx, Feldman, Schumpeter and Samuelson. His lectures gained him as much fame as his publications.

Toms' spectrum of interests was extremely broad, covering Marx's political economy as well as macroeconomic models. He wrote an excellent foreword to the Czech translation of Sraffa (1970) as well as to the mathematical manuscripts of Marx (1980). On the other hand he was among the first Czech economists to apply production function estimation techniques to Czechoslovak data. From the very beginning, Toms searched for bridges between Western and Marxian economic theory. In the 1980s he analysed a more general Marxian concept of utility including the measurement issues. A German edition of his book *Gebrauchswert und seine Messung* (Use Value and its Measurement) was published posthumously in 1988. Unfortunately, Toms had not enough opportunities to take part in international discussions, so he did not acquire a greater international reputation. Miroslav Toms influenced a whole group of economists, who started their professional activity in the 1960s. A bibliography of his works can be found in *Politická ekonomie* 1989.

*Istvân Varga* Born in Budapest in 1887 into a merchant's family, Varga followed studies in law and economics in Budapest after World War I. From 1920 Varga taught statistics and economics at various universities and colleges in Budapest. In 1933 he became *Privatdozent* and in 1940 was appointed full professor at the Faculty of Law of Budapest. His publications on various issues of economic policy, finance, sociology, statistics and econometrics appeared regularly from 1922 on. His monograph on the national income of Hungary, written together with M. Matolcsy and published in Britain in 1938, became a reference. Though the theoretical stance of Varga was eclectic, he considered himself a follower of the institutionalism of Th. Veblen.

During World War II Varga took an anti-fascist, pro-Anglo-Saxon position. After the German occupation of Hungary in March 1944 he was arrested and was finally liberated by the Soviet troops from a Berlin prison in May 1945. Having returned to Hungary, Varga became a leading personality both in the academic world and in economic policy-making. In 1946 he was simultaneously president of the Material and Price Office and state secretary in the Ministries of Industry and of Reconstruction, thus playing an important role in post-war stabilization of the Hungarian economy.

Varga lost all his positions with the communist takeover. In 1951 he became practically jobless and earned his living by doing odd jobs. Only in 1953 was he able to do some research work again. After the 1956 revolution Varga was invited in February 1957 by the Kádár government to chair a commission of experts preparing an economic reform programme. However,

## APPENDIX

the commission's proposals, completed by June 1957, were suppressed and Varga himself was publicly criticized for his market-oriented 'revisionism'. Despite his readmittance to academic life and an intensive lecturing and publication activity both in Hungary and abroad, Varga was bitterly disillusioned in his late years. He died in 1962.

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