2 Alternative Possibilities for Post-Communist Economies

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INTRODUCTION

All modern economies combine planning and markets; they differ in the relative weights attached to each element. All hitherto centrally-planned command economies are now seeking to introduce a greater role for markets. The questions that face them are how to make the transition to a ‘market economy’, and what role should be played by the state in the new system they are seeking to create.

In the initial stages of the reform process, discussion focused around how to introduce a greater role for markets without allowing market forces to dominate the process of resource allocation. However, none of the attempts at reform in the period up to 1989 succeeded in combining planning and markets in a way that satisfied the requirements of both socialist values and efficiency.

Since the political revolutions of 1989–91, such attempts at finding a ‘third way’ have been largely abandoned. Poland, Czechoslovakia, Hungary and Russia have all in turn adopted the objective of a ‘fully-fledged market economy’, a euphemism now generally accepted as meaning capitalism in one form or another.

The question, of course, is, in what form: the laissez-faire ‘casino capitalism’ of the USA and the UK; or the social-market capitalism of Western Europe? Whatever form it turns out to be, there is bound to be a continuing role for the state and even for some sort of economic planning.

PLANNING

The essential case for planning is that it enables ex ante co-ordination of interdependent decisions. Market forces operate to allocate and reallocate resources by repelling them from lower-profit activities and attracting them to higher-profit activities through the separate, atomistic decisions of enterprises acting independently of one another. The argument is that this process results in waste and human misery. In growing industries the lack
of co-ordination in advance results in too many resources being committed. In declining industries, resources leave through a slow process of attrition-redundancies, closures, low wages and depressed communities. At the level of the economy as a whole, market forces give rise to the familiar cycle of boom and slump, inflation and recession, acute labour shortage and mass unemployment.

Karl Marx looked forward to the ending of private ownership of the means of production as a necessary condition for ending both exploitation and the anarchy of production. He argued that if society’s productive resources were owned socially, society could decide how they, as an integrated whole, should be used. The allocation and reallocation of resources could be planned in advance, before the resources were committed, on the basis of the use society wished to make of them. So private production for profit, co-ordinated anarchically by market forces, would be replaced by social production for use, co-ordinated by planning.

**Soviet Administrative Command-Planning and Market-Socialism**

The Soviet planning system was developed in the 1930s in order to carry through a process of rapid industrialization. It was able to mobilize resources for investment in heavy industry as the overriding priority. The repressive monolithic political system created by Josef Stalin enabled opposition to the social and human costs involved to be suppressed. A comparable system of central planning was developed in Britain during the Second World War, to concentrate resources on the war effort as the overriding priority. However, the crucial difference was that the democratic political system in Britain provided broad consensual support for the sacrifices involved.

The Soviet system was relatively successful, albeit at enormous human cost, when the task was to concentrate resources on a very limited number of overriding priorities. However, as the Soviet economy developed, the task changed to the efficient use of resources in all lines of production and the promotion of innovation, with increasing expectations by the Soviet people of living standards comparable to those in the West. The Soviet model of planning, despite attempts at reform from the mid-1960s onwards, proved incapable of meeting these expectations and has now effectively collapsed. In Eastern Europe essentially the same system, imposed after 1945, has also failed.

Why has the Soviet model proved to be historically exhausted? There are basically two reasons, to do with *information* and *motivation*. Administrative command-planning is a system in which enterprises supply