Economic Reforms in Centrally Planned Economies and their Consequences for Regional Development

by

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1. Introduction

One important issue which has been largely ignored in the literature on regional development and policy in Centrally Planned Economies (CPEs) concerns the possible impacts, if any, of the attempted economic reforms of the CPEs on future regional development in these countries (one notable exception from this neglect is GORZELAK, 1989).

In all the CPEs the declared goal of regional policy and planning has been and remains the decrease in the interregional inequality in development levels, coupled with an overall increase of the GNP (comp. DZIEWONSKI, MALISZ, 1978 and DEMKO, 1984). These goals of spatial policy have not been achieved. In the first 10 to 15 years after the World War II some equalization of regional development levels was attained but for the last 20-25 years evidence is available that a deepening of the differences in the regional production, investment and living standards took place (KOWALSKI, 1986a).

In this contribution we shall reflect on the question if reform efforts undertaken at present in CPEs will help to stop and reverse this tendency for polarization of space in CPEs between strong, industrial regions and weak agriculturally dominated ones.

What were the reasons for polarization processes in Centrally Planned Economies, where in principle the central planning authorities should be able to
influence spatial development of the country?

We postulated elsewhere (KOWALSKI, 1986a, 1989) that CPEs are in reality unplanned economic systems. The reasons for spatial polarization are found in the ways these systems function, and this in turn is influenced mainly by "lawless", voluntaristic decision-making in the economy on the macro level coupled with soft budget constraints of enterprises at the micro level. This way of decision-making at the macro-level is possible because of the more or less harshly executed totalitarian one-party systems, permitting to disregard the legal rules of the game theoretically prescribed by the CPEs. Soft budget constraints lead in turn to expansion drive of enterprises, which are not limited in their growth wishes by demand considerations, and to widespread shortages of inputs. Enterprises facing soft budget constraints exert an almost insatiable demand for inputs in order to secure plan implementation. This phenomenon results in conflicts in informal bargaining for scarce resources.

In the spatial perspective this conglomerate of factors leads to the advantageous position of these regions and sectors which are governed by politically more powerful lobbies, and these as a rule happen to be the strong industrial regions, dominated by traditional heavy industries. Regardless of plans calling for equalization of regional development levels, centrally controlled investment expenditures continue to flow to these strong regions. Weak, peripheral areas are as a rule also the political underdogs and hence they lose the competition for resources, competition which has very little to do with economic efficiency, performance or the declared goals of regional policy.

2. Main Directions of Economic Reform Efforts

Since Michail Gorbatschew proclaimed "perestrojka" and "glasnosc" in the Soviet Union it seems indeed possible that, for the first time after the Soviet Stalinist model of the CPE became the dominant mode of production, real changes in the ways of functioning of society and economic systems in countries of Eastern Europe can be implemented.