9. Possibilities for and Limitations to a "Mixed Economy" in Socialist Planned Economies

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1. Signs of Change

Quite interesting and new changes or "phenomena" have been emerging in the economies of socialist countries since the end of the 1970s or the beginning of the 1980s. At first glance they are changes of partial and evolutionary character rather than radical changes touching upon the essence of the system. It is difficult to foretell whether they are temporary ones imposed on these countries by the urgent necessity of revitalizing the economy in the face of economic difficulties that have been mounting since the end of the 70s, or lasting ones which may have something to do with the shaping of *future* socialist systems. No one can tell at present to what extent the scope of these changes will develop or retreat. Both directions are possible.

However, I am inclined to think that in the shape of a trial-and-error process *something essential* is showing itself which cannot be disregarded when we consider the future economic systems of socialism. In this sense it might be called a "creeping" or "quiet" revolution — or sea gulls foreshadowing future changes, be they storm or not, to put it literarily. Roughly speaking, there are three main reasons:

1. These changes reconfirm the impossibility of the "pure planned model," which has already been established by the experience of planned economies as well as by logical analysis; and, therefore, the impossibility of incorporating (or meeting) the fully diversified and disaggregated needs of society into (by means of) a comprehensive national plan has also been confirmed.

2. They are the continuation of economic reforms that were aborted or half-heartedly implemented in the 1960s and, therefore, can be seen as part of a longer trend, and,

3. In particular we see in socialist economic systems the process of separation of the managerial from the entrepreneurial role (separation of business management from "ownership"), which is so typical of contemporary capitalism (especially in the USA and in Japan). In this sense it is a historical trend, irrespective of the differences between the two systems.

Ironically, two countries with substantial differences in character are appearing on the scene as "pioneers" of these changes, which makes the scene more complicated and sometimes obscure.

1. In China a so-called "production responsibility system" has been introduced in agriculture, as a consequence of which the real substance of the people's commune has died away while its name has remained. This we could call a "simulation" of

small household farming.

2. In some branches of Chinese industry experimentation with a so-called "management responsibility system" is going on, according to which enterprise management can freely dispose of net income after having fulfilled its tax obligations to the state.

3. In Hungary, apart from the traditional three types of ownership — state, cooperative and private — mixed or combined forms of ownership are being experimented with, of which J. Kornai gave us a general idea in his presentation on Hungarian economic reforms in January and February of 1983 in Tokyo. Special interest has been aroused by the socio-economic "model" proposed by Tibor Liska, which is based on two fundamental principles — that of "personal social property" and that of "social heritage." Liska's idea may be summed up as follows: (a) he considers the right of enterprise to be a right belonging to "all" citizens, and this leads to the original feature of his model — the idea of putting public enterprises up for "auction." Enterprises are leased to the highest bidder, who offers to make the highest profit and thereby to pay the highest rent on interest. At the same time enterprises or units in question are again "heritable"; they can be put up for auction again and handed over to another operator (entrepreneur) against compensation, if he promises to pay more. Liska's idea, in which we can easily see the separation of the managerial function from ownership in possibly an extreme form, has been experimented with mainly in catering industries and in trade. Other proposals for reform have been partially put forward and experimented with: "economic teams" in industrial enterprises, "joint stock companies" or "holding companies," and proposals for "marketization" of capital financing, subject to certain limits and regulations.

4. "Simulation" of household farming is being experimented with even in the Soviet Union, though not at the household level as in China, but in the guise of "brigades" (*brigada*) or "links" (*zveno*). So far no one can tell in what direction and to what extent the newly inaugurated experiment of "working collectives" (*trudovoi kollektiv*) in industrial enterprises will develop, but we may see some signs of similar trends here, too.

5. Legalization of the "private" (or informal) sector or the so-called "second economy" is a feature common to almost all socialist countries, though, of course, to different degrees and with different scopes. This applies also to the encouragement of small household plots in agriculture (*priusadebnoe khoziaistvo*), though they are a little different in character. The New Constitution of 1977 in the USSR enlarged the right to this type of farming, giving it even to ordinary citizens. There are also indications that private small enterprises are permitted and have expanded in industries (mainly consumer goods) and construction.

It is well known that in the past private enterprises played a rather important role in the economies of East Germany and Poland. But in the former, private enterprises were almost completely integrated into the strict state control system by 1970, leaving only a formal appearance. Still, private entrepreneurs tried and succeeded in using their remaining initiative to look for "pin-holes" in the market in order to be active within the very limited possibilities. However, as is well known,

the statization process ended in 1972 with the expropriation of the remaining private enterprises and the total nationalization of "semi-state" (mixed) enterprises.

So, the traditional idea that, in contrast to the capitalist "mixed economy" where the private sector constitutes an influential and permanent institution, the socialist "mixed economy" is of a transitional character, seems to have been confirmed once again. The private sector is to be regarded as an instrument for avoiding friction and tension in the socialization process and, under certain conditions, to be preserved for a relatively longer period of time; however, after the removal of the constraints which necessitated its existence, it is to be eliminated and constituent enterprises are to be nationalized.

The signs of change mentioned before suggest that this is not quite true. There is a deep contradiction between reality and the above-mentioned notion, to say the least. In this sense János Kornai is quite right when he says:

> In the official economics of the socialist countries the idea was dominating for a long time that the system proceeds towards the exclusivity of the state-owned sector — the sector in "general social ownership" — and even within that towards the state-owned large firm. . . . *The reality of the socialist economy never agreed with this idea.* . . . In my view, the present Hungarian economic system may be called "*mixed economy*" *of a socialist type*, in the sense that it relies on the symbiosis of different kinds of ownership — and this entails a diversity of organizational and institutional forms.[1]

Of course, this "mixed economy" is quite different from the NEP of the 1920s in the sense that the latter was connected with the existence of a huge peasant economy, while the position of large-scale industry (commanding heights) was rather weak. Kornai's emphasis is laid upon the existence, competition, combination or cooperation, and complementation of different forms of ownership and economic activities, while, of course, the state sector retains its leading role as before. Here lies its novelty; hence it is called a mixed economy of a "socialist type." I agree with Kornai. Nevertheless, one thing is quite clear — the idea of a socialist economy approaching nearer and nearer to its supposed perfection as "one single state-owned and state-managed economy" has been or is being abandoned once and for all. The most crucial problem we have to face now is throwing away the last bit of the old accepted ideas and notions.

But here I have to make a detour and turn to the crucial problems of economic reform.

2. Crucial Problems of Economic Reform

Again I have to draw on Kornai. On the reverse side of his rather empirical analysis of "mixed economy," we find his penetrating idea on the essence and prospects

1 J. Kornai., "Comments on the Present State and Prospects of the Hungarian Economic Reform," *Journal of Comparative Economics* 7, No. 3 (September 1983): 236-237.

of economic reforms, drawn from his famous "Economics of Shortage," which is equally important in this context.

His line of thinking goes this way: A socialist economic system could be characterized by the lack of monetization rather than by the existence of it. It is monetized for the household, but not for the firm. So it is a half-monetized or pseudo-monetized system, and it is this lack of monetization which is constantly causing "shortage problems." Connected with this, there is the notion of "soft" budget constraints coupled with degrees of "paternalism" for the firm.

According to Kornai, one of the crucial tasks in reforming a socialist economic system is to change the economy from a semi-monetized to a fully monetized system, which in turn means "hardening" budget constraints and reducing or abolishing "paternalism." Here again, I cannot but agree with him; he tells the truth. But in the real world telling the truth is not good enough.

In spite of a terminological difference, Kornai's "soft budget constraint" was originally contained in the notion of the "passive role of money" in the state sector (W. Brus) — one of the essential features of the centralized model of a socialist economy. The same idea is expressed from a comparative systems point of view by Shigeto Tsuru in an article published twelve years ago, to which, unfortunately, little attention was paid at the time of publication.[2]

Tsuru sees as specific features of capitalism not only that "surplus" takes the form of profit belonging to individual capital, but also that this profit arises in "*an antagonistic form* to the income of direct producers." Hence, from the point of view of individual capital, "to strive to minimize $C+V$ in the value composition of $C+V+M$ constitutes a fundamental condition for an enterprise to survive in the face of competition with others, and consequently an antagonistic relation between V and M in the value added ($V+M$) is specific to this system. That is the very reason why *capitalism is an excellent system for 'raising efficiency.'*" (The former italics were in the original; the latter were supplied.)

Socialism, however, under which there is in principle no such antagonistic relation, "could be said to have fewer, compared with capitalism, incentives for raising productivity individually. Since it has not such a built-in mechanism in the economic system itself as to force the individual economic units to strive to maximize the surplus as a source of investment for the sake of their own survival, *it has no other way than to devise this mechanism deliberately and artificially, be it by sweets or whips.* (italics supplied)."[4]

To put this in other words, it is a kind of "simulation" of the mechanism for raising efficiency which is built into capitalism; for this purpose different kinds of economic categories and parameters, which are well-known in capitalist economies, are used. So, quite naturally, if the utilization of these parameters is inappropri-

2 Shigeto Tsuru, "Shihonshugi to Shakaishugi no Ketteitekina Soiten ni Tsuite [On the Crucial Difference between Capitalism and Socialism]." *Keizai Kenkyu* 22 No. 4 (October, 1971) (in Japanese).

3 Ibid., p. 301.

4 Ibid., p. 302.

ate, excessive waste arises in the field of the choice of techniques and of investment. In any case, when seen from the angle of this "simulation," the seemingly quite complicated process of trial-and-error, from the introduction of the "profit" principle in the Soviet Union in the middle of the 60s to the recent adoption of the "competitive price system" in Hungary, can be understood in a long, macro-economic perspective.

Again, a quite similar idea can be heard from the Chinese economists, who have a very pragmatic sense characteristic of the Chinese cultural tradition. They say that the traditional socialist economic system is just like a "big rice-bowl" in the sense that enterprises running with profits and those with deficits "eat together" as equals from a "big bowl." This "big rice-bowl" has, as its counter-part, an "iron rice-bowl," which means that mere attachment to some "unit," be it an industrial enterprise or an office or school, enables those who work there to have enough to live on even if wages are not high, and secures them from the fear of unemployment without requiring a high intensity of labor of them. While the expressions are not at all the same, there is a similarity between "soft budget constraint" and "paternalism" for the firm, on the one hand, and "big rice-bowl" and "iron rice-bowl," on the other.

However, the real difficulty is that the above-mentioned characteristic features of socialist systems make up a whole; they are not separated from each other. "Passive role of money," "semi-monetized system," "soft budget constraint," "big rice-bowl," "paternalism," and "iron rice-bowl" — these are only different aspects of a single system, though, of course, they exist to different degrees in different countries. This difficulty increases as in the "minds" of common working people socialism becomes understood and accepted as "institutionalized paternalism."

If you wish to raise the effectiveness of a socialist economic system, you have to change the role of money from passive to active, and budget constraints from soft to hard; you must turn the semi-monetized system into a fully monetized one, divide the "big rice-bowl" into separate small bowls from which individual economic units are required to "eat," reduce or eliminate paternalism altogether, and turn the "iron rice-bowl" into a chinaware bowl. But this endangers the stability of the "iron rice-bowl" not only for workers, but also for managerial personnel who have accustomed themselves to the traditional easy way of running the economy.

In the same line of thinking, Kornai sees "the dilemmas of a socialist economy" in the incompatibility of efficiency principles with the ethical principles of socialism — remuneration "according to labor," solidarity, security, and priority of the general interest.[5] Here, too, I cannot but agree with him: the optimistic views concerning the supposed or "prearranged" harmony between the two principles should be abandoned. We have long held the view that the centralized system inherited from the Stalin era was to blame, and that if you switched to a more flexible parametric

5 Kornai, "The Dilemmas of a Socialist Economy: the Hungarian Experience," *Cambridge Journal of Economics* No. 4 (1980): 149. Japanese translation by Tsuneo Morita, *Hankinko to Fusoku no Keizaigaku* (Tokyo: Nihon Hyoronsha, 1983) pp. 177-178.

method of managing the economy an "optimal" point would be found somewhere else upon which the requirements of the two principles could be made compatible. Those "good old days" have gone forever.

Nevertheless, monetization of the economic system is badly needed in view of the mounting economic difficulties. Paradoxically enough, in sharp contrast to the situation during the world economic crisis of the 1930s, the socialist economic system was among those most seriously affected by the economic crisis of the 70s. Though, of course, many factors, both internal and external, played their parts in the deterioration of the economic performance of CMEA countries, no doubt the lack of monetization and the absence of market-type feedback mechanisms have played a significant role in it. Without taking this into account, such a big delay in adapting to drastically changing economic circumstances in CMEA countries after the oil crisis of 1973 could hardly be explained. For instance, the use of energy per unit of output was rising in these countries until the end of the 70s or the beginning of the 80s, while it has been greatly reduced in capitalist countries. This system, in which market-type feedback mechanisms play a very small part, has been protected by the state monopoly system of foreign trade which, in turn, "insulated" domestic markets from the world market and domestic prices from world market prices. The maintenance of a relatively independent low price system made possible by this protection has long been considered the "defense capability" of planned economies against price disturbances in capitalist economies. However, because the world market situation was relatively stable until the first oil crisis and the degree of economic interdependence between East and West was not so high until that time, the "proposition" about this "defense capability" was not verified by the test of real life. When put to the test, the reverse side of the medal was revealed.

Thus, from out of the blue we hear a sober voice calling for a change in economic thinking from a small country with a high dependence on foreign trade. Csikos-Nagy Béla, for instance, writes:

> It is absurd to assume that a planned economy can insulate the socialist society from disadvantageous influences arising in the world market. Such a proposition proves only poor knowledge about economic interdependence. All that a socialist planned economy does is to enable the state to have the influence of the world market upon the domestic market in a *controlled way*.[6]

That is why the second wave of economic reform in Hungary since 1979 has become more market-oriented than before, outstepping the framework of the 1968 reform and introducing a competitive price system as its core. It is a simulation of world market prices, which aims to bring closer the relative prices on the world and domestic markets and thereby to enforce rationalization efforts on enterprises.

Here we find ourselves in a blind alley: if we wish to have an efficient economy, we have to convert a system which lacks a means of market verification and relies on

6 Csikos-Nagy Bèla, *A magyar arpolitika-Az 1979/80*, Japanese translation by Tsuneo Morita, *Shakaishugi to Shijo* (Tokyo: Otsuki Shoten, 1981), p. 45.

purely administrative instruments into a monetized one; but this conflicts with the principles of socialist ethics or value system, if Kornai's analysis is true. How can we resolve this dilemma?

Although I am quite confident that one of the crucial tasks of economic reform is to change the system from a semi-monetized to a fully monetized one, I think a complete change would be impossible. There are two reasons. One is a barrier in the minds of working people; socialism is understood and accepted as an "institutionalized paternalism." I have already referred to this problem, which I think no one in power can afford to neglect. The other reason is that contemporary economies, regardless of system differences, cannot do without some degree of paternalism. Contemporary capitalism has some elements of built-in paternalism, and there is even a tendency to "soften" budget constraints for firms. Of course, this tendency cannot be brought to completion and there is a reaction against paternalistic tendencies in contemporary capitalism as well. Therefore, though there is an urgent need under socialism to have budget constraints hardened and the system as a whole monetized, full realization of this is not possible. At the same time, strengthening the existing elements of paternalism in capitalism would be no more successful than the reaction to paternalistic tendencies which is so common today throughout the capitalist world. In my opinion, both systems should not be extreme; both need a mixture of contradictory elements, though to different degrees and in different forms.

So, we should be more inclined to find possible solutions than to confine ourselves to revealing contradictions and dilemmas. Then we will have to find some point of compromise between the conflicting requirements of two principles — efficiency and ethical or value principles. But this in turn will increase the importance of political systems through which a social consensus can be attained as to how the economic system should be designed — what aims (for instance — full employment) sould be given priority; what aims should be sacrificed? In this sense, potential pressures for attaining social consensus through a more pluralistic political system would increase if genuine market-type reforms were introduced. In any case, an economic system alone cannot give an answer to this question.

3. Mixed Economy: A Possible Solution?

This part of my paper concerns prediction or reflection rather than pure theoretical analysis, and therefore should be taken as a tentative and hypothetical statement.

In order to give or design an outline of the socialist economic system which may emerge in the 1990s or in the next century after the trial-and-error process which is being undertaken with the aim of revitalizing CMEA economies, we have to start from the following several assumptions.

a) Pure planned solutions are impossible. This we need not discuss in any detail.

b) Pure market solutions are impossible. No discussion is necessary on this, either.

c) There are limitations to simulation, which stem from its very nature: sim-

ulation remains simulation. Consider, for example, the most interesting of all the CMEA economic reforms — the "competitive price system" in Hungary. I set a high value on the abilities of the Hungarian economists who have invented it, and look forward to its successful functioning. Though, of course, it is far better than doing nothing, I think there are certain barriers to its effective functioning.

First, this price system needs, in my opinion, free trade and organic links with the world market in addition to a fairly stable equilibrium in the balance of payments (or, a continuous inflow of foreign credits to cover the deficits). Hungary's foreign trade situation will probably be unable to provide them. Since the beginning of the 80s strict control over foreign trade has been introduced. Secondly, there is nothing but a simulation of world market prices through complicated pricing formulas, while the direct influence of the foreign market on the domestic one is excluded. The basis for determining competitive prices on the home market is the rate of profit calculated from export prices (in practice calculated as profit [capital+wage cost]), but there remains a lot of room for enterprises to manipulate this procedure through such methods as fixing artificially low costs for export, and shifting the high profitability gained thereby to pricing on the home market. There is another regulation that the price level of enterprises' sales on the home market can be raised only as much as the forint price level of its convertible currency export, and only when the latter increases. If export prices go down, the price level on the domestic market should be lowered accordingly. But here many modifications have been introduced, which allow enterprises to escape the above-mentioned obligations even when export profitability or the price level of convertible currency export falls. Even the upper limits for individual prices — they should not be higher than convertible import prices plus customs duties — could not be applied consistently because high customs duties have made these upper limits unusually high. Therefore, the idea of a competitive price system would be excellent, in the sense that it would mean a departure from the old cost-plus pricing principle, if it could be applied consistently or if the conditions for its effective working could be ensured. For the time being, it is an artificial simulation without real competition.

Kornai referred also to the "artificial nature" of the system of regulations in a lecture on Hungarian economic reforms:

> Real market competition cannot be devised by anybody; living organizations compete with each other for buyers — in the last resort for profit, for survival and growth. In our country, however, it is intended to simulate live competition with extremely complicated legal rules devised on a desk.[7]

This he called "illusion of regulation," quoting the words of László Antal.[8]

d) Limitations to parametric methods arise from the concentration of industry

7 Kornai, "Comments on the Present State and Prospects of the Hungarian Economie Reform," *Journal of Comparative Economics* 7 No. 3: 229.

8 László Antal, "Development with some Digression: The Hungarian Economic Mechanism in the Seventies," *Acta Oeconomica* 22 (1979): 257-274.

and "bargaining."

We have long held the view that centralized administrative methods are to blame, and that if parametric methods were adopted effective functioning of the economy would be ensured; the only problem is developing a system of parameters capable of ensuring the effective working of the economy. But we now have quite a different picture.

Here we have to face a crucial problem. We can observe, in the development of economic reforms not only in Hungary but also in other CMEA countries, that an economy with highly concentrated industry works in a more or less centralized way with direct administrative regulators as well as with *indirect* market-type regulators. If you were a director of an enterprise and had to bargain with the central authorities not on the basis of obligatory plan indicators but on the basis of prices, subsidies, etc., the result would be *nearly* the same. So, a superficial observer might judge the picture only by the *forms* of the methods introduced into the system, but such a judgment would not be accurate. There is, of course, a slight (or not so slight) difference, because under the new methods it is not possible to regulate every small detail: the new methods allow enterprise management greater elasticity. But still, the crucial problem remains: how do we deal with big enterprises? Kornai also mentioned the "bargaining" between the "teams" of government and enterprises.

There is another reason why the effectiveness of parametric methods is constrained. This concerns the real economic conditions in which small-sized CMEA countries like Hungary find themselves today. The basic problem for these countries now and in the near future is that they have to reduce foreign indebtedness, and this must be done in a period when the world economy as well as planned economies are still stagnating. Therefore, the incomes of enterprises should be more centralized (and then not redistributed to them), which means in turn that in the real economy a decrease in natural flows and stocks will take place in favor of export. Thus, the supply of money would contract, and that of goods diminish. And if you have little money, you cannot introduce a "monetized" system even if it is only a formal one. Seen from this realistic angle, a lot of words about "monetization" seem sometimes to miss the point. My argument is quite simple: if all (or almost all) of the results of your work are taken away and you have little money, you will not be very interested in raising efficiency and productivity. This is one of the biggest differences between 1968 and today.

e) There are limitations to the separation of managerial from entrepreneurial roles. It is a well-known fact that in modern corporations under contemporary capitalism management is executed by professionals and is *nearly* completely separated from ownership, which, under private ownership of the means of production, is identical with risking losses and gaining profits. In the socialist economies, where market-type reforms have been introduced or attempted, the process of separation has been or is going on, but has not been completed. Enterprise assets are legally national or state property, but the enterprise as a working collective is entitled to hold, use and dispose of them, and bears the risks and advantages which stem from this right, though not to the fullest extent. An enterprise as a working collective

does not bear the full risk, even in the Yugoslav self-management system. The state (or the society as a whole) secures, in some form or other, a minimum wage in case the enterprise in question is not able to pay. The right of disposal is limited and different in different cases. The Yugoslav and Czechoslovak (1968) enterprises are usually obliged to use their assets with "the care of a good master," as we always read in the lease-contracts of flats and houses. Hungarian enterprises have even been obliged to follow certain rules of profit allocation since the 1968 reform. All of the enterprises (even in Yugoslavia) can be deprived of their rights of disposal under certain circumstances (excessive deficits, insolvency, etc.). So there is a limit, too. In my opinion, this separation can only exist and develop as a *process*, but can never be completed.

Will Tibor Liska's model change the picture? I am not quite certain; I live far away from Hungary. However, looking at the picture from the above-mentioned theoretical framework, I am inclined to think that its applicability will be rather limited, though, of course, it will be quite effective in some fields. In spite of my full admiration for Liska's innovation, I am still skeptical about its general applicability in so far as his model is based on the existence of a free market, real monetary relations and freedom of competition between enterprises which so far has — and in the near future will have — very little to do with economic reality.

For one thing, not even a common market has been introduced yet in CMEA areas; the CMEA "market" remains on paper. (Or does it exist on Baross Square near the East Railway Station in Budapest?) Introduction of a common market into CMEA trade relations might change the picture a little, but even without this, market competition in a small-sized economy has to remain rather limited.

f) Last but not least, we have to reaffirm that excessive regulation (over-regulation) with the use of administrative as well as parametric methods tends to reduce greatly the vitality of economic units in both capitalist and socialist economic systems.

Here again we have to recognize the common truth that there is no pure solution; only a mixed solution is possible and workable. How this mixed solution could be designed I do not know; it will be solved in practice through trial-and-error in the years to come.

But it may be said that a differentiated approach to sectors or branches of industry, according to their importance and nature in the national economy, might prove to be effective. For instance, three categories might include: (a) basic industries, where fairly centralized administrative methods are to be applied (though, of course, efforts should be made in order to make possible the use of indirect instruments); (b) the majority of branches of industry, where application of parametric methods together with the greatest possible "separation" of management from ownership, is to prevail; and (c) branches of minor importance, where free market relations are to prevail with the encouragement of private initiative.

My idea is in some sense similar to that suggested by Alec Nove, who advocated the following structure:

1. State enterprises, centrally controlled and administered (centralized state

corporations).

2. State-owned (or socially owned) enterprises with full autonomy and a management responsible to the work force (socialized enterprises).
3. Cooperative enterprises.
4. Small-scale private enterprises, subject to clearly defined limits.
5. Individuals (e.g. freelance journalists, plumbers, artists).[9]

Nove suggests quite interestingly that, with respect to the second category, the state would have a "residual responsibility" only in proportion as an enterprise is state- or socially owned; this is the only difference between categories 2 and 3 (cooperatives).

Whatever kind of mixed system may be introduced, two things seem to be quite certain. One is that, although allowing an increased part to be played by the private and semi-private sectors (the so-called "second economy") can undoubtedly contribute to the improvement of the economic situation and to alleviating economic tensions in particular, it cannot by itself solve the crucial problem of a socialist economic system. The state sector remains as much a main field of battle as before: how to make it efficient and competitive remains a question unanswered even in the Hungarian type of economic reforms. The other certainty is that a hybrid system is not easy to run. The mere adoption of reforms does not ensure the system's effective operation, and it is not at all free from social conflicts and contradictions. In this connection, I would like to emphasize again the increasing importance of political systems, since when some kind of mixed solution is introduced the divergent interests of social groups, hitherto suppressed, will come to the surface, thus requiring a more effective political system for their adjustment or mediation.

There are some signs of positive changes even in the Soviet Union; the so-called "Novosibirsk Memorandum," which has become available to Western sources quite recently, advocates, in general, changes in a similar direction. Of course, we cannot be optimistic. There are quite a few obstacles in the way of the introduction of genuine economic reforms. There are political obstacles — vested interests which have been established during the eighteen years of the Brezhnev era, and difficulties with and fears of introducing and running a new system, which, as I have already pointed out, are in no way easy. And there is super-power rivalry, which does not favor the introduction of genuine reforms inside the country. The most crucial problem is that deteriorating economic performance as well as unfavorable conditions for growth create the need for a genuine reform that far outstrips the 1965 reform, and that conditions for the introduction of such a reform are not as favorable as they were in 1965. I can only say we have to wait and see: "*posmotrim.*"

9 Alec Nove, *The Economics of Feasible Socialism* (London: Allen & Unwin, 1983), p. 200.

Comment

Jerry Hough

This is a very difficult paper to discuss because Sato has presented such a balanced and accurate picture of the changes that are occurring. I agree with him that something essential is taking place. I agree that essential change will be very difficult. I agree in particular that he is right in emphasizing the conflict of market reform with the socialist egalitarianism and values and the popular support for paternalism that exist in the system. It is precisely because the present system, while very popular, gives rise to unpopular consequences that change is so politically difficult. I agree that the final outcome will be a mixed economy of some kind.

It seems to me also that Sato is correct in his opinion that the process is going to be very difficult for us to understand, because there is going to be a real effort in the Soviet Union and in Eastern Europe (in a sense) to confuse form and substance. The East Europeans, of course, do not want to claim deviation from the Soviet Union so if they make a change they want it to be quiet. The Soviet Union does not want to say that it is learning from China. That is the last thing that they will admit. Of course, as Besançon says, there is a continual desire to keep things within the ideological framework. Thus this is going to create great difficulty for us. In the Soviet Union, for example, Andropov has talked about movement to a single form of property in agriculture in which the agro-industrial complexes (*raionnye agropromyshlennye ob'edineniia* — RAPO) are combined. The new district administration, the RAPO, centralizes the administration at that level and may lead to restriction of the independence of the collective farm. Yet at the same time they speak of increasing farm independence. The Politburo has approved the collective contract, the *podriad*, with brigades and links, as Sato has said, and the meaning of all this will depend not on the general words, but on what actually happens. If the brigade is large, thirty to forty people, then very little will change. If the brigade is voluntary, as they say — if the brigade has five or ten members — then, in practice, family and relatives will form the brigades and there will be a form of family farming. Indeed, both of these developments are taking place in the Soviet Union. In some places they are small; in some places, large. There are debates on whether there should be family farming. If the RAPO has the ability to prevent all collective farms' independence, then the collective farm can give no independence to the brigades whatever their size. If the brigades are given independence, then they will undercut the authority of the RAPO. Basically, what this means is that to understand what is going on we are going to have to study it at an extremely detailed level and figure out not what the words say, but what they mean.

As I try to comment on the paper as a whole, I find myself in a very difficult position, precisely because I am a political scientist and not an economist.

Moreover, I am a specialist on the Soviet Union and not on Eastern Europe. Thus, I do not have the breadth of background knowledge of Sato. It seems to me that there are several perspectives. First, if the perspective is a broader, theoretical one, as his title suggests — possibilities for and limitations to a mixed economy in socialist planned economies — my inclination would be to ask an even broader comparative question than he indicates. And by and large when we discuss the possibilities of reform within socialist systems, we ask about the different experience within countries that we call socialist. But, of course, there are many mixed economies from the other side as well. I suspect that a country that we consider feudal such as Saudi Arabia might have a higher number of nationalized industries than some countries that we consider socialist. To manage them is an interesting problem.

But even within capitalism there are very interesting combinations of market mechanisms and administrative control. For example, the giant multi-national corporation poses very interesting managerial problems. The director of a Toyota assembly plant, of a Sony television assembly plant, probably has less independence than a plant manager in the Soviet Union. The plant manager at Toyota cannot affect the prices of his goods. He cannot negotiate with labor, nor can he change the product. These decisions are made high in the corporation, not at the plant level. But somehow Toyota and Sony manage to achieve technological innovation and high quality production at the plant level. It seems that the techniques by which the giant companies function should be of interest to someone concerned with the evaluation of the best methods of planning and decision-making in a socialist ministry. Are there studies on Japanese corporations and plants? Do they have relevance for the techniques of decentralization in controlled socialist economies as well?

There is a second perspective that is even more interesting to a political scientist studying the Soviet Union. The question is whether the Soviet Union will be able to achieve a major economic reform, and how a socialist or mixed economy can be made to function better. For a political scientist, the more crucial question is: Will they attempt reform? If so, what are the first steps they will or must take? And finally, what are the foreign policy implications? In terms of 1983 and 1984 policy it seems to me that it is not so important what the reform will look like in 1990, but whether their attempts to create reform will change foreign policy this year. My feelings on this question are that they must attempt reforms. It is important that they try reform, and that they try to take some steps. In this sense, 1983 is very different from 1965. In 1965 there was high growth. In the 1960s the post-war babies were coming of age; there was a labor surplus, not a shortage. In the beginning of the 1970s they received the benefits of increased oil and gold prices, and of easier credit in Western Europe. But now in 1983, all of this is reversed. Although reform will be more difficult, the imperatives to try to make reforms are greater now. I begin my analysis with precisely the point that Sato emphasized: the first steps as I understand them will be politically very difficult. That is, they must raise consumer prices; they must

move away before they can be centralized. They must begin to break the paternalism, which in a sense is one of the first steps, not one of the last steps. They must move toward more egalitarianism, introduce some job insecurity — although a Japanese would have a different view than an American as to whether job insecurity is good for productivity or not. It seems to me that all these are going to be politically painful. And it has implications for their budgetary policy. If they are going to ease the pain, they must divert more resources to the consumer sector. This is much more difficult if they are increasing the military budget. It is much easier to take the painful steps if they can divert military money to the consumer sector. My inclination is to think that if they are going to be forced to at least try reform, eventually they are going to be pushed in some of these directions. The second imperative of economic reform is greater integration of the Soviet economy into the world economy. This is extremely difficult, but the need to move toward extrovertedness of enterprises, as Sipos says, seems to mandate an attempt to provide local producers with more meaningful competition from imported goods. There needs to be more international cooperation of the type seen in other developing countries such as agreements with multinational corporations to produce component parts for their products in exchange for the importation of finished goods. But again, these kinds of integration into the world economy are directions in which they are going to have to go. This is all very difficult without the development of a relaxed political relation with the outside world, particularly the capitalist world. We cannot assume that the Soviet Union will abandon its basic interests if we make economic relations dependent on Soviet abandonment of the Third World movement. We will not be successful and we will strengthen extreme nationalist forces as Katsenelinboigen fears. It seems to me that if the West handles the situation skillfully the consequences of these first steps will be that the Soviet Union will become somewhat more flexible and accommodating in its foreign policy. Whether I am right or wrong in these specific analyses, it does seem to me that the first steps of economic reform are very important to the outside world. I would be very interested to hear Sato's opinions about what steps he thinks will have to be taken first — and whether there are implications for foreign and economic policy.

Comment

Aron J. Katsenelinboigen

It seems to me that what I have read and heard is an excellent and very correct paper. It gives a picture of the situation in the so-called socialist countries. The problem of a mixed economy, the major subject of the discussion, is a general political-philosophical, political-social, and political-economic problem. I imagine we will always have mixed economies. What I believe to be the problem of develop-

ment is how to enlarge the number of structures, to introduce new structures, and then to find the proper proportions between the different structures in accordance, on the one hand, with the values of the leading forces in the countries, and on the other hand, with the possible ways of satisfying these values. That is why the problem is to what extent the variety of structures which exists now in the Soviet Union and in East European countries is sufficient to fulfill the goals which the societies seek. It is necessary to introduce new structures, to enlarge, and to change their proportions, and eventually also to make all structures consistent with one another. This is the next aspect. Let me immediately give an example to clarify what I mean: consider the Novosibirsk Memorandum, which you have mentioned. It is a very good example of the inconsistency of ideas inside of one structure because if you try in the frame of a centralized economy to deconcentrate power and to give more possibilities and more flexibility to an enterprise, I think you have to start from the centralized part. If you don't, everything which you have tried to do for the enterprise is for naught. This is the first problem.

The second problem concerns the ethical problems, the philosophy of paternalism: who will be responsible for the failures; what will we do with unemployment? The problem is immediately reduced to that of property. It is very easy to destroy any kind of decentralized property, but not by chance. That is why when we are dealing now with the second problem — with the enlargement of the set of structures which could bring an answer to the problem of what to do — we face problems of social economic institutions which were destroyed. And it is enormously difficult to revive them.

Immediately related to this is the problem of integration of the whole variety of this voluminous property. And I completely share your opinion that we could not solve all these problems with a certain political mechanism. That is why I think the discussion concerning the economic problems could go in two ways. One way is to ask scholars to devise the best solution; the other is to create a mechanism by which the system can generate a variety of suggestions, choose one, and later change it if it is going wrong. I think the scholars' role is to apply their ideas to such a mechanism, but not to claim that one or another is better. Whether I could be an admirer of a certain mechanism doesn't matter. My contribution has to be to the pluralistic mechanism of acting.

This brings us again to the crucial problems: how can we revive, how can we establish in the socialist countries a pluralistic mechanism which can solve these problems. Why am I so sensitive to all these things? I believe it is because we have to understand immediately the differences between the economic reforms of the so-called East European countries and those of the Soviet Union. It seems that discussion concerning economic reforms deals mainly with the industrial and agricultural spheres of production. But for large countries like the Soviet Union, the United States, and Japan, the crucial problem is research and development. I think the economists emphasize organizing these spheres of production too much. But the large countries, first of all, face the problem of how to deal with R & D, and with pioneering in it. Because large countries for many reasons cannot go the

way of other countries, they have to have their own pioneering ideas. Perhaps this requires an entirely different vision on the necessity of organizing the entire economic mechanism, the entire political mechanism, particularly in the sphere of production, from the point of view of looking for an opportunity to develop pioneering ideas. People could say "but few people are involved in this; the expenses are minor." But that is the whole trick: for the sake of these tiny parts of society we have to spend the resources of the whole society and to subordinate it if we really want to have new avenues for development and to have an opportunity to deal with the spectrum of problems which mankind will face after he solves — let me be very optimistic — some of the more immediate problems of this earth.

That is why from a broader point of view, if we look respectively, we have the same problem in economics that we had in biology for many years. And as biologists suffered from misunderstanding of their ideas so do economists. What do I mean? What was the major paradigm in biology which until recently was shared by the overwhelming majority of biologists? Changes are determined randomly; mutations occur by chance. After that the mechanism of selection was concentrated on; and after that, the problem of inheritance ensued. It may be a very primitive scheme, but exactly the same paradigm was repeated in economics: it doesn't matter who develops new ideas; this is random, by chance, and we do not have to pay attention to this problem. But the misunderstanding of the crucial role, of the increasing role, of ideas, and of the production of ideas is now becoming perhaps the major obstacle to the solution of many of the problems faced by mankind. I may be looking too far ahead. But biologists have begun to radically change their opinions, and to realize that change cannot be completely explained by random mutation. They do not exclude it but they understand that there are much deeper problems. I guess the economists will also come to this. This realization led the biologists to change their whole way of looking at the organism. This brings new hints to the problem of cancer. The new ideas which are coming now are coming from a complete revision of the ideas of random mutations. This could help man to understand how a body develops.

The same thing applies to human beings and to society. The whole idea of mixed economy is related to the problem of ideas, production of ideas. Why? Because in the production of ideas you could not have one source of financing. Pluralism is a requirement which does not have an analogy in the sphere of production. In the sphere of production I could imagine a monastic system which could be very sophisticated and organized. But in the production of ideas I could not do it for one simple reason: in the production of ideas I deal with unexpected outcomes; in the process of manufacturing, I deal with risk. The philosophies are so different. The concept of unexpected outcomes requires pluralism, and pluralism requires a variety of sources of financing. Thus the whole sphere of production has to be oriented to satisfy the need for pluralism in the sources of production.

Finally, I want to make some minor technical comments. In my mind it is a simplification to equate the problem of management in a large corporation with that of management in a centralized system — for a very simple reason. A corporation is

different from a centralized system, not from the point of view that both have managers but from that of by whom the manager is appointed. Who is responsible for the activities of the manager? That is the crucial point. That is why we must be very careful with the similarities between the two. And again this is reduced to the ethical problems of property and all the things Sato discussed.

I also want to say something about a technical problem about money, about the idea which Kornai so well elaborated: "soft money." It seems to me that in the so-called centralized economies the crucial point is not the problem of "soft money" but that of what I call "sectoral money." By "sectoral money" I mean that the Soviet manager does not have the right to spend money in a versatile way; there are constraints. He receives an estimation and he has lines. And he can spend money only to the limit of every line. He does not have money in the way that the Western manager does; he does not have the right to shift money from one line of estimation to another. I think that the major problem which is arising now concerning money is that of "sectoral money." Can it be avoided? The Soviet manager cannot spend an additional few thousand roubles earmarked for one line, salary, to save maybe 100,000 roubles on another line, materials, because he cannot shift money from one line to another. I myself tried to introduce with Kantorovich a new system of planning in one factory and we succeeded, but we could not implement it because we required a little bit more money to pay the people. We could have saved hundreds of thousands of roubles on materials, but we could not do it. This is why it seems to me that "sectoral money" is a major problem. But this is a minor technical problem, which I introduced only to stimulate the discussion.

Discussion

Friedberg said that in the Soviet Union choices must occasionally be made between economic desirability and some compromise of a quasi-ideological nature, and it is economic desirability which is sacrificed. He recalled a letter from the Soviet Central Committee to Tito which had asked how one could forget the words of Comrade Lenin who said: "Small holding peasantry gives rise to capitalism daily, hourly, spontaneously, continually and on a mass scale." This is obviously a political rather than an economic argument. At that time no one had disputed the fact that quite recently in many parts of Eastern Europe as evidenced, for instance, by Hungary, or even by Poland, small holding peasantry had produced more or less adequately. Sipos disagreed, and stated that what Friedberg described had taken place more than twenty years ago. Friedberg said that people had asked him in his session why Soviet authorities do not just publish those books for which there is demand. Ultimately there was no other explanation than that although economically it makes more sense and culturally it makes more sense, politically it makes less sense. And the decision is made in favor of politics.

Besançon pointed out the necessity of intensifying the incentive system as part

of the process of economic reform. The improvement of the incentive system is demanded in capitalist countries, too. There exists a very serious contradiction between the introduction of a more rational economic system and the maintenance of the party's prestige in the Soviet Union.

Mochizuki argued that the Soviet economy is not as weak as people suppose, because the USSR seems to have the ability to keep the rate of growth between three and four percent, which in comparison with other countries, including capitalist ones, is not bad. Every country has its own weakness; we should not make an exception in the case of the Soviet Union. Mochizuki agreed with Katsenelinboigen in emphasizing that the political sphere is more important than the economic one for improvement of economic mechanisms. He told of his own experience in Moscow a few years ago in which to his surprise he had found that young economists cannot make training models of the Soviet Union due to insufficiency of statistical data and had instead been trying to make models of Japan or America. Considering the rapidly developing information revolution, he said that we cannot help guessing that such phenomena as the inconvenience of using copy machines and even typewriters are preventing not only the natural sciences but also the social sciences and humanities from developing as quickly as they could.

Nonomura said that according to Sato's paper there is no hope for the socialist countries. He wanted instead to support Hough, who had said that we must look for a way to make the socialist countries better. Speaking about Mochizuki's argument, he said it is nonsense to mention the rate of growth of three to four percent. The real problem in the Soviet Union is to find a way to manage the economy more effectively. In this respect Sato had shown the very small first step for improving socialist countries. As Friedberg had suggested that there had been a conflict between the Soviet Union and Yugoslavia in 1948, Nonomura produced an example of Soviet authoritarian economic policy — though not one of self-management — from a document about that period that had been assembled by a research institute in Britain. Yugoslavia had been able to recover from that conflict and to establish the workers' self-management system. However, in Nonomura's view, the result of Yugoslavia's economy cannot be evaluated now. But it has demonstrated a new type of political-economic system to the world, one which will be tested by history. He was not sure whether it will work or not, but it may be one way to improve the efficiency of the Soviet economy.

Tanaka agreed with Sato that the political factor and parametric method are very important for the reform of the Soviet economy. However, he said that we should not rely excessively on the parametric method, because it can be used in quite different ways, i.e., either efficiently or inefficiently. This means that even with the parametric method there is room for vertical negotiation which becomes a hotbed of bureaucratism, but also that at the same time it can be used very effectively. Tanaka also agreed with Sato that there are some contradictions between the efficiency principle and the ethical principle in socialist economies, as Kornai had pointed out a few years ago. With regard to distribution principles Sato's comment on paternalism and the one big bowl principle in China had not satisfied

Tanaka because in Tanaka's opinion the distribution principle in socialist countries is going to be developed in the following ways: (a) individual versus collective distribution principle, and (b) distribution in proportion to input of labor versus distribution in proportion to output of labor. And in his opinion, these changing practices should be investigated thoroughly.

Iwata explained his idea, using a triangle on the blackboard. According to his theory, we should use as ideal types three pure concepts, symbolizing three pure economic systems — free market (capitalism), command economy (Stalin's economic system), and the worker's self-management economic system (the Yugoslavian model) — instead of the ordinal concepts used in comparative economic system theory — plan versus market, etc. Each economic system has its own type of cyclical process (production, allocation of production factors, distribution of products and the use of final products — accumulation and consumption) in economic and cultural life. For example, in production, in each system there are free competition (the market mechanism), a planning mechanism and a third mechanism; in ownership, private ownership, state ownership, and social ownership; in management systems, private management, state management, and self-management; in axiology, freedom, equality, and fraternity ; in allocation of goods, exchange, redistribution and reciprocity; in family relationships, husband and wife, parents and children, and brothers and sisters; and so on. Each real country, for example, Japan, the Soviet Union or Yugoslavia, is located at a suitable point inside the triangle according to the extent to which it has each of the above-mentioned pure elements.