

From Central Planning to the Market – The Soviet Experience

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The Origins of Central Planning

The system inherited by Gorbachev and which he set out to overhaul remains in essence broadly similar to that forged by Stalin in economic and political conditions very different from those of today. The priorities of a newly launched political system warranted a vastly different set of rules to consolidate its position. At its initiation Socialism had to contend with a civil war at home, and a threat of invasion from abroad. The Soviet war economy turning out tanks and guns was fashioned to meet this immediate threat-particularly the fascist bid for power.

The years between 1928 and the end of the Second World War were the crucial formative years of the Soviet system. Spurred by the need to consolidate the revolution, wipe out all fears of external aggression, and crush internal opposition, the political apparatus most suited for the purpose was a depoliticised heavily centralised state apparatus.

Stalin had no blueprint for the type of society he wanted to create. The need of the hour called for a strong hand and the evolution of strong centralised state apparatus capable of quick results to achieve his ends. A decisive factor at issue was the need for a fast and effective industrialisation programme to build up the Soviet military prowess to withstand any counter-revolutionary forces. In the economic sphere the method evolved was State economic direction-Central planning.

The crisis in the Soviet economic system arose as a result of the very aspects that were de-emphasised under the Soviet central planning system - until the reforms of Gorbachev - the market element. Central planning designed for survival in a complex set of historical circumstances became the prime motor force of the system. But considering the fact that central planning was evolved to meet the very different priorities in the initiation of a new

ideological system, to expect it to perform in the entirely different socio-economic context of the late 80s and 90s would be too much to expect from central planning. By then the practices and working rules of central planning had become anachronistic.

Planning unable to perform

The following quotation from K. S. Karol in an article titled 'Gorbachev and the dynamics of Change' illustrates some of the paradoxes of Brezhnev's Russia; "everyone had a job, but no one really works, no one works themselves to death but the plan is always completed and exceeded" production targets are met, but you never see the results in the shops; there are still shortages - but no one goes hungry or naked; everyone eventually finds a way to go slow at work, but no one is happy as a result.

The decline in Soviet productivity had already started by the late 70s. Between 1966 - 70 and 1981 - 85 the annual average growth rate declined from 7.8% to 3.6%. According to the Soviet economist Abel Aganbegyan these figures have been recalculated using a more realistic index and he has come to the conclusion that there was negative growth during the period 1981 - 85

The flaws of economic planning in "actually existing Socialism" in the Soviet Union.

The rusty planning mechanism of "actually existing Socialism" made the wrong economic policy choices. A tenet of Soviet economic planning was the emphasis on the expansion of capital investment - particularly new plant and equipment at the expense of consumer goods. Replacement of existing plant and equipment was replaced annually in the Soviet Union and this partly accounted for its dwindling growth rates. According to the Soviet economist and Deputy Prime Minister Leonid Abalkin it would take 40 years to modernize Soviet industry. This meant that inefficient obsolete equipment continued to dominate

the structure of Soviet industry.

The need for an economy more complex and sophisticated rendered a crude dictation from the top, counter productive in an era of computers and the microchip. An advanced sophisticated economy could not function without the rules of the market. Foreign collaboration in the installation of sophisticated turnkey projects and the techniques of integration into Western markets - all needed well functioning market relations which were for the greater part excluded from decision making under central planning. The crude Command system had outlived its usefulness.

In assessing the reasons for falling productivity in the Soviet Union, little attention is often focussed on the Western attempt to shut out sophisticated technology from the Soviet Union. A treaty passed in 1949 forbade Western nations to sell sophisticated technology to the Eastern bloc. This would have had serious repercussions - blocking Soviet technological advances and shutting out the effects of the 3rd Industrial revolution taking place in the West.

Some highlights of Soviet Central planning

In spite of the negative aspects of central planning trends in trade improved appreciably. There were quite a few joint collaboration ventures with both the West as well as the Third World. Some very profitable trade deals were also negotiated with the West around the 70s.

Since the Soviet Union formed an interdependent trading bloc - the COMECON I have been looking at trends in trade in the Eastern bloc as a whole, rather than at Soviet trends in particular.

Looking at these trends in international trade it is seen that East West trade has grown appreciably since 1953. In the late 60s and 70s the following tendencies have been particularly marked. East-West/South trade was 32 - 35% in 1974/75. Between 1953 and 1967 whilst intra-socialist trade grew at an annual average rate of 6%. East/West trade grew at 130% and East-South trade at 16% a year.

With certain exceptions East/South industrial agreements ranged from simple licensing and export of turnkey projects to foreign investment in Third World states. By 1975 Socialist states had completed or were imple-

menting 2900 industrial and other projects in developing states and had extended 11 billion rubles in credit.

What Gunder Frank calls "transideological enterprise" has been growing around the 70s. Xerox has in the 70s been using components manufactured in the Soviet Union for incorporation into equipment sold in the West. Exports of the Soviet Lada increased during the period. When the 'Moscovitch' the Soviet motor car went out of production they looked to the West for joint collaboration to produce a replacement to be marketed internationally.

Some attractive deals were clinched under Central planning. Part of the butter which the USSR purchased from the Common Market "butter mountain" at half price was re-sold to Allende's Chile at the full world market prices and more importantly in dollars. Perhaps the most widely known example of recent Soviet competition in world markets occurred when the Trans-Siberian railway in spite of a decline in world shipping, carried 20% of the Japan/Korea - Western Europe ocean freight traffic. It must be remembered that this was accomplished at 25, 50 and even below 50% below other freight fares and with fast delivery.

In a period of increasing stagnation, the pressures made on the system changed and sharpened

In a period of increasing stagnation, the pressures made on the system changed and sharpened and the system could not withstand them. To generations who have not known pre-revolutionary famine, and brought up on free education and free health services as a matter of right, these amenities are no longer exciting. Soviet citizens no longer talk of the evils of capitalism on the contrary they are dazzled by its flashiest aspects.

Social consumption - what Socialism originally stood for, deteriorated to low levels and was not uniformly spread in different parts of the country. Problems of poverty, inadequate housing, and regional underdevelopment surfaced and were accentuated during the stagnation years. In Central Asia levels of medical care were extremely low. According to Birlik a reform movement in Uzbekistan 50% of the villages in the Uzbek Soviet republic have no running water and 93% have no sewers. In Turkmenia more than 60% of the maternity hospitals have no running water.

Fed on Socialism Soviet citizens are making newer demands on the system - cultural alternatives, differentiated consumption, demands for politicization, access to information - features unfamiliar to or outside the theory and practice of central planning. Demands such as those for increasing politicization gnawed at the very foundations of a highly bureaucratic top down Command structure.

Whilst social contradictions accentuated making demands on the system, new kinds of aspirations for the goodies of Western Capitalism - hitherto unknown were also making demands on the system. These, new demands for politicization also made themselves felt. The aspirations of Soviet citizens no longer matched what the system was in a position to offer.

The Bureaucracy - a barrier to Perestroika

Between Gorbachev and Perestroika was the oppressive bureaucratic structure, strengthened by the single party state, and acting as a protective shield against change. The Stalinist system had entrenched the bureaucracy in seats of power and it remained jealously safeguarding its privileges - the prestigious jobs, the dachas, the special shops, the sanatoria and even special laundries. To the elite who ran the Soviet Union for 73 years the market economy would spell disaster. It would mean the axing of the greater part of the bureaucratic network.

As far back as 1953 with the death of Stalin it was felt that the system needed an overhaul. The play of factions within the ruling elite brought to the surface pressures for reform. Khrushchev's half measures of reform in the 60s angered the apparatchiks who toppled him when their interests were threatened. Kosygin's attempts at reform did not meet with success. The man picked to replace Khrushchev - Brezhnev had to give an unwritten pledge never to touch the interests of the privileged. Hence weakening the bureaucracy though a necessary condition for Perestroika, was no easy task. However it was clear to Gorbachev that the task of introducing market reform depended on weakening the bureaucratic system. How was this to be done?

The answer lay in an enter-twinning of Glasnost and Perestroika. To weaken an institution it must be criticised and exposed. The general air of Glasnost exposed all Soviet policies and institutions to inquiry and debate. Scholars debated questions such as how to get the economy on the fast track. A critical evaluation was made of the planning system. Glasnost exposed the darker side of the Communist Party, and subjected high government officials to criticism. This intellectual ferment helped in tearing down the barriers within which these apparatchiks shielded themselves - exposing the flaws of their planning mechanism. This, together with the crisis in the Soviet economy the time seemed ripe for Perestroika.

Out of this milieu Gorbachev selected the leading men of his brains trust - preparing the grounds for radical political and economic changes. The new breed of reform minded bureaucrats include Abel Aganbegyan - the architect of Perestroika, and the more radical

Professor turned bureaucrat - Shatalin advocating a short cut to market reform as well as Abalkin and Ryzhkov.

Central Planning - a major element in Soviet productivity decline

What suffered out of the ferment of Glasnost was the thinking that Soviet central planning was an important factor in Soviet productivity decline. But the problem in this revolution from top, as in all revolutions is to determine what to put in its place - whether to adopt Shatalin's short cut to the market with its crash privatisation programme or to take to Ryzhkov's cautious retreat from Socialism.

The Shatalin plan - the 500 day timetable meant a de-regulation of prices for 80% of goods and services excluding essentials such as bread meat and oil, and a majority programme of privatisation within a 400-500 day period. Shatalin insists that his plan envisages a transition period of one year when price controls for essentials and unemployment benefits will be maintained in order to cushion the consumers from the effects of price reform. Under the Shatalin plan the greater part of the public sector will come under the axe. Shatalin's proposals are a radical programme for re-structuring the Soviet economy.

The Ryzhkov plan - the last hope of the apparatchiks - proposes to introduce some market reforms, sharply raising prices but the basic levers of administration remain untouched.

A short cut to the Market

It must be understood that the form of Market reform adopted in the Soviet economy remains heavily weighted towards a radical reform structure. The crisis that gave rise to Perestroika has shown no signs of abating. It has in fact worsened. The marketization has been conceived in a mood of desperation, as a last resort to resolve the crisis at all costs and rescue the economy. Marketization at this level may mean a quickening of the pace of reform - a painful road to the Market - beset with adverse social consequences for the masses.

Some issues in the transition to market reform

In the Soviet system the plan excluded the market forces from operating within the greater part of the economy. As the institutional framework required for the journey into the market was absent it had to be built into the Soviet economy. The elements of market practice - a well functioning private banking system, a legal system encompassing the law of private property, a simplified system of regulation geared to private enterprise had all to be introduced into the Soviet system.

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One of the main factors in the transition to market reform is the role played by the Soviet republics. Republic after republic is declaring itself independent. The relationship of the republics to the centre, the powers devolving on the republics, the question of independence for the republics - are all crucial issues that will determine the effective application of market reform. Four different plans are presently under consideration among parliamentarians and the governments of the 15 republics. The Shatalin plan offers a uniform programme for the republics in giving them the responsibility for managing their economies whilst the central government acts as a co-ordinator. Until some of these political issues are resolved, even if a uniform programme of reform is agreed upon, the nature of market reform and its uniform application in the Soviet Union will remain in the balance.

Meanwhile some of the painful effects of the initial stages of the transition to market reform are being felt in the Soviet economy. Subsidies are being slashed. Price controls remain only for bare essentials. Attempts are being made to run the economy according to profit considerations rather than by the plan. Leasehold agriculture is replacing the collectives in a big way. But with the existing labour shortages and the disappearance of the Command system students and workers who worked in Collectives no longer do so. Gorbachev recently accused farmers of withholding grain from the state and ordered local officials to wrest it by force.

It is now possible for Soviets to buy their private plots but the economics of private farming deter most interested farmers. Transport and farm equipment are hard to come by and the lack of an effective marketing organization - all institutional drawbacks inherent in the existing Soviet system, discourage the switch to private farming.

As pointed out earlier, one of the prime obstacles to economic reform has been the Conservative element in the Soviet bureaucratic structure who oppose reform because their interests remained threatened by Perestroika. The sharpening of the Soviet economic crisis could in large measure be attributed to their attempts at sabotaging radical programmes of market reform. The Soviet Union has had a record harvest this year but no food is available in the shops. Large stocks of grain have filtered underground into the blackmarket and in other devious ways with the prime objective of creating a scarcity in the shops and discrediting Gorbachev's Perestroika. The dangers of bread shortages are critical for the Soviets. It is said that the Bolsheviks owed their victory in 1917 in part to bread riots - winning people's hearts with the slogan "peace land and bread". To meet the food crisis Gavrill Popov - The Moscow mayor called for soldiers to man the city's bread factories temporarily in order to meet the crisis. There were fears that the West's attempts to distribute food aid in the Soviet Union would meet these same obstacles and prove counter productive.

The bureaucratic obstacle may be just one of a complex mix of obstacles to market reform, but it shows some of the immense problems which Gorbachev faces in his ambitious experiment.

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