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Succinct statement of DI views on econ reform

Briefing of the DCI
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COMMUNIST ECONOMIC REFORM
(13 Reforms in 10 Minutes)

At the latest count, seven of the European Communist countries are engaged in reforming their economic organizations. These are East Germany, Poland, Hungary, Czechoslovakia, Bulgaria, Russia, and Yugoslavia. Those missing are Rumania and Albania, two countries which have made a hobby of being different. This wave of reforms is almost like a fad. It's fashionable in the Bloc to have an economic reform. Thus Bulgaria is growing steadily at 9 percent a year and had no pressing need for reform. On the other hand, in East Germany, Czechoslovakia, and Russia, the motivation for the reforms was a painful slowdown in economic growth in the 1960's. First East Germany announced a reform in 1963, Czechoslovakia in 1964 after a decline in GNP in 1963, and the USSR and others followed in 1965.

The reforms in the various countries are quite diverse. A common theme in all, however, is a conscious attempt to reduce the degree of central control, and less consciously to make use of price and profit incentives. These economies have been called command economies. The

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government not only owns nearly all the land and capital, but also has tried to direct economic production in detail. They have been run like armies, the central control organs issuing orders through intermediate levels to producing enterprises as to what to produce, and how to produce it, and to whom to distribute the product. The result of this excessive bureaucracy was a very obvious waste in all the countries -- poor quality goods, which could not be sold, excess labor, underutilized machinery, prolonged periods of construction, etc.

As long as economic growth was rapid, the Communist leaders ignored the waste. Whenever there were economic problems, the governments have attempted to reform.

The current reforms are only the latest in a succession of "reforms." The first was the Yugoslav reform in 1950-52. Then came the Polish "new economic model" in 1957, following the uprising in 1956. Also in 1957 was Khrushchev's famous industrial reorganization. He attacked the problem of overcentralization by abolishing the industrial ministries and replacing them with 104 regional economic councils with a certain amount of autonomy. It was the job of the local Party organizations to keep the regional councils in step with national objectives. The autonomy of the regions did not last long. After a few months it was withdrawn.

The three most interesting of the current crop of reforms are the Soviet, the Czech, and the Yugoslav. The Soviet reform was hailed by an enthusiastic Soviet economist as ranking in significance with the NEP, and the initiation of the five-year plans. The key change is the use of profits and sales to measure the success of the enterprise, instead of physical product, in the hope of lowering costs and stimulating higher quality production. By the end of the year, one-third of industry is supposed to be operating under the new system. But the price reform that was supposed to accompany the other reforms is still in the future. Will the Soviet reform work? Answer, based on experience, no! A similar scheme was tried by the Czechs in an earlier reform in 1958. They found that a profit motive combined with state fixed prices led to the production of the wrong things. In addition, in the USSR we already have reports of ministries overruling actions of enterprises, actions which the reform decrees specifically gave the enterprises the right to do. This illustrates a basic problem which has undermined all reforms so far. The new and old systems cannot work simultaneously. The old, represented by ministries, must be dismantled before the new can take over.

This identical problem has arisen in the latest 1965-66 Czech reform. In principle, enterprises will be guided by profits and free market prices. But in practice only, a very few prices have been freed and the central authorities and the industrial trusts are actively and closely directing enterprises, to the dismay of the reform advocates.

Yugoslavia represents an ultimate stage in Communist economic reform, a model which has influenced all other reforms. In the original reform in 1950-1952, not only were most enterprises given almost complete freedom, including freedom to set their own prices, but the central industrial ministries were dismantled and the central plan and planning organization was severely curtailed. There seemed to be every prospect of establishing what is known as market socialism, that is, a socialism which emulates a capitalism in the use of free markets and market prices and profits as guides to producing enterprises. But provincial and local officials and Party members quickly rushed in to fill the void left by central planners, and an inflationary investment and monetary policy soon led to price controls and more state intervention in a familiar pattern.

In 1965 and 1966 Tito had to set out to reform all over again, to stabilize the over-all price level and to free individual prices, to take economic control away from provincial officials and Party men and vest it in enterprises and banks which hopefully are neutral, objective and non-capitalistic. He has not yet achieved stable and free prices and it looks like the second objective is turning into a purge of the Party, the outcome of which is unpredictable.

We conclude from all this that only a thorough-going dismantling of economic bureaucracies and the substitution of market processes will significantly improve the operation of these economies. And it remains to be seen whether any Communist Party will allow this to happen. The present round of reforms are, except possibly in Yugoslavia, not thorough-going enough to really change the essence of these systems nor to overcome lag in growth. This suggests that this round of reforms is not the last and the next round, as in the Yugoslav reform, may be more radical.

P.S. Would you believe 12 minutes?