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COMMAND ECONOMY IN PRACTICE*

The theoretical premises of the command or planned economy, may raise various arguments and theoretical debates. The value of these arguments may only be evaluated on the grounds of the long term practice of the command system in the 20th century.

1. The Expansion Drive

The major difference between the market and command economies consists in their attitude to economic growth. While it is the purpose of the market economy to increase output if there is enough demand (demand-stimulated growth), in the command economy the economic growth is an objective in itself. The decision-making center always wanted the output to grow. This is what they call the 'expansion drive'. In the market economy factors of production are carefully measured and the marketability of output is seriously considered along with its profitability. In the command system there seems to be no limitation of growth. If the center disposes of adequate political power as well as resources of manpower and investment funds it jumps to a conclusion that everything else is possible. It rarely bears in mind that there is a serious limitation to growth: resources which tend to be over utilized since the whole command system does not pay much attention to the cost and productivity of resources.

At an early stage of its functioning he command economies managed to utilize simple resources in the shape of abundant manpower as well as revolutionary enthusiasm, postwar reconstruction necessities and terror. There-

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fore the overall output was growing pretty fast. Problems started when the ambition to modernize resulted in accelerated creation of fixed assets. The extensive logic of the command economy immediately made the substitution of labor by capital a highly unprofitable operation.

Costs and productivity in command economies can be considered on two levels: that of the national economy and that of an enterprise. A very high capital consumption of economic growth in command economies can be illustrated by a comparison of investment and income increases. For instance, in the years 1970–80 investments in Poland grew by 93% and the GNP – by 69% what means that an investment productivity ratio was 87.6%. The same ratio for Czechoslovakia was 92.9%, Hungary 98.1%, USSR 98.2%, while in the USA it was 105.6%, France 107.5%, Japan 108.0%, Belgium 109.6%, West Germany 111.8%, Sweden 114.2%, UK 114.4% and in Italy 121.4%[1]. According to official statistics, the share of increased productivity in the 1950–1962 growth rate of France was 75%, West Germany 62%, Japan 60%, USA 41% and in the USSR it was a mere 29%[2]. As a result, a similar increase of real wages was achieved in market economies at a much lower price of investment sacrifices. The disproportion would be even higher if the real wages statistics of communist countries were verified. Most probably the official increase should be more or less halved.

Another comparison may bring us into the heart of the matter when the capital productivity in various countries is considered. The ratio of the value of manufacturing and the value of the fixed assets in 1980 was 30.4% in Japan, 27.0% in the USA, 24.4% in the United Kingdom, 22.1% in Italy, 22.0% in the GFR and 17.5% in France. In terms of capital productivity the countries of 'real socialism' were at the end of the world ranking. In the USSR the same ratio was 11.3% and in Poland it was only 5.5%[3].

At the level of enterprise the major criterion of evaluation of economic performance in the command economy is fulfillment of plan targets. The technological progress produces effects after certain time, while its implementation involves problems threatening the enterprise with failure to meet plan targets and consequently with lack of bonuses connected with fulfillment of the plan targets. Bureaucratic management usually had a well mastered system of supply and delivery, technology and personal contacts. A new technology could disturb this tradition, since it required reorganization, adjust-

1 Calculated according to *Rocznik Statystyczny* 1985, pp. 537 and 542.

2 G. Grossman, *Economic Systems*, Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1974, p. 299.

3 Calculated according to *Industrial Statistical Yearbook of the United Nations* 1984, passim.

ment of the labor force, seeking new sources of supply and so forth. This is why implementation of a new technology worsened current performance. Besides bureaucratic conservatism, the low innovativeness of enterprises in a command economy was also due to the free transfer of acquired technology to other enterprises which had not born the costs of its initial implementation. Therefore the spread of new technologies was checked by the unwillingness of enterprises to share the new experience. They did it only under the pressure of upper strata of economic administration. But even more important was that in the command economy the seller's market produced no challenge encouraging improvement of the quality of products and lowering of costs of production. The enterprise management was not awarded because of the technological progress they introduced or because of the decrease of costs or increase of the net income but only if they fulfilled the plan targets.

Economic literature usually mentions two basic sources of economic innovation: demand pull and scientific push. In the command economy none of these factors really worked. The scientific push was only quantitative. It is true that in most communist countries the number of research workers and establishments was higher than in the West. Nevertheless a great part of this potential was not engaged in real research but in administration, while the real research achievements were hardly implemented in manufacturing. It was only in the military field that the technological progress really mattered and was rather quickly applied[4]. The low innovative ability of the command economies may be illustrated by the number of national patents per 1,000 inhabitants. In 1980 this ratio was 0.77 in Poland, 1.22 in Hungary, 2.90 in Czechoslovakia, 3.36 in Japan, 3.74 in the UK, 4.94 in the USA, 6.00 in France, and 13.04 in Switzerland. In 1976 about 45% of all computers in the world economy were used in the United States, 23% in the ECE countries, 10% in Japan, and only 7% in the USSR[5].

The whole difference in the economic performance of both the command and market economies may boil down to this: in the command system the 'expansion drive' makes bureaucratic managements tend to reach the maximum (though not the most efficient) utilization of the existing potential what results in a permanent exceeding of the minimum marginal costs of production. Command economic enterprises usually produce within the interval of

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4 P.H. Dembinski, *The Logic of the Planned Economy*, Oxford: Clarendon Press, 1991, pp. 192 ff.

5 *Statistical Yearbook of the United Nations* 1981, pp. 476–478; *Many Voices, One World*, London: Kogan Page, 1981, p. 130.

the growing marginal costs of production[6]. This observation goes a long way towards explaining why command economies are prisoners of the extensive growth and why they face growing problems when the resources formerly treated as unlimited or free get scarcer or more expensive.

The difference between command and market economies also refers to the investment process. In market economies limitations of the investment demand are usually considered the basic reason for economic cycles. In the command economies the investment demand is hardly limited at all. There are two theories explaining the exceptionally high investment demand in the command economies. One explains it by the pro-investment policies of central authorities, while another concentrates on the pro-investment pressure from below. It seems both theories are right. The investment euphoria of the central authorities can be explained by the way the command economies were created. It was always their desire to create foundations for future power (the Third Reich, Stalin's Russia), so the ambition of the central authorities was to invest in armament production and to erect huge constructions to show the world the power of the system.

The military expenditure in the market economy had fairly positive effects. It increased of the volume of factors of production and the total output via the multiplier effect, while the level of welfare remained unaffected. It also created a moderate inflationary pressure stimulating the market, while the military technology accelerated research and development (R & D). In the command economies military spending created serious problems. Firstly, factors of production were transferred from other areas (for instance consumer goods) without any increase of the overall output (lack of the multiplier effect). Secondly, the total output was not affected. Thirdly, the level of welfare deteriorated since fewer consumer goods were produced. Fourthly, the inflationary pressure due to the military spending created a permanent disequilibrium. Fifthly, there was no connection between the military spending and the R & D in civilian industries[7].

Generally speaking, the decision-making center of the command economy usually did not constraint investment demands of enterprises also because being interested in expansion it did not want to and it was sometimes politically too weak to resist the claims of powerful lobbies favoring investments, while the consumer lobbies were usually politically weak.

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6 J. Kornai, *Niedobór w gospodarce*, Warsaw: PWE, 1985, pp. 362–399.

7 P.H. Dembinski, *The Logic of the Planned…*, *op. cit.*, pp. 184–187.

Another key factor contributing to economic cycles in the command economies is the investment behavior of enterprises. Kornai considered the 'expansion drive' of all decision-makers in this system the basic reason for its irrational investment policy. The 'expansion drive' results from the political nature of all economic decisions, also from petty ambitions of enterprise managements who treat expansion as a proof of their political significance and prestige, as well as from the shortages which force them to accumulate more than they really need[8]. In the latter case it is not new investments that the enterprises management is interested in but rather accumulation of resources.

In the command economy there were no factors limiting the investment demand of enterprises as there was no risk of failure. Moreover, investments were not a cost to enterprises. Investment petitioners minimized their demand in order to receive a favorable treatment in the planning bodies. Once they finally 'got hooked on the plan', as it was called in Poland, they no longer cared for the investment costs, since the already started project were most likely to receive additional funds even if the planned costs were exceeded. As a result, the rule was that real costs of investment projects always exceeded those planned. This led to what was well described in the newspeak term 'overstretch of the investment front'. The excessive investment demand of enterprises was also due to the fact that it was easier to plan the financial side of the investment project than to organize the physical execution of the plan. Therefore various material barriers, such as shortage of manpower, raw materials, transportation capacity and so on further delayed the investment process which resulted in its extreme extension and late productive effects. These phenomena were intensified by the behavior of the upper layers of economic management. While the lower strata of economic bureaucracy were dominated by 'expansionism', its upper strata usually accepted their claims, even if they tried to follow restrictive policies, for instance if they realized the 'overstretch of the investment front' and the necessity to save the equilibrium. The top planning and management bodies usually heard only the loudest cries of powerful heavy industrial lobbies and not thin voices of small enterprises producing consumer goods[9]. All in all, the excessive investment demand in the command economies may be attributed to both the macroeconomic and microeconomic policies.

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[8] L. Balcerowicz, *Systemy gospodarcze*, Warsaw: SGPiS, 1989, pp. 174–175; J. Kornai, *Niedobór w gospodarce*, pp. 268–290.

[9] T. Stankiewicz, *Cykliczność inwestycji w PRL*, [in:] W. Maciejewicz (ed.), *Dylematy rozwoju europejskich krajów RWPG*, Warsaw: UW, 1986, pp. 101–103.

2. Disequilibrium

While it was always an ambition of the engineers of command economies to expand in a stable way, in terms of economic equilibrium command economies have not done much better than market economies. In the market economies output was usually growing more quickly than demand since it was in the interest of business to expand as long as the going was good without regard to increasing wages or there was a common tendency of business to decrease the inclination to invest in favor of the inclination to save in case trouble could be expected, such as growing stocks of goods, stock exchange oscillation and so forth. In post-World War Two capitalism these growth limitations by demand were largely eased by the impact of trade unions and by the government intervention.

Without curing the market diseases the command system has added new reasons for economic disequilibrium. Firstly, there was the command system's desire to build 'foundations of socialism', that is the heavy industrial and military sector which was spending huge sums on construction of projects which bore demand but little supply. While in 1983 the military spending of the United States accounted for less than 6% of the GNP, in the USSR it was about 35% of the GNP and in China almost 17%[10]. Secondly, the 'expansion drive' led to the 'overstretch of the investment front' and delayed increase of supply. Thirdly, the command system had to rely on money in some material balances. Thus it gave enterprises an instrument which they used to defend themselves against the will of the 'center' and to produce things which were comfortable to them and not desired by the 'center'. As a result the forced substitution and supply shortages grew, eroding stability of supply and demand. Fourthly, the unchecked flows of money from one sphere to another caused dysfunction. Since the system was based on fixed prices, the total value of production was determined by quantity regardless of quality. This link between quantity and the accounting value enabled enterprises to produce goods whose accounting value could be much higher than their utility value. This was also due to the seller's market. Poor quality of products and omnipresent shortage resulted in erosion of the command 'market'. Fifthly, for decades the labor productivity was growing more rapidly than real wages, but a great part of the output referred to the heavy-industrial-military complex, while the supply of marketable products – low quality also requiring quicker replacement of these products – always stayed behind. For instance in

[10] *Britannica Book of the Year 1986*, pp. 619–819.

Poland in the years 1950–55 the average yearly growth of labor productivity was 6.0%, while real wages grew by 0.7% per annum, in the years 1956–60 the respective growth rates were 5.8% and 5.2%, in the years 1961–65 – 4.5% and 1.5%, in the years 1966–70 – 4.6% and 2.1%, in the years 1971–75 – 8.0% and 6.7%, while in the years 1976–80 the labor productivity grew by 2.2% per annum and the real wages by 1.9%[11].

On may ask a serious question: if labor productivity stimulates supply and real wages increase demand, all through the years 1950–85 Poland should have faced overproduction. In fact it was just opposite. What made the difference? It was wasted this way or another. As a result instead of surplus supply the command economies face permanent 'inflationary overhangs'.

Another problem for the command 'market' was created by exports. Products to be exported had to meet the external quality standards. Thence they required more care and better raw materials than those for the domestic market which was easier to please. In times of foreign currency shortage everything that could be sold abroad was exported, even at low prices. As a result the domestic sphere suffered not only from poor quality but also from additional, export-induced shortage.

In the socialized sphere shortage was created by the domination of sellers and by the mechanism which forced enterprises to accumulate stocks of resources. In the consumer sphere some goods remained unsold due to their very poor quality. This meant demand increased by wages generated in their production and no additional supply.

3. Utilization of Resources

Market economies are generally blamed for underutilizing manpower resources. In the market economy employment is limited by the size of output and consequently – by the market demand. The market economy has also a tendency to substitute labor by capital. The substitution of labor by capital has an unpleasant social context but also means that as a result of technological progress the cost of the increasingly skilled human labor is generally growing.

One of the ideological dogmas of the command system has always been full employment. This dogma resulted in excessive accumulation of labor

[11] J. Kolipinski, *Diagnoza stanu gospodarki przestrzennej*, „Przegląd Techniczny", 1983, No. 8, p. 17.

reserves within enterprises. Moreover, due to ideological or political reasons, command economies absorbed people who had traditionally been unemployed in the purely market economic sense, for instance women or youngsters. It is difficult to say whether the dogma of full employment resulted from the socialist ideology, from the despotic practices of the early command system in Stalinist Russia or from the fact that labor was always the cheapest resource in overpopulated countries.

From the very beginning requisitioning of labor was a way to treat the enemies of revolution and to find cheap manpower for the huge 'construction projects of socialism'. At the beginning of the Soviet system the freedom of choice for the households – suppliers of manpower to the system – was largely limited. As consumers they could 'take or leave' prices fixed by the government and as workers they could not escape from the system of labor regulation. Consumer goods were rationed in the Soviet Union from 1929 to 1935, from 1941 to 1947, but some of them also in the 1980s. Urban housing, very scarce all throughout the Soviet period, has always been rationed. Peasants could not leave their collective farms for most of the Soviet period, while millions of forced workers have been employed until fairly recently. Even the 'free' workers were between 1940 and 1956 formally attached to their jobs[12].

Labor was the cheapest resource in all command economies. This refers not only to the ill-famed Gulag system of forced labor in Soviet Russia. In the 1970s the average share of labor costs in the total value of industrial output in Poland was about 10%, in 1980 it was 11%, and in 1984 it was 10% again, while in 1937 it was estimated at about 21% and in the highly developed market economies it usually reaches 30%[13]. The significance of these data is more dramatic than it seems at first. Relatively cheap labor in Communist command economies had no positive side. It was very inefficient labor which produced goods of poor quality. Therefore goods produced in these countries could not compete in the world market. Workers were paid very poor wages but were not expected to produce more. As the saying went, 'the government pretended to pay and the workers pretended to work'.

The extensive model of growth, so characteristic for all countries situated east of the River Elbe with all its socio-political effects, most probably lies at the root of creation of the modern command economies. Trying to use manpower which was the cheapest resource, new political elites followed the footsteps of earlier elites. Industrialization of Communist countries was

12 G. Grossman, *Economic Systems*, *op. cit.*, p. 104.

13 E. Skalski, *Praca, płaca*, „Tygodnik Powszechny" 1986, nr 24, p. 7.

based on extensive utilization of manpower and ultimately led to a shortage of labor. As a result of labor requisitioning, decision-makers of the command systems usually reached manpower shortages, even if their economies had traditionally had surplus of economically 'abundant' population. This was, of course, a relative shortage, since fearing the lack of manpower, command enterprise managements usually created hidden reserves of employment, which economists call 'unemployment at workplace'.

All in all, the labor policies of the command economies have resulted in four basic dysfunctions. Firstly, it was a serious over manning and therefore excessive costs of manufacturing. Secondly, it was the disequilibrium in the consumer sphere. Thirdly, it was the public resentment due to the fact that differences in qualifications were not reflected in wage differences. Fourthly, it was a poor labor discipline as the labor shortage leads to labor being remunerated on the basis of scarcity and not productivity. This kind of dysfunctions prevented efficient use of manpower. The sad conclusion is that perhaps this is inevitable if labor is not treated as something that can be valued according to the market mechanism.

The extensive overutilization of resources in the command economies resulted in wastefulness and shortages. At the level of enterprise the overutilization of resources took the shape of a vicious circle of shortage. Since the basic objective of an enterprise in the command economy is not to make profits but rather to minimize risk, then the basic means to minimize risk was to accumulate resources. This led to their wasteful exploitation, overutilization and the growing shortage of resources. Shortages increased the risk of failing to fulfill plan targets what only strengthened the tendency to accumulate resources and consequently aggravated shortages. The excessive demand for resources at the enterprise level was not confined by the decision-making center due to the 'soft budget constraint'. This is why it may generally concluded that the command economy generated excessive demand for resources.

The 'invisible hand' of the market regulates utilization of resources in a more precise way. The mechanism of coordination in the market economy is much more precise than in the command economy due to three factors: the flexibility of pricing, the price elasticity of demand and the elasticity of supply. The flexibility of pricing allows for a rapid adjustment of demand to the available supply. Flexible prices mean that resources in short supply immediately become more expensive. The price elasticity of demand means that such resources will be more economically utilized, of course only by enterprises whose aim is to maximize net income. On the other hand, more

expensive resources will attract attention of producers. Upon receiving signals about the increase of demand and prices they will increase their supply. This kind of adjustment prevents a long-term maintenance of shortages in the market economy.

In the command economies rigid prices and the lack of the enterprise response to the increase of demand ignored oscillations of supply and demand of resources. Resources in short supply did not become more expensive but rather excessively accumulated within enterprises. Even if they became more expensive, enterprises in the command economy would not economize, since their ultimate criterion of survival was not net income but output and minimization of risk. As a result, regardless of its price, the resource in short supply would become even scarcer[14].

Thinking in terms of a seemingly unlimited expansion, the decision-makers in the command economies always reached for extensive utilization of resources exhausting them more quickly than in the market economies. This may be illustrated by consumption of raw materials and power in relation to the value of the final product. In 1970 the US economy needed 0.73 ton of steel and 1.28 ton of conventional power raw material to produce 1 million $ of GNP, while the Soviet economy consumed 1.71 ton of steel and 1.55 ton of conventional power raw material[15]. Not able to economize on resource utilization, command economies faced the growing costs of resources. More and more money had to be spent to secure basic materials, labor, as well as resources, such as water, air, land and so on, which had been treated as free. The reflection about the costs of natural resources came too late, since apart from the problem of other costs, the command economy has destroyed the natural environment. The reaction of the state-owned enterprises to the increasing costs of resources was very weak. A very good illustration of this is a different reaction to the world oil price shock by some market economies and by the USSR. While in 1970 the Japanese economy needed 2.36 barrel of oil to produce 1 thousand $ of GNP and only 1.89 barrel in 1980, the Soviet economy consumed 2.05 barrels in 1970 and 2.54 in 1980[16].

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14 L. Balcerowicz, *Systemy gospodarcze*, pp. 168 and 216–221.

15 Calculated according to: *Statistical Yearbook of the United Nations 1981*, pp. 284–287, 713–714, 726–759; *Rocznik Statystyczny 1985*, p. 537; J.-M. LeBreton, *Les relations internationales depuis 1968*, Paris 1984, p. 177.

16 *Raport o stanie świata 1984*, Warsaw: PWE, 1986, p. 94.

4. The Decline and Fall of Command Economies

After World War Two command economies had their moment of triumph. The prospects of capitalism did not appear to be too bright. Millions of people associated capitalism with wars, business cycles, inequality, unemployment and colonialism. The great advance of the Soviet power, the Communist takeovers in East Central Europe and China, the growth of Communist parties in Western countries, particularly in Italy and France, and the victory of the Labor Party in Britain in 1945, seemed to predict a socialist future. Democratic socialists in the West were looking forward to the peaceful demise of capitalism via the ballot box. Many social scientists predicted a slow but inevitable transformation of capitalism into socialism[17].

In the decades to come the theoretical competition between market and command economies was connected with the political Cold War. Meanwhile market economies transformed while command economies faced increasing troubles. The turning point were probably the 1970s when the oil crisis released new driving forces in the market economies and complicated things for the command economies. The most significant feature of postwar market economies has been the political and economic equilibrium between business, labor and government. This trinity was also supplemented by other social and economic factors. A new 'managerial' ideology developed which, without abandoning the profit objective, stressed responsibility to various goals within and without the corporation, such as employees, customers, general public, etc. Labor seemed to have accepted the existing economic order and moderated its political goals. This referred even to the West European Communist parties which were more and more vigorously challenged by small revolutionary groups, such as Red Brigades in Italy or Rote Armee Fraktion in West Germany.

At the same time various command economies of Communist countries, once so favorably treated by many economists, were gradually disclosing all its faults and shortcomings, as described above. The socio-political and eco-

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[17] Cf. e.g. J. Schumpeter, *Capitalism, Socialism, and Democracy*, New York: Harper, 1942; P. Rosenstein-Rodan, *Problems of Industrialization of Eastern and South-Eastern Europe*, "The Economic Journal", 1943, No. 210–211. Later on myriads of economists also in the West toiled at proving the superiority of 'socialist' command economies over 'capitalist' market economies. Quite recently a rather peculiar set of arguments in favor of communism was presented by a leading American Maoist economist R. Lotta, *Socialism is Much Better Than Capitalism and Communism Will Be A Far Better World*, http://revcom.us/strs/set-the-record-straight.html (1 Sept. 2015).

nomic system of Communist countries was frequently described by the ironical 'six paradoxes' of command economy: 1) there was no unemployment, but nobody worked, 2) nobody worked, but the output grew, 3) the output grew, but stores were empty, 4) stores were empty, but nobody starved, 5) nobody starved, but nobody was satisfied, 6) nobody was satisfied, but everybody voted for the government.

The 1970s saw a general slowdown of all command economies. According to the official statistics, which otherwise should be treated as overestimations, the Bulgarian GNP increased in the 1960s by about 203% and in the 1970s by 36%, the Czechoslovak GNP – respectively – by 100% and 19%, the Hungarian GNP by 132% and 18%, the Polish GNP by 177% and 6% and the Soviet GNP by 163% in the 1960s and by 28% in the 1970s[18].

The decline and fall of command economies was slowed down by external factors, such as Western credits in the 1970s, but was made inevitable by the inability of these systems to reform. Generally the reform of the command economy moved within the 'vicious circle' of necessity and infeasibility. According to Dembinski, the problem was in the 'system's inability to decentralize responsibility without reducing its requisitioning powers'[19]. The first Communist country to try a 'socialist market economy' – Yugoslavia – departed from the Soviet-like command economy but did not reach market capitalism. After some trial and error, Yugoslavia started to develop a system of decentralized economic units which by means of participation of producers in economic decisions was to avoid bureaucratization of the economic coordination. The Yugoslav road was started by Czechoslovakia in 1967 and Hungary a year later. The Czechoslovak reform was stopped by the Warsaw Pact invasion of 1968 and the Hungarian reform made little progress in later years.

The Yugoslav system was treated by many theoreticians as the most promising 'third way'. It was based on mostly private agriculture, after collective farms were allowed to dissolve in 1952, and on enterprises belonging to the workers' self-managements. With respect to the socialist idea of socialized property, independence of enterprises from each other was guaranteed by the atomization of property rights. Within enterprises there was a management board consisting of representatives elected by workers and responsible to a workers council which in turn was elected and responsible to all the employees. Everyday management was up to an individual manager who was

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18 *Statistical Yearbook of the United Nations 1981*, pp. 96–100.

19 P.H. Dembinski, *The Logic of the Planned…*, *op. cit.*, p. 109.

hired and fired by the workers council. The worker earnings came from the enterprise net income although the state guaranteed a minimum pay. Apart from the efficiency of such democratically elected management, the major problem of Yugoslav enterprises was their unclear goals. It was never obvious what the ultimate objective was: maximization of the net income for the whole enterprise or per one worker. Nevertheless the Yugoslav enterprises acted according to the market mechanism of coordination. There was only one exception: the capital market. The country's financial institutions had little to do with redistribution of investment funds. Another serious problem of the Yugoslav economy was strong inflationary pressure, since due to frequently monopolistic position self-management enterprises included all the excessive costs into prices. Thus the government had to impose a price control system anyway. Workers tended to choose enterprises which give higher profits, thus the labor market was not too stable. In the Yugoslav system the role of planning has changed. There only remained long-term "indicative" plans, a combination of government programs and forecasts. Finally, the self-management system could not contribute to the leveling of economic disproportions between republics. With all its defects – inadequate competition on the domestic market, inflationary pressure, price control etc. – for the first thirty years after its implementation this system worked quite well reaching the annual growth rate of 5.6% in the years 1950–70[20]. It was only in the 1980s that the Yugoslav economy began to stagnate due to the inflationary pressure and to its low competitiveness on world markets. The failure of the Yugoslav Yugo car best illustrated this situation.

The Hungarian economic reform was started in January 1968. For political reasons – the Soviet refusal to accept the Yugoslav model – the New Economic Mechanism (NEM) created in Hungary could not be based on self-management enterprises. The Leninist doctrine obliging in the Warsaw Pact countries would not allow this. Instead semi-measures were introduced. About one fourth of retail consumer prices were allowed to move freely according to the law of supply and demand, other one fourth could move within a certain range, and the remaining half remained fixed; in wholesale about 30% of domestically produced basic materials and 90% of manufac-

[20] J.T. Crawford, *Yugoslavia's New Economic Strategy. A Progress Report*, [in:] *Economic Developments in Countries of Eastern Europe*, Washington, D.C.: US Government Printing Office, 1970, p. 613; E.G. Farubotn, *Toward a Dynamic Model of the Yugoslav Firm*, "The Canadian Journal of Economics / Revue canadienne d'Economique" 1971, Vol. 4, No. 2, pp. 182–197; S. Estrin, *Self-Management: Economic Theory and Yugoslav Practice*, Cambridge University Press, 1983.

tured goods were set free. Allocation of materials was abolished except for few basic commodities. Furthermore, exchange rates were fixed at two different levels: for Western and for Eastern currencies, the hard currency rates being close to equilibrium levels. Enterprises were allowed to decide about the mix of inputs with one exception for the wage control. They were also released from compulsory plan targets. Instead they were left to make profits and to keep a substantial part of these profits within the enterprise for the workers to share or for investments. More freedom of action was given to private enterprises and cooperatives. The NEM had certain weaknesses. Firstly, the policy of full employment was maintained along with the seller's market and shortages. Secondly, the monopoly position of big firms inherited form the Stalinist times prevented competition and decrease of the costs of manufacturing. Thirdly, the system of subsidies was maintained, so the 'soft budget constraint' was not abolished. Fourthly, the management was made responsible to the upper strata of administration and not to the employees what encouraged ministries to impose control on the enterprises. The Hungarian system was workable for some time, although at the beginning of the 1980s it stagnated due to inflationary pressure, the 'soft budget constraint' and the seller's market. There were simply too little incentives for the enterprises to decrease its costs.

The economic reform announced in Poland in 1982 was claimed to be founded on three foundations: autonomy, self-financing and self-management. In reality none of these conditions of reform was satisfied, so at the end of 1987 the Communist authorities in Poland presented the idea of a 'second stage' of the economic reform associated with an austerity program decreasing the standard of living and asked the society for consent. Around this time a real discussion started over the true reasons for the failure of the command economy in Poland. At the beginning the discussion dodged between the necessary and the politically possible. The basic difference of approaches was between those independent economists who tried to define how much of the command system had to be removed to vitalize economy and those officials who cared more for the range of changes which could be accepted within the framework of 'real socialism'. As the Polish economic situation was increasingly desperate and while the political changes appeared more and more likely, both sides gradually drew closer. The crucial point was naturally whether market economy was compatible with the 'socialist' system of state property. Even some Communist economists finally realized that the answer should be negative. They noticed four reasons for the incompatibility. Firstly, the state-owned enterprises were unlikely to make profit the basic

criterion of economic initiative, secondly, there was no automatic regulation in these enterprises between the accumulated and the consumed part of the surplus, thirdly, the state sector had a natural tendency to monopolization and, fourthly, the command economy excluded a chance for a market treatment of labor due to the principle of full employment[21].

All the reforms of the Soviet-type command economy moved within a vicious circle. They were aimed at revitalizing economic activity but without changing the basic structure of the socio-political system. No wonder these reforms failed. Finally a crucial fact was allowed to be noticed officially: there was no market without private property. Otherwise 'commercialization of the state-sector' would always mean technical and bureaucratic games. Minor changes in the range of the state-owned sector would not change much in the malfunctioning of the command economy.

The collapse of the Communist system of command economy can easily be explained by the 'inescapable dilemma that forces the system to choose between ideological legitimacy and economic performance'. The conditions of the ultimate victory of the market economy over the command economy included several factors. Firstly, it was the 'efficiency gap', that is gains in efficiency forced upon the market economies by the oil crisis of the mid-1970s and the lack of such gains in the command economies, which wasted dozens of billions of US$ borrowed in the 1970s. Secondly, it was the 'technology gap' widened by the Western breakthrough in technology (computers, SDI, material engineering and so forth), while the command economies stayed behind. Thirdly, it was the growing dependence of the Soviet bloc on the market economies through debt and import reliance. Fourthly it was the necessity to include human rights in the Helsinki agreement which later came to be used as a way of legitimizing popular discontent in the Soviet bloc[22].

At the later stage of command economies the official policies were full of appeals for better work and for connecting increasing labor efficiency with the growing real wages. But, contrary to a widespread belief that people were paid more than they produced, all through the forty years of communism in Poland the labor productivity grew faster than real wages. Therefore, it was always the society which bore the costs of the wastefulness of the command system. In the years 1960-84 the real wages in Spain grew by 216%, in Italy by 189%, in Japan by 174%, in Belgium and France by 142%, in Austria by 142%, in the GFR by 134%, while in Bulgaria by 87%, in Czechoslovakia

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21 M. Mieszczankowski, *Niewiadome układu docelowego*, „Życie Gospodarcze", 1988, No. 1.

22 P.H. Dembinski, *The Logic of the Planned…*, *op. cit.*, pp. viii–ix.

by 56%, in Hungary by 49%, and in Poland by 46%[23]. These data disregard the country's foreign debts, so in fact the disproportion in really real wages would be even bigger.

People usually perceive their economic standing not only in terms of wages, even if they are related to the price level, but also the pure availability of goods. This is why it matters not only if somebody can afford an article but also whether he or she can physically buy it. Standing in lines customers did not care whether his income was statistically growing. He or she was even more frustrated when real wages actually decreased. Although Communist leaders constantly based their economic plans on political motivation, frequently appealing for revolutionary enthusiasm, the problem of a declining labor morale and popular discontent always surprised subsequent ruling equips. Enthusiasm of workers, their readiness to make sacrifices, and finally the patience of disappointed customers – all these were important resources which were availed of without limits by the subsequent generations of Communist leaders. Statistical yearbooks do not include data concerning time wasted in factories for delivery of raw materials, power, or of the time wasted by customers while standing in lines. It is also impossible to measure the influence of customer frustration on the quality of labor, punctuality and responsibility in performing duties which had never been awarded. As the story had it, the Romanian philosophers used to wonder whether there was life **before** death.

* * *

Command economies did not survive because of the human factor. Peter Wiles concluded:

> "An economic system consists of human beings. If they have no confidence in it, and if it makes them unhappy, they will not work well, and then the system will not function well. The workers will be both slow and careless, the planners will be cynical, irresponsible, and uncritical. Not only goods and money, but also paid time will be stolen from places of work"[24].

Even in late 1980s many Communist leaders and activists would not imagine the collapse of the Communist system. In 1988 a Polish economist

[23] *Rocznik Statystyczny* 1979, p. 490; 1986, p. 547.

[24] P. Wiles, *Zero Growth and the International Nature of the Polish Disease*, [in:] *Crisis in the East European Economy*, London: Croom Helm, 1982, p. 10.

Dariusz Rosati, who realized that any economic reform inevitably led to political decentralization and power-sharing by the party leadership and would ultimately favor such a process, was skeptical as to its chances as 'nobody willingly gives up or shares power'[25]. But with the Brezhnev Doctrine of the Kremlin giving way to the Sinatra Doctrine of doing things 'their way', Communist leaders of Poland and most other East Central European countries finally felt enough self-preservation instinct to share power and give up their utopian ideology.

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COMMAND ECONOMY IN PRACTICE

Summary

The article is a follow-up to the analysis of theoretical premises of command/planned economy and presents practical consequences of the implementation of Marxism and Russian Bolshevism. The author discusses the phenomena resulting from practical use of the ideology starting with a statement about the "economic expansion drive" – a major determinant of decision-making factors in the command system. The economic expansion drive, which was a result of the system's belligerent attitudes, made communist authorities take economic decisions in compliance with political criteria, irrespective of economic rationalism. As a result, all the efficiency indices in that system were poorer than in market economy. Practical effects of that also consisted in deformation of investment processes and defective consumer goods market manifesting itself in the form of invariable supply-demand disequilibrium. Political motives behind economic decisions also led to excessive use of resources and intensification of the "deficit" phenomenon in all the economic sectors. Practical consequences of the deficit were disastrous for companies' efficiency and people's financial situation. Finally, the author illustrates his theses with some data showing that from the 1970s the command system was sliding down an inclined plane and, at its end, it eventually collapsed.

Gospodarka nakazowa w praktyce

Streszczenie

Artykuł ten, będący kontynuacją rozważań o teoretycznych podstawach gospodarki nakazowo-rozdzielczej, dotyka praktycznych konsekwencji wprowadzenia w życie ideologicznych założeń marksizmu i rosyjskiego bolszewizmu. Autor omawia w nim zjawiska wypływające z praktycznego zastosowania tej ideologii, zaczynając od konstatacji o „pędzie do ekspansji" jako podstawowej determinancie czynników decyzyjnych w systemie nakazowo-rozdzielczym. Ów „pęd do ekspansji", wynikający z wojowniczych podstaw tego systemu, kazał władzom komunistycznym podejmować decyzje ekonomiczne wedle kryteriów politycznych, nie licząc się z racjonalnością gospodarczą. W rezultacie wszystkie wskaźniki efektywnościowe były w tym systemie gorsze niż w gospodarce rynkowej. Praktyczne tego efekty polegały także na deformacji procesów inwestycyjnych oraz na upośledzeniu ułomnego „rynku" dóbr konsumpcyjnych w postaci niezmiennej nierównowagi między podażą i popytem na tym „rynku". Polityczne motywy decyzji ekonomicznych prowadziły także do nadmiernego zużywania zasobów oraz potęgowania się zjawiska „niedoboru" we wszystkich dziedzinach gospodarki. Praktyczne skutki niedoborów były fatalne dla efektywności działania przedsiębiorstw oraz dla sytuacji materialnej ludności. W zakończeniu artykułu autor ilustruje swe tezy danymi świadczącymi o równi pochyłej, po jakiej system nakazowo-rozdzielczy staczał się od lat 70. XX wieku i na której końcu nastąpił jego krach.

Командная экономика на практике

Резюме

Данная статья, будучи продолжением размышлений о теоретических основах командно-распределительной экономики, касается практических последствий вступления в силу идеологических предпосылок марксизма и российского большевизма. Автор статьи анализирует явления, вытекающие из практического применения этой идеологии, начиная с утверждения о «стремлении к экспансии» в качестве основного определителя факторов принятия решений в командно-распределительной системе. Данное «стремление к экспансии», будучи результатом воинствующего характера этой системы,

вынуждало коммунистических лидеров принимать экономические решения в соответствии с политическими критериями, не считаясь с экономической рациональностью. Вследствие этого все показатели эффективности были ниже, чем при рыночной экономике. Практические результаты вышеупомянутой тенденции были основаны также на деформировании инвестиционных процессов и на обесценивании несовершенного «рынка» потребительских товаров в виде постоянного дисбаланса между предложением и спросом на данном «рынке». Политические мотивы экономических решений вели к чрезмерному потреблению ресурсов и развитию феномена «дефицита» во всех областях экономики. Практические результаты дефицита были пагубными для эффективности предприятий и для материального уровня жизни населения. В заключении статьи автор подтверждает свои тезисы данными и при помощи наклонной плоскости, по которой командно-распределительная система опускалась вниз, начиная с 70-х годов XX века, и в конце которой наступил её крах.