

Webinarium INE PAN, KNE PAN, PTE, Fundacja im. F.Eberta: Czy koniec kapitalizmu? 21. 04. 2021.

Tekst Stanisława Gomułki z książki „The Blackwell Dictionary of Modern Social Thought”, wydanie 2, 2003, stanowiący omówienie hasła „national economic planning”.

If governments are to control markets and capitalism to end, as the title of the seminar indicates, this text might be helpful to provide an answer.

The classical economists in the past and the neoclassical economists in modern times have been concerned mainly with the behaviour and interactions of two groups of economic actors, enterprises and households.

The actors would be typically assumed to be maximizing private benefits, profits and utilities respectively.

They interact by trading private goods and services on terms determined in (economy-wide or international) competitive markets./

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Central to the traditional case for national economic planning is the recognition that apart from private goods, private interests and individual preferences, there are also, and in any modern society even more so, nonprivate goods, common interests and social preferences. Markets for such goods may not exist or can be grossly inefficient. The decisions about the economic resources needed to satisfy these common interests must therefore be made in a different way. National planners are, or are supposed to be, the representatives of such interests, acting on behalf of a whole society. These representatives form the third group of economic actors.

They are or should be the elected representatives of the society, acting in their resource allocation roles through various agencies of the national government.

These bureaucratic agencies and the process of bargaining which national planners initiate and over which they preside are the counterparts, respectively, of market institutions and market competition. The regulations and direct resource allocation decisions of the agencies are what may be called the visible hand of bureaucracy, or the bureaucratic coordination mechanism, the counterpart of Adam Smith's invisible hand of the price mechanism, or the market coordination mechanism (Kornai, 1980).

In the course of much of the twentieth century, excepting the 1980s and the 1990s, the worldwide tendency has been for governments to devote an increasing proportion of national resources to the provision of public goods, such as national defence, public transport, law and order, and to the provision of merit goods, such as health, education and housing. National plans, though of a limited kind, are needed for the purpose of arriving at the decisions about the size and composition of current and investment spending in these areas in the course of time.

However, for a period of time national economic planning assumed a truly spectacular role in former socialist countries with centrally managed economies (the former Soviet Union, Central Europe, China, Cuba, North Korea, Mongolia and Vietnam) and, to a much lesser extent, in newly industrialized countries with market-based economies.

The origins of this role can be traced in large part to the spread of socialist doctrine for much of the twentieth century, promoting nonprivate ownership as socially superior and advocating the new role for state authorities as an all-purpose entrepreneur either alongside, in place of or in the absence of private entrepreneurs (Gomulka, 1986, ch. 1).

National planning in these countries became all-embracing, concerned not just with some individual sectors or regions, but with development of the entire economy taking into account demands and supplies for individual products (or groups of products) and their intertemporal relationships. Socialist national planners tended to see markets as failing to mobilize adequate financial savings and human resources for development, and as promoting myopic and erratic behaviour of investors, leading to potentially serious underinvestment, especially in activities where externalities are present, and so social benefits deviate from private benefits. A major boon for the spread of national planning in market economies was also the Great Depression of the 1930s and the direct and successful involvement of governments in the supply side of economies during World War II.

In these formerly socialist countries state ownership prevailed, and the scope, the ends and the instruments of national planning depended largely on the decision-making autonomy of state-owned enterprises and on the extent to which community preferences, effectively planners' preferences, dominated over the preferences of individual consumers in determining the economy-wide demands. Under the traditional Soviet-type system (the USSR between 1928 and 1990), much production and investment activity was planned and managed from the centre, while consumers' sovereignty and enterprise autonomy were highly restricted. By contrast to market economies where supplies and demands are closely interrelated, in any centrally managed economy (CME) the direction of causality tended to run from resources to supplies, and then to demands. In particular consumer supplies reflected input planners' preferences and usually deviated considerably from the levels which would have

existed if freely determined by the market. Administered prices, taxes and subsidies would have been used to bring the levels of consumer demands closer to those of such supplies (Kushnirsky, 1982).

National plans in a CME varied in terms of the periods of time they covered and in terms of the degree of aggregation. Annual plans were the most operational and the most disaggregated. These plans would themselves be subdivided into quarterly and monthly plans. Medium-term plans, usually to run for five years, were more aggregated and often only indicative rather than obligatory. Purely indicative and highly aggregative were long-term national plans. To ease the task of plan formulation and subsequent implementation, state enterprises producing similar goods were typically grouped together to form a production association, several associations formed a branch, headed by a ministry, and the activities of the industries were coordinated by the central planning authority. These enterprises negotiated with their higher authorities production plans which specified the minimum output targets and maximum input quotas, including new capital investment. These enterprise-specific plans were drawn in terms of a limited number of products, some 5,000 to 50,000 at the association level and some 200 to 2,000 at the central level. Most of these 'products' were large groups of similar goods, usually expressed in both physical terms (tons, square metres and so on) and value terms. The immediate aim for central planners was to select from a set of feasible alternatives the volumes of enterprise specific demands and supplies of such products in a manner which would ensure approximate balance at the economy-wide level for each of the products. The additional and more demanding aim was to do the national balancing in a way that final or net

outputs of the economy would maximize some sort of index of national welfare or, at any rate, that these outputs would meet planners' objectives in a manner considered satisfactory (Manove, 1971; Heal, 1973; Ellman, 1979).

Crucial to the performance of such a planned economy was the behaviour of enterprises. Since both output targets and input quotas were typically large aggregates, an enterprise-specific plan imposed from above can be viewed as representing a set of (resource, demand and financial) constraints defining the set of choices still open to the enterprise. The choice of its own plan by the enterprise (agent) depended in turn on the incentive system imposed by the centre (principal), particularly on the credibility of its disciplining threats (Schaffer, 1989). The terms of both the imposed plan and the incentive system were enterprise-specific and therefore open to bargaining between the enterprise and the centre. The bargaining asset for the enterprise was the limited access to the information on its true production possibilities by the centre. In the bargaining process enterprises were therefore in a position to seek both greater input quotas than necessary and lower output targets than possible. They were also typically better off by not revealing present production possibilities, since this information would have been used by the centre to increase their future output targets. This practice of planning whereby achieved levels of performance are used as a starting point to determine new targets is known as the application of the 'ratchet principle' (Berliner, 1976; Cave and Hare, 1981).

Since many dissimilar goods were included in composite output targets, these targets had to be expressed in value terms. The producer had in this

case an interest, given the cost-plus principle of price formation, to use expensive inputs in order to minimize effort needed to implement a given plan. This led to a bias in CMEs to produce material-intensive products (see Gomulka and Rostowski, 1988 for an estimate of the bias). Most product prices in CMEs were state imposed and rigid, responding little to market disequilibria. Such ad hoc prices differed substantially from the marginal social cost of production. To reduce their allocative role, and as a response to the effort-minimizing behaviour of enterprises, central planners would typically set high output targets and low input quotas, so that the set of choices from which an enterprise selects its own plan was small. This practice of 'taut planning' attempted to bring to the fore the allocative role of these quantitative targets which for planners were meaningful, and diminish the role of prices. However, inflexible prices led to widespread and persistent microeconomic disequilibria, and this in turn caused the phenomenon of 'forced substitution' (of shortage goods by surplus goods). Given the poor quality of prices, profits could not be relied upon as a measure of performance. This feature of CMEs led to the practice of tolerating loss-making. This tolerance of 'soft budget constraint' helped to develop, and was itself enhanced by, 'paternalistic attitudes' of the centre to enterprise (Kornai, 1980).

Despite the widespread presence of microeconomic disequilibria and inefficiency, socialist central planners were on the whole capable of maintaining macroeconomic balance. They kept wages low and this ensured that profit margins were usually exceptionally high by Western standards. These profits financed large investment activity and funded current expenditure of the state budget,

a large proportion of which was financing consumer subsidies. Except in former Yugoslavia, central planners were also able to control well the growth of wages and other incomes and thereby limit price inflation to rates typically below 10 per cent per annum (Wiles, 1980). However, in some countries and in certain periods, this control was seriously eroded or nearly lost (Poland in 1950-1, 1980-1, 1988-9, the former USSR in 1989-91) leading to bursts of what Kolodko and McMahon (1988) call 'shortageflation'. Politically motivated attempts to keep state controlled prices below market-clearing levels led in turn to the growth of black markets and the phenomenon of 'forced savings'.

The early reformers of CMEs, in the quest for combining economic efficiency and socialist principles, did not advocate the reduction of state ownership or central planning, but merely the abolition of enterprise-specific plans. Enterprises would as a consequence be financially and managerially independent. To elicit better performance it was thought vital that they also operate in a competitive market environment. However, according to the reformers, key prices, performance criteria and incentives would be set by the centre to induce enterprises to produce, although no longer individually but jointly, what the centre wanted them to produce. In this 'planned socialist economy with a regulated market' (Brus, 1961) the competitive market mechanism was intended to be used as an instrument to implement central plans (Malinvaud, 1967, proposed a possible implementation of this idea in a fully developed mathematical model; for a survey of possible implementations see Heal, 1973). This idea of indirect or parametric central planning was at the heart of the Hungarian reform between

1958 and 1990, the Polish reform from 1982 to 1989, and the Chinese reform initiated in 1978. Under those reforms shortages were reduced and price flexibility increased. However, competitive markets were not established, private enterprises remained restricted, paternalistic and interventionist attitudes of the state owner to enterprises persisted.

As a result the old deficiencies, particularly high inefficiency and low innovation, continued unabated. This failure of reforms within the system subsequently led, in Central Europe and the former USSR, to a frontal attack on the twin pillars of the system itself; central (direct or indirect) planning and state ownership. In Central Europe and the former USSR central planning was abandoned in the period 1989-92. The original arguments of von Mises (1935) against the feasibility of rational economic calculation in the 'Socialist Commonwealth', initially challenged by Lange and Taylor (1938), appear to have been vindicated (see Lavoie, 1985, and Balcerowicz, 1995, for recent reviews of the arguments).

There has been a parallel shift in developed market economies of Western Europe and Japan, as well as in most newly industrialized developing

- countries worldwide, away from active and extensive 'indicative' central planning (Brada and Estrin, 1990). In many of the countries privatization policies have also reduced the size of the public sector. However, the more traditional economic role of central authorities in the provision of public and merit goods, as well as macroeconomic stabilization management, regulations and law enforcement, remains largely intact throughout much of the world economy.

Reading

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