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Executive Summary

Soviet specialists' assessments of economic reforms in other socialist countries (mainly in Eastern Europe and China) identified the chief features, achievements, and problems of these reform measures -- and thus possible lessons for economic reform efforts in the USSR. These assessments were an important input into proposals for, and decisions on, a wide range of Soviet economic reform measures.

During the second half of the 1980s, Soviet scholars analyzed **reforms in other socialist countries within the framework of a socialist planned economy**.

Concerning the administrative organization of the state sector, for instance, Soviet studies of other socialist countries endorsed interbranch complexes, stressed the need for multiple forms of integration of research and development with production, and recommended the creation of more small and medium-sized enterprises.

In the light of other socialist countries' experience in the reform of planning, Soviet analysts, for example, supported the substitution of net output in place of gross output as a key performance indicator. They warned that wholesale trade in producer goods would require sharp increases in prices toward scarcity levels. They found that in Hungary government intervention in the economy remained substantial even after economic reforms abolished obligatory plan assignments for enterprises, administrative allocation of most inputs, and central specification of wage rates.

Soviet analyses of pricing reforms in other socialist countries concluded that the USSR should revise industrial producer prices by (1) raising relative prices of materials and energy-carriers, (2) reflecting labor costs more fully in prices, and (3) reducing the relative prices of new equipment compared to older models. Agricultural procurement prices should be based on marginal (not average) production costs, and increases in these prices should be accompanied by increases in retail prices, rather than in budget subsidies. Partial decontrol of state retail prices was advised.

To reduce the **"monetary overhang,"** a Soviet expert endorsed measures in other socialist countries to raise prices, sell state housing, increase bank interest rates, and expand the private sector.

Following the example of some other socialist countries, Soviet specialists advocated creation of a two-tier banking system, consisting of a central bank and separate commercial banks. But these experts stressed that, in addition to such institutional changes, sensible credit policies were also essential. For example, interest rates should reflect the rate of inflation; loan rates should exceed deposit rates; and loan rates should be adequately differentiated according to term and risk.

Examining enterprise bankruptcy issues in other socialist countries, Soviet analysts found that subsidies to unprofitable enterprises should be curtailed, but that reorganization of these enterprises was preferable to their closure.

Soviet studies of other socialist countries' reforms affecting labor approved their widening of skill differentials and closer linking of bonuses to differences in performance. Also, these countries' experience provided valuable lessons concerning programs to assist workers released

by enterprises. In contrast, contract brigades were judged a failure. Hungary's attempt to regulate the growth of enterprise wage bills through progressive taxation was deemed unsuccessful. In various countries, "self-management" through workers' councils proved to be incompatible with a centrally planned economy.

In agriculture, Soviet analysts found that some other socialist countries improved the performance of socialist farms by changes in planning, pricing, labor compensation, taxes and subsidies, and credit. Czechoslovakia was cited as a successful example. On the other hand, in China the distribution of land to peasant families on leases greatly increased peasants' effort and led to sharp increases in output, marketings, and peasants' incomes. However, because these gains were due chiefly to more intensive manual labor, when such "reserves" were exhausted within a few years, the growth of agricultural output slowed. In China there is considerable opposition to full privatization of land ownership, the consolidation of smaller into larger farms, and the use of hired labor.

With respect to non-state activity outside agriculture, Soviet experts favorably evaluated the expansion of private enterprises, producer cooperatives, and leasing of state enterprises, and they recommended these measures in the USSR.

In the sphere of foreign economic relations, Soviet studies of other socialist countries' efforts to increase exports endorsed direct trading rights for enterprises, bonuses linked to the growth of exports, and convertible currency retention quotas for exporting firms. Soviet experts approved the introduction of "commercial" exchange rates. However, they noted that domestic producer prices did not reflect relative scarcities on the world market (or even in the socialist country itself). Hence, to provide enterprises "normal profitability" and thus "economic

accountability" in the fulfillment of export and import plans, a set of "differentiated currency coefficients," equivalent to multiple exchange rates, was adopted. Soviet analysts concluded that joint ventures were desirable in principle, but that it was difficult to negotiate with prospective foreign partners, that the ventures often did not meet expectations, and that their combined effect on the host country's economy was relatively small. In view of China's experience with special economic zones, Soviet experts recommended that such zones be established in the USSR only on a limited scale and after careful preparation. Soviet specialists acknowledged the need to revise CMEA arrangements in order to accommodate national economic reform measures, but these experts did not identify concrete ways to do so.

Soviet scholars have analyzed three main aspects of **the transition to a capitalist regulated market economy** in East European countries since 1989.

Soviet analysts found that privatization should begin with the sale, by auction, of small enterprises in retail trade, personal services, and light industry. The second stage of privatization should involve the transformation of larger state enterprises into joint-stock companies, so shares can be sold. However, for many reasons, the privatization process will be complex, lengthy, and limited.

Marketization of the economy involves the development of markets for goods, labor, capital, and foreign exchange. Soviet specialists analyzed the required actions and the associated difficulties.

Soviet experts recognized that government intervention, of various kinds, plays an important role in a capitalist market economy. In particular, an important issue for a large, multi-ethnic country like the USSR is the distribution between the central and regional

governments of authority over economic activity. In this respect, Soviet experts advised that the USSR avoid Yugoslavia's mistakes of excessive decentralization of decision making to the republics.

I. INTRODUCTION

This study surveys, analyzes, and appraises Soviet specialists' assessments of economic reforms in other socialist countries, mainly in Eastern Europe and China.[1] The aim is to identify what Soviet specialists consider some of the chief features, achievements, and problems of such reform measures -- and thus possible lessons for economic reform efforts in the USSR.[2]

The study is based primarily on an examination of articles[3] on economic reforms in other socialist countries published since 1984 in a wide range of Soviet professional periodicals and in various Western selective translation periodicals -- with additional information from interviews with Soviet specialists on the economies of other socialist countries.[4]

Soviet scholars' research on economic reforms in other socialist countries takes many forms. (1) At their institutions, they analyze literature from these countries in original publications from the countries or in Russian translations or abstracts from those publications. (2) Some specialists conduct field research in the countries, through long assignments on the staffs of the Soviet embassies, or through shorter individual or team visits, for example under agreements of national academies of sciences. (3) Soviet government agencies like ministries and state committees have direct ties with their counterpart organizations in other socialist countries, for exchanges of documents and trips of delegations. (4) Soviet specialists work with economists from other socialist countries in international research institutes, for example the International Institute of Economic Problems of the World Socialist System and the International Research Institute of Management

Problems (both in Moscow). (5) International conferences in the Soviet Union concerning other socialist countries' economies are often attended by Soviet economists who are not authors or discussants but wish to learn about developments in those countries that might also be adopted in some form in the Soviet Union (interview material).

Soviet specialists' analyses and appraisals of economic reforms in other socialist countries can influence economic reform efforts in the USSR both more and less directly.

The more direct way is through written reports (and oral briefings) for high officials in Communist Party and government agencies, or for their staffs, who in turn provide summaries to these officials. These reports may be requested by the higher agencies or they may be submitted at the initiative of the research organization (interview material). In addition, specialists on economic reforms in other socialist countries serve on bodies responsible for designing economic reforms in the USSR. For example, R.N. Evstigneev, a department head at the USSR Academy of Sciences' Institute of the Economics of the World Socialist System,[5] the chief Soviet research institute concerned with other socialist countries, was appointed a member of the USSR Council of Ministers' State Commission on Economic Reform (O Gosudarstvennom, 1989). Soviet specialists on economic reforms in other socialist countries participated in working groups preparing specific Soviet economic reform measures, for example those concerning cooperatives and joint ventures (interview material).

More indirectly, such specialists can influence economic reforms in the Soviet Union by presenting their views on economic reforms in other socialist countries in professional articles and books; in more popular articles in the general press (such as *Pravda*, *Izvestiia*, *Trud*, and *Rabochaia tribuna)*; and in radio and television broadcasts. These forms of

dissemination reach high officials and their staffs, professional economists, and at least parts of the "informed public" of non-specialist intellectuals. Specialists expect thereby to influence policy makers, professionals who advise policy makers, and a segment of "public opinion" (interview material).

Both the direct and the indirect channels of potential influence became significant only after Gorbachev came to power in 1985. In the Brezhnev era, conduct and publication of studies of economic reforms in other socialist countries were not encouraged. The Soviet leadership believed that other socialist countries were supposed to learn from the USSR and follow its example. Thus, discussion of reforms in other socialist countries that moved away from the Soviet "model" was not welcome to Party and government officials, censors, or editors. This attitude began to change slowly after Brezhnev's death, but high-level interest in, and approval of, research and publication on economic reforms in other socialist countries did not begin until 1985 (interview material; Cullen, 1991, pp. 85-86).

To what extent do published Soviet studies on economic reforms in other socialist countries resemble the internal, classified reports prepared for party and government officials? Commonly, the authors of published materials are also the authors of internal reports done as part of their institutes' official research programs. They want to have their work published in some form in order to enhance their professional reputations. However, to do so it often was necessary to "sanitize" internal reports. Material was not excluded for "national security" reasons, since the internal reports did not include information about other socialist countries that those countries did not already know. Instead, for "foreign policy" reasons, authors removed statements that might be deemed critical of another socialist

country and thus a form of "interference in its internal affairs." Unfortunately, this approach sometimes produced articles that were mostly descriptive, rather than analytical, and avoided explicit cross-country comparisons that might be deemed to judge one country superior to another.[6] In turn, it would have been considered presumptuous for authors to draw explicit lessons for the USSR from other socialist countries' experience. Instead, authors and readers understood that readers were expected to reach their own conclusions (interview material).

Only by 1988 had *glasnost'* proceeded far enough for the new editor of a leading economic journal to announce that critical evaluation of the experience of other socialist countries, and of implications for the USSR, was appropriate and invited (Popov, 1988, p. 11). Since 1988, Soviet published literature on economic reforms in other socialist countries has become more analytical, evaluative, and prescriptive.[7]

Part II of this study examines Soviet specialists' assessments of other socialist countries' efforts to modify features of the economic system within the framework of a socialist centrally planned economy. Part III considers their appraisals of efforts in other socialist countries to move toward a capitalist market economy. In both parts the discussion is organized by aspects of the economic system that might be changed, rather than by individual countries. The reason is that Soviet reformers scrutinize other socialist countries' experience for ideas about altering specific features of the Soviet economic system, rather than with the intention of copying the "model" of any other country (interview material). Part IV of the study presents some general conclusions.

II. REFORM OF A SOCIALIST CENTRALLY PLANNED ECONOMY

Soviet scholars have examined changes in a number of aspects of the economic systems of other socialist centrally planned economies. They include the administrative organization of the state sector, planning, pricing, the "monetary overhang," banking and credit, the possibility of bankruptcy of enterprises, labor, agriculture, non-state activity outside agriculture, and foreign economic relations.

Administrative Organization of the State Sector

Soviet scholars have analyzed East European countries' experience with interbranch complexes, integration of research and development (R & D) with production, and small and medium-sized enterprises.

Interbranch complexes. In the opinion of Soviet specialists, such complexes in East European countries improved the coordination of investment and of production by overcoming weaknesses associated with the narrow focus of a branch ministry. One example of such a complex was the combination of agriculture and the food-processing industry in all East European countries except Poland (where most of agriculture is private). Another was the union of fuel and energy in Bulgaria, Czechoslovakia, Hungary, and Romania (Shchavleeva, 1985; Shavleev and Ivanovskaia, 1987).

Integration of R & D and production. Because of the Soviet government's concern about "linking science with production," Soviet specialists carefully examined the experience of the German Democratic Republic (GDR) in connecting R & D organizations and

production plants in a combine (*kombinat*), which often also included construction units and foreign-trade firms. By breaking down administrative and financial barriers, this approach increased the application of R & D efforts to production needs and sped the introduction of the results of R & D, leading to the modernization of equipment, increases in labor productivity, savings in material inputs, reductions in cost, and improvements in quality (Potapov, 1985; Belousov, 1987).

Although in some cases administrative unification of R & D units and production plants may be appropriate, this approach has pitfalls. To serve the needs of the combine, R & D units became more specialized and they emphasized design work and prototypes, narrowing the scope of their work and sacrificing exploratory research. Hence, in many cases superior results will be obtained by contractual relations between users of research (such as enterprises or branch ministries) and administratively separate performers of research (such as research institutes of branch ministries, academies of sciences, or higher educational institutions) (Khachaturian, 1987).

Small and medium-sized enterprises. In contrast to administrative consolidation involved in interbranch complexes and combines, the merits of small and medium-sized enterprises (with less than 200 workers) in the state sector were praised by some Soviet analysts of East European economies. In Bulgaria, Hungary, and the GDR, for instance, such enterprises showed greater flexibility than larger enterprises in adjusting production to changes in demand for consumer goods like clothing and footwear and also for some kinds of producer goods like industrial rubber products and custom parts for machinery.

However, small and medium-sized enterprises were hampered by less favorable

treatment (compared to larger enterprises) in regard to the supply of materials and equipment. Small and medium-sized enterprises might get higher priority in the allocation of such inputs if they received compulsory plan assignments for output, but such assignments would curtail the flexibility in adjusting production that is their great advantage.

East European experience was judged to indicate that the Soviet authorities should establish more small and medium-sized enterprises in the USSR, either by building new facilities or by spinning off units of existing enterprises. To assure a successful start, the new firms should be given, at least temporarily, favorable conditions for supply, credit, pricing, and taxation, as well as sufficient freedom concerning wages and managerial bonuses (Deriabina, 1986; Mal'tsev, 1990, pp. 36-37).

Planning

Soviet specialists examined departures from traditional central planning in other countries affecting performance indicators, supply, diminution in the share of activity administratively planned, and control by adjustment of parameters instead of plan assignments.

Performance indicators. Soviet analysts endorsed the shift in East European nations from gross output to net output as the key indicator of enterprise performance. They expected that this change would help reduce the use of inputs of materials and fuels, which are included in gross output but excluded from net output (Shchavleeva, 1985, p. 85; Senchagov, 1986, p. 106; Kapustin and Vardul', 1987, p. 107).

In some East European countries, enterprise plan assignments included a specific quality indicator, such as the shares of output in designated state quality classifications. But

most countries sought to achieve higher-quality output through price supplements for higher-quality products, which raised the resulting sales revenue and profits (Goriachev et al., 1986).

Other socialist countries' experience showed that the suitability of profits as the primary performance indicator depended on the amount of enterprise authority over outputs and inputs (Vladova, 1987).

Supply. Because economic reform programs usually envisioned a shift in the mechanism for distribution of producer goods from administrative allocation to "wholesale trade," Soviet analysts studied this process in other socialist countries.

Without allocation orders, buyer enterprises could obtain material inputs directly from producers or from intermediary sales organizations. In the 1980s, such wholesale trade was common in Hungary. It was used to a more limited extent in Bulgaria, Poland, China, and the GDR. In these four countries, sellers informed potential buyers about available goods, usually mass-produced general production items, through catalogs, exhibitions, and other forms of advertising. Buyers were chiefly small and medium-sized enterprises. Large enterprises relied on allocation orders to obtain needed material inputs.

The growth of wholesale trade was restrained by widespread and chronic shortages of material inputs. State agencies would not authorize wholesale trade for goods in shortage, and if they observed a shortage of a good designated for wholesale trade, they were likely to return to administrative allocation for its distribution. When price control over goods in wholesale trade was relaxed, as in the case of sales of above-plan output in China, the uncontrolled prices were double or triple the administratively-set prices. Thus, Soviet

analysts concluded, the formation of a market for the means of production would be a "long-term task" involving both the reduction of shortages and sharp increases in prices toward scarcity levels (Sukhoruchenko, 1987; Korobkina, 1987).

Share of enterprise activity planned. Beginning in 1984, China sought to reform planning by dividing economic activity into three spheres. (1) "Directive planning" of the traditional type would specify outputs, inputs, and prices for about 50 percent of gross industrial production and most agricultural production. (2) Under "guidance planning," covering 30-40 percent of gross industrial production, enterprises would elaborate their own output programs, using production capacity not committed by directive planning. Their inputs would be acquired from the "guidance planning" output of other enterprises. They would find their own customer enterprises, to which they could sell at prices that might vary by up to 20 percent from state-set prices. (3) The remaining approximately 10 percent of gross industrial production, consisting chiefly of "non-basic" consumer goods, would be sold at "free" prices determined by market forces.

The shift of economic activity into categories (2) and (3) generated a marked increase in output, particularly of consumer goods. However, in the opinion of Soviet analysts, the reduction in state control led to many adverse consequences, such as shortages of raw materials and energy; sharp price increases; and the growth of illegal activity like speculation, misappropriation, and bribery (Avremov, 1986; Oleinik and Oleinik, 1987; Mal'tsev and Oleinik, 1987).

Control by adjustment of parameters. Under an economic reform that began in 1968, Hungary abolished obligatory plan assignments for most enterprises, administrative allocation

of most inputs, and central specification of wage rates. The government continued to prepare broad national economic plans, but it sought to accomplish them by steering enterprises by means of changes in prices, interest rates, exchange rates, and "normatives." The normatives affected the enterprise in regard to the distribution of profit, the growth of total and average labor compensation, and the formation of investment and reserve funds (Vladova, 1986, pp. 94-96). A principle of such indirect control is that the normatives be uniform -- rather than differentiated by branch or enterprise, as would be characteristic of traditional central planning (Vlasova and Shumskaia, 1990).

In practice, however, Hungarian government agencies continued to exert a considerable amount of more direct control over enterprises, for example in regard to prices, investment, and foreign trade (Shavleev and Ivanovskaia, 1987, pp. 113-114). Also, in contrast to the uniformity principle for normatives, the treatment of enterprises was differentiated by tax preferences and subsidies, in recognition of sharp differences in profitability due to the inherited structure of production and to non-scarcity prices (Evstigneev, 1989, p. 215).

Pricing

Soviet discussions of pricing in other socialist countries considered each of the main components of the price system: industrial producer prices, agricultural producer prices, and retail prices.

Industrial producer prices. These prices, often called "industrial wholesale prices," apply to sales between nonagricultural enterprises and sales by such enterprises to farms.

A Soviet survey of East European CMEA countries' practices in the pricing of new

products found that they used essentially the same methods as the USSR. The methods included temporary prices, contract prices, price surcharges and discounts for quality, and "effectiveness" prices calculated by a comparison of various characteristics of a new product with an existing product it might replace.[8] No innovations in the East European countries appropriate for possible adoption in the USSR were identified (Mitrofanova, 1984).

In contrast with the relative stability of prices of fuels and raw materials in the USSR, these prices were raised more often in East European countries. However, the increases were too small to achieve their aim of curtailing the demand for these resources (Tarnovskii, 1988, p. 69).

Also in contrast to the USSR, East European nations sought to link internal industrial producer prices more closely to world market prices. The traditional approach in centrally planned economies was to set internal prices of exports and imports on the basis of the average domestic cost of production (plus a profit markup). As a result, these prices differed from both world market prices and CMEA "contract" prices (which were adjusted from world market prices) in two respects. First, the internal price of a good differed from the equivalent of the foreign price translated at the official exchange rate. Second, the internal relative price structure differed from the relative price structure on the world market. For instance, relative prices of fuels and raw materials, compared to machinery and equipment, were much lower in these countries than on the world market.

This "national" method of pricing tradeables was considered to protect enterprises, and thus the economy, from the vagaries of the world market. But it eased the pressure to reduce the costs and improve the quality of potential exports, and it created the illusion of

cheap imports, leading to a greater demand for them (Slepov, 1986, pp. 82-83).

For some exports, Hungary, Poland, and Bulgaria began to establish internal prices equal, or closer, to the equivalent of the foreign price translated at the official exchange rate. In contrast, the GDR, Romania, and Czechoslovakia set internal prices for exports on the basis of domestic production costs but added surcharges to cover extra expenses for export, such as special packaging.

The East European countries set internal producer prices on some imports, especially of fuels and raw materials, in the light of foreign trade prices. The GDR, Romania, and Czechoslovakia took the weighted average of world market prices and CMEA contract prices for imports of a commodity, whereas Hungary, Bulgaria, and Poland used only world market prices (Zaborovskaia and Kuznetsov, 1987, pp. 82-83).

But no East European country applied the "international" method of pricing tradeables completely. The government feared that the prompt and full adjustment of internal prices to changes in foreign prices would disrupt the prices, production, and financial flows scheduled in the five-year plan (Slepov, 1986, pp. 84-85; Zaborovskaia and Kuznetsov, 1987, pp. 82-83).

Yet Soviet specialists nonetheless concluded that the experience of other socialist countries showed that the USSR should revise internal producer prices to make their structure closer to that of developed market economies and the world market. Specifically, the USSR should (1) sharply raise relative prices of materials and energy-carriers, (2) reflect labor costs more fully in prices, and (3) reduce the relative prices of new equipment compared to older models (Zaborovskaia and Kuznetsov, 1987, pp. 89-90).

Agricultural producer prices. In this sphere, other socialist countries offered several lessons for the Soviet Union (Bukh, 1987). In centrally planned economies the traditional approach was to set agricultural producer prices (often called "agricultural purchase prices") on the basis of branch (or regional) average cost of production (*sebestoimost'*) plus a profit markup on cost. Instead, in Hungary, Czechoslovakia, and the GDR, reforms changed the base for the markup from cost to assets, with markup rates of 6-7 percent on total assets including land, or 15-17 percent on assets other than land. These rates of return could generate sufficient profits for farms to finance appropriate investment programs.

Reformers also urged that marginal, not average, cost be chosen for the cost component of the pricing formula. The use of average cost entailed a subsequent redistribution of income from low-cost, high-profit farms to high-cost, low-profit farms. This distribution, through taxes and subsidies, conflicted with the principles of economic accountability and self-support. Hungary and the GDR, for instance, moved toward prices based on costs of farms with inferior land.

In various socialist countries, the relative price structure was changed to raise the relative profitability of meat, in an effort to increase output and reduce shortages. Some countries (Hungary, the GDR, and Czechoslovakia) greatly widened quality differentials in agricultural purchase prices. In many socialist countries, increases in agricultural purchase prices were offset by increases in state retail prices, rather than by increases in budget subsidies. Finally, in Hungary, price control was relaxed, and purchase prices for vegetables and fruit were set by supply and demand.

State retail prices. In centrally planned economies, state retail prices often are set

below market-clearing levels and sometimes even below cost. Soviet analysts studied other socialist countries' experience in the relaxation of price control to permit retail and wholesale prices to reflect more closely both cost and scarcity.

Some other socialist countries (Hungary, Poland, and Bulgaria) adopted a multi-category price system. (1) Some prices were fixed by a government agency. (2) "Contract" prices were negotiated between seller enterprises and buyer enterprises. (3) "Free" prices were established by sellers. However, the government constrained "contract" and "free" prices by a complex set of rules about the calculation of cost and profit, by audits to verify adherence to these rules, and by penalties for violations of them. So actual price "liberalization" was much less than might be supposed (Mitrofanova, 1986).

Yet introduction of the "contract" and "free" price categories did impart some flexibility to the price system and improved the adjustment of supply and demand. However, prices in these categories exceeded the previous controlled prices for the goods and rose faster than prices in the "fixed" category. One reason was the skill of sellers, seeking revenue and profit, in evading regulation about "contract" and "free" prices. Another was the monopolistic position of many sellers (Brinykh, 1988). Thus, in conditions of high aggregate demand, price decontrol poses a risk of an inflationary spiral of price and wage increases (Vladova, 1987).

"Monetary Overhang"

In the USSR and other socialist countries there is a "monetary overhang" of excess money holdings of households (and enterprises) in bank accounts and cash (Kuligin, 1988a). The problem arises when shortages (at the prevailing prices) prevent households from

spending available income (and accumulated past savings) to buy desired goods and services. The effective purchasing power of money falls, and labor incentives are reduced.

To absorb some of the "overhang," other socialist countries used several approaches. (1) To increase consumption spending, prices for higher-quality goods and housing rents were raised. (2) Some state housing was sold to its occupants. (3) To encourage voluntary saving, or at least to reduce the share held in cash, savings banks offered higher interest rates and new types of accounts, and state institutions and enterprises issued bonds. (4) Newly authorized individual, cooperative, and leased enterprises absorbed some of past household savings.[9]

Banking and Credit

The traditional socialist centrally planned economy has a state bank ("monobank") combining central banking and commercial banking activity. Its central bank functions include issuance of the currency, custody of reserves of gold and convertible currencies, and settlements in international transactions. To serve enterprises, the state bank held their deposits, handled inter-enterprise payments, and made loans at nominal interest rates to furnish enterprises working capital to meet their plan assignments. The state bank also controlled the savings bank network (Chernetsov, 1985).

Economic reforms in China, Hungary, and Bulgaria, for instance, created a two-tier banking system, consisting of a central bank and separate commercial ("business") banks.

In this system, the central bank is to control the money supply and the distribution of credit indirectly, by such instruments as reserve requirements for commercial banks, the discount rate on loans of reserves to them, and eventually even open market operations in

securities (Lavrushin and Chen, 1988; Solov'eva and Mirkin, 1990; Shirinskaia and Vazov, 1988).

In turn, the commercial banks are to receive deposits from, and lend to, enterprises (while savings banks perform these functions for households). Loans are to be granted according to commercial risk criteria and at interest rates reflecting the scarcity of capital. Enterprises may choose among rival commercial banks. Specialized banks are to meet particular needs in agriculture, construction, and foreign trade, for example (Shirinskaia and Vazov, 1988; Fedorov, 1988a).

Soviet analysts endorsed the separation of central from commercial banking in other socialist countries. But they stressed that such institutional changes were not sufficient and that sensible credit policies were also essential. For example, interest rates should reflect the rate of inflation (Fedorov, 1988b, p. 25); loan rates should be well above deposit rates (Kaz'min, 1988, p. 74); and loan rates should be adequately differentiated according to term and risk (Lavrushin and Chen, 1988, p. 49). Also, banks should not be expected to make "socially necessary" loans on concessionary terms. Instead, a special government institution should provide such credit (Shirinskaia and Vazov, 1988, pp. 53-54).

Enterprise Bankruptcy

According to Soviet analysts, in socialist centrally planned economies a significant share of enterprises operated at a loss when they acquired designated inputs at official prices and produced and sold assigned outputs at official prices. Such "planned" losses typically were reimbursed by budget subsidies. In addition, there were "unplanned" losses, ascribed to the incompetence of managers and workers unable to fulfill plan assignments. These losses

were covered by supplementary subsidies or by bank loans that were not likely to be repaid.

In contrast, economic reforms in socialist countries envisioned that all enterprises should earn enough sales revenue to cover all expenses and provide a profit that (after profits taxes) could be used for reinvestment, bonuses, and other purposes. In turn, budget subsidies (and bank credit) to unprofitable enterprises should be curtailed accordingly. Enterprises with losses (or low profits) should be reorganized to achieve "normal" profitability or, if that is not possible, should be liquidated (Avdokushin, 1987; Kuligin, 1988b).

In practice, other socialist countries considered bankruptcy a last resort. On the one hand, they recognized that some efficient enterprises may be unprofitable because input and output assignments were unsound, or because official prices did not properly reflect scarcities: with the same inputs and outputs, the enterprise could be profitable at relative prices closer to relative scarcities. On the other hand, the government wanted to avoid unemployment, and associated social tensions, from the closure of enterprises.

Therefore, government agencies sought to avoid bankruptcy of an enterprise by changing the output mix, modernizing equipment, or releasing excess workers after offering them other jobs and retraining. Another method was a merger of a weak enterprise with a stronger one which undertook the rehabilitation of the weak unit. Redundant workers were given help in finding employment in other state enterprises or in new private and cooperative enterprises authorized by economic reforms (Abramov and Ivanov, 1988).

However, reduction in the number of unprofitable enterprises, in their total losses, and in budget subsidies to cover them, is likely to be a difficult, slow, and often disappointing process (Kuligin, 1988b).

Labor

Soviet scholars examined other socialist countries' experience concerning wage differences, contract brigades, regulation of the wage fund, the release of excess workers, and "self-management."

Wage differences. In other socialist countries, wage reforms widened skill differentials and supplements for adverse working conditions involving physical and mental health hazards. Compensation for technical personnel was divided into "basic" and "variable" components, with respective shares of about 70 and 30 percent in the total wage bill. The basic component was paid for satisfactory work. The variable component depended on a careful evaluation of actual performance during the period under review. It replaced bonuses routinely awarded as a percentage of base pay, and thus not truly performance-linked (Vladova, 1986, pp. 101-102).

Contract brigades. The contract brigade is a form of organization of (usually only production) workers that involves some degree of assignment, performance, evaluation, and compensation of work on a group, rather than an individual, basis. The brigade's "collective contract" with the management of the enterprise specifies the output to be produced and the payment for it. The aim is to increase the quantity and quality of output and reduce its cost, as workers learn new skills from each other and perform more than one task, and peer pressure reduces absenteeism and wasted time during a shift.

East European experience with such brigades in industry was unfavorable, according to Soviet specialists (Korobchinskii, 1985; Ol'shtynskii, 1988).

Such brigades were more feasible in small-series production with manual labor, than

in operations with continuous-flow conveyer lines that involved specialized work tasks and limited possibilities to leave a work station to assist other brigade members.

Although they worked as a team, workers did not receive uniform compensation. Instead, pay was supposed to vary according to a coefficient of labor participation (CLP) that measured the relative contribution of each person concerning the quantity and quality of individual work and the contribution to joint work. But it was hard to assess a worker's share in final results when workers switched tasks and when they did some jointly. Also, higher-skilled workers were reluctant to join brigades because they feared that their more demanding work would not be sufficiently rewarded, or that they might be assigned to lower-skilled tasks with lower compensation.

Because of the need for a comparative evaluation of the contribution of individual workers to a brigade's performance, a brigade should not have more than about 30 people. Hence, a factory shop might have to be organized into many separate brigades.

Managers were not enthusiastic about forming brigades, because the effort required to organize multiple brigades and to address CLP and other problems of brigades was unlikely to yield a quick and significant increase in enterprise performance for which managers would receive larger bonuses. Also, managers feared that if adoption of the brigade form did increase labor productivity and reduce the number of workers needed, superior agencies would cut the enterprise's authorized labor force.

In turn, workers believed that the change to the brigade form would involve a tightening of norms for labor and materials, and that people would therefore have to work harder to retain, let alone increase, their present pay.

Furthermore, implementation of the brigade form of labor organization was impeded by enterprises' continuing problems of unreliable supply of material inputs and frequent changes in output assignments. For reasons beyond their control, brigades often could not fulfill their "contractual" obligations.

As a result, brigades were usually only "formal," rather than genuine. On the one hand, work assignments, norms, and compensation remained fundamentally individual rather than collective. On the other, management frequently concluded agreements with brigades *ex post* to fit the already achieved fulfillment of the plan.

Regulation of the wage fund. Under the traditional approach in socialist centrally planned economies, state agencies specify wage rates and ministries assign each enterprise ceilings for the total wage bill and the size of the labor force (and perhaps its major components, such as production, technical, and managerial personnel).

In Hungary, economic reform sought to make wages reflect enterprise profitability, on the one hand, and a worker's individual performance, on the other. The government increased enterprise authority over wages by eliminating ceilings for wage bills and total employment, and by giving managers more authority to differentiate wages. To control the growth of wage payments by enterprises, the government applied a complex scheme of taxation. Enterprise profit was allocated to a "sharing fund" for additional labor compensation, an investment fund, and a reserve fund. The portion devoted to the sharing fund was subject to a tax that reduced the amount actually available for distribution. In order to restrain the growth of wages, the tax was progressive, with rates related to the increase in the average wage of the enterprise.

But experience showed shortcomings in this approach. First, heavy taxation of profits weakened the incentives to more successful enterprises to earn profits, a significant part of which they expected would be redistributed through the budget to less successful firms. Second, to increase the amount of retained profit available for distribution from the sharing fund, enterprises pulled down the average wage by raising the share of less-skilled, lower-paid workers in total employment. Third, in recognition of inflation, the government found it necessary to assure wage increases in less profitable (and unprofitable) enterprises, through exemptions from the standard regulations and through centrally-decreed wage raises. Finally, there was strong social pressure to restrain the growth of inequality in wages across industries and enterprises and within enterprises. For instance, the wages of managers and technical specialists grew more slowly than those of production workers (Poliakov, 1986; Poliakov and Shaposhnikov, 1986).

Release of workers. Economic reform programs call for enterprises to pursue profit, including by the reduction of costs through the release of excess workers. Other socialist countries used a variety of measures to aid workers in these circumstances. These measures included (1) advance notification of dismissals, (2) referral by the enterprise or a state employment office to other jobs, (3) retraining, and (4) relocation allowances (including family travel and shipment of household effects). Moreover, during the first months on new jobs, workers could be given reduced work norms and they were assured wages equal to those in the jobs they lost. Finally, people who were not immediately re-employed were eligible for unemployment compensation, at 100 percent of their former wage for an initial period, and at a a reduced rate for an additional period (Zakharova, 1986; Zaslavskii, 1988).

"Self-management." Soviet expert opinion concluded that "self-management" attempts in socialist planned economies like Poland, Hungary, Bulgaria, and Romania were unsuccessful (Sil'vestrov, 1988).[10]

Workers elected representatives to enterprise "workers' councils" that were to participate in decisions on production, on the distribution of retained profit, and on investment. The authorities hoped that as a result employees would work harder to increase output, sales, and profits, and would understand the need to reinvest a sufficient share of profit to modernize and expand production capacity.

However, in practice managers were reluctant to concede a voice in decision making to workers' councils or even to provide them information about the enterprise's activities. In some cases, workers showed little interest in enterprise decision making, whereas in other cases they wanted to be involved in decisions which were the prerogative of management. Finally, the potential scope for workers' participation in decision making was severely limited because central planning restricted the decisions to be made at the enterprise level regarding inputs and outputs, purchases and sales, distribution of profit, and investment.

Agriculture

Soviet assessments of other socialist countries' economic reforms in agriculture focused on three main themes: (1) ways to improve the performance of socialized agriculture, (2) Czechoslovakia as a specific example of successful socialized agriculture, and (3) decollectivization in China.

Improvement of socialized agriculture. In Eastern Europe, performance of state and collective farms was improved by changes in planning, pricing, labor compensation, taxes

and subsidies, and credit. In some countries, agricultural procurement agencies moved from imposing delivery assignments for farms, to more voluntary contracts that better reflected farms' real capabilities and promoted specialization. Agricultural purchase prices were revised, as noted in an earlier section. Wages could then be raised to bring farmers' pay up to the average level for the country. But when that goal was achieved, restraints were imposed to link further wage increases to productivity increases. Tax systems were altered to levy land taxes to capture differential rent on farms in superior natural conditions, while subsidies were provided to farms in poor natural conditions. Farms received adequate credit at relatively modest interest rates (Bukh, 1987).

Czechoslovak socialized agriculture. After a visit to Czechoslovakia in 1989, Egor Ligachev, then the top Soviet Communist Party official responsible for agriculture, praised the success of Czechoslovak agriculture in meeting the country's food needs and urged that its experience be used in Soviet socialized agriculture (Ligachev, 1989a; Ligachev, 1989b).

Soviet analysts identified various factors that contributed to good performance in Czechoslovak agriculture. Agriculture was allocated adequate material inputs. Farms received obligatory delivery quotas only for grain and meat. All other products were sold through contracts between farms and trade organizations or processing enterprises. The level and structure of state agricultural purchase prices encouraged production. Component units of farms operated on an economic accountability basis. There was widespread use of contract brigades that leased land and equipment. Subsidiary non-agricultural production on farms kept the work force fully employed year-round. Because rural incomes equaled or exceeded those in urban areas, people were not anxious to leave the countryside. However, to curb

farms' wage, and thus cost, increases, a special wage tax was introduced.

On the whole, the experience of Czechoslovak agriculture was deemed definitely positive, with clear lessons for the USSR (Uliukaev and Shashkov, 1989; Vtorushin, 1989).

Decollectivization in China. Soviet analysts studied intensively the striking transformation of agriculture in China after 1979 (Volkova, 1986; Kuznetsova, 1988; Iugai and Martyshkin, 1989; Volkova and Imamov, 1989; Naumov, 1990).

Land was distributed to peasants in plots on the basis of family size, under long-term leases initially established for up to 15 years but later extended in some regions to up to 50 years. Part of the peasant family's output was sold to the state at official purchase prices. To encourage production and sale, these prices were raised from time to time. In return for deliveries to the state, peasants could buy equipment, fertilizer, and fuel from the state at fixed prices. The rest of the output belonged to the peasant family, which could consume it or sell it, directly or through marketing cooperatives, on the market at prices above official prices. These cooperatives also sold supplies, rented equipment, and provided various technical services to peasants (Avdokushin, 1990).

This set of reform measures greatly increased peasant effort and initiative, and led to a sharp increase in yields, output, marketings, and peasant incomes. However, because these gains were due chiefly to greater peasant effort in the form of intensified manual labor, when such "reserves" were exhausted within a few years after decollectivization, the growth of agricultural output slowed significantly. By the mid-1980s, a number of problems and unresolved issues in China's new agricultural system became evident.

Peasants considered state purchase prices for grain too low relative to prices of

fertilizer, herbicides and pesticides, pumps, and other material inputs. Peasants therefore were unwilling to increase deliveries of rice and wheat to the state. Insofar as they could, they switched to more profitable products like pork, vegetables, and eggs (Ovchinnikov, 1988). Also, peasants spent more of their additional money income on consumption, rather than on investment (Ovchinnikov, 1989). Finally, peasants seriously neglected the maintenance of irrigation systems created by the former communes (Volkova, 1989).

China has not resolved the issue of ownership of agricultural land. One approach advocates converting land leases into private peasant property. It expects that under full privatization peasants would then invest more and thereby increase productivity. Also, through land sales, small allotments (often of noncontiguous strips of land) could be combined into much larger farms more capable of using equipment efficiently. In contrast, another view favors continuation of the present land tenure arrangements. It argues that leases of 30-50 years give adequate property rights and that higher state agricultural purchase prices can increase peasants' productivity, output, and investment (Volkova, 1990). Moreover, according to this second view, full privatization and subsequent consolidation of land ownership would strengthen tendencies, like the use of hired labor and greater inequality in wealth and income, that "contradict socialism" (Delusin, 1988).

Thus, China's experience does not provide support for decollectivization in the USSR (Naumov, 1990).

Nonstate Activity Outside Agriculture

Soviet scholars examined three forms of nonstate activity outside agriculture: private enterprises, producer cooperatives, and leasing arrangements.

Private enterprises. Various socialist countries permitted individual enterprise based on private ownership of the means of production and the employment of hired workers (in addition to the owner's family).

In East European countries, the scale of these enterprises was small, with usually no more than 10 hired workers. They engaged in repair and other personal services, construction, or auxiliary small-lot industrial production. In these fields, small enterprises provided faster and higher-quality service than state enterprises (Lushina, 1984, pp. 150-155).

In China, private enterprises had somewhat larger hired labor forces and operated restaurants, service facilities, and small factories producing consumer goods. Although considered an important way to absorb unemployed labor, private enterprises employed only about 3 percent of the labor force and produced only about 2 percent of gross nonagricultural output (Oleinik and Oleinik, 1987, pp. 195-196; Kalmykov, 1990, pp. 122-123).

The other socialist countries found they could adequately regulate private enterprises by licensing, allocation of premises and supplies, and personal income taxes (Ershov, 1986; Chubrov, 1988).

Producer cooperatives. In Eastern Europe, producer cooperatives used local raw materials and even waste products to produce a variety of consumer goods. They could adjust output easily to changes in demand, and their location close to customers saved transport costs. They offered jobs to workers released from state enterprises, as well as retirees, students, and handicapped people wishing part-time work or work at home. Cooperatives also provided an investment outlet for funds that households might otherwise have tried to spend

for consumption or involuntarily saved. Finally, cooperatives constituted a legal alternative to "underground" business activity by entrepreneurs and workers (Lushina, 1984, p.149; Tepper and Ichitovkin, 1988, pp. 105-106).

Methods of government regulation of cooperatives varied with the economic system. For example, in the GDR cooperatives received obligatory plan assignments for output and were allocated material inputs. The government controlled the cooperatives' employment, wage rates, and prices. Cooperatives paid an assets tax, turnover taxes out of sales revenue, and a profits tax. In contrast, in Hungary cooperatives (like state enterprises) did not have output assignments or supply allocations, and were instead controlled more indirectly through taxes, credit, and prices (Glinkina and Lushina, 1987, pp. 87-92). In these and other East European countries, separate taxes were levied on the cooperatives' profits and on the personal income payments to their members and employees (Chubrov, 1988).

In view of Eastern Europe's positive results with producer cooperatives, Soviet analysts recommended that producer cooperatives be established in light industry, the food industry, and consumer services. These cooperatives should not receive output assignments from the state, although they could contract for sales to state organizations (and to other cooperatives) in addition to sales to households. Cooperatives should be given no limits on the number of members, the number of workers, or the amount of capital, which would be provided by members' "share" contributions and bank credit. Cooperatives should obtain their fuels, raw materials, and equipment through "wholesale trade" conducted by special cooperative trade organizations. Floor and ceiling "limit" prices for cooperatives' output should be related to state prices for similar goods and services. Finally, a differentiated

profits tax structure for cooperatives should encourage sales to households rather than organizations, and the reinvestment of profit rather than its distribution as personal compensation (Glinkina and Lushina, 1987, pp. 93-94).

Leasing. In the 1980s, Bulgaria, Hungary, Poland, and China introduced leasing of state enterprises' buildings and equipment in trade, food service, personal services, construction, transportation, and industry. Leases, usually for five years, were awarded to the person or group with the highest bid in an auction.

Enterprises commonly achieved higher output and profits under leasing than under the former state management. Hence, similar leasing arrangements were recommended for the USSR (Arenda, 1990, pp. 132-141; Tepper and Ichitovkin, 1988, pp. 111-112).

Foreign Economic Relations

Soviet specialists intensively studied other socialist countries' reform measures affecting foreign economic relations, including (1) direct trading rights for enterprises, (2) enterprise performance indicators and bonus funds, (3) convertible currency retention quotas, (4) exchange rates, (5) joint ventures, and (6) special economic zones. Soviet experts also considered implications of national economic reform measures for economic relations among CMEA countries.

Direct trading. Under the traditional central planning system, producing enterprises (or their ministries) did not engage directly in export or import activity. Instead they sold export goods to foreign trade organizations (FTOs) of the foreign trade ministry at internal wholesale prices in domestic currency. The FTOs resold the goods abroad at world market prices in convertible currency or at CMEA contract prices recorded in the "transferable

ruble" (TR) unit of account. Similarly, the FTOs bought imports abroad at foreign trade prices in convertible currencies or TRs, and they resold them to domestic users at internal wholesale prices in domestic currency. However, under these arrangements, producing units had little incentive for quality improvements that would raise export prices and sales, or for economy in the use of imports that would cut import outlays.

To overcome these deficiencies, European CMEA countries adopted one or more of three organizational changes to increase the involvement of producing enterprises in foreign trade, and the enterprises' concern for the growth of exports and thrift with imports. (1) In some cases, FTOs were subordinated to a branch ministry as well as the foreign trade ministry. (2) In other cases, contractual relations were established to link the interests of producing and trading enterprises. In one variant, FTOs acted as agents for enterprises for a commission fee. In another variant, the producer enterprise and the FTO formed a new joint company for foreign trade. However, the most fundamental change was (3) the direct conduct of foreign trade by the producing enterprise (or, in the GDR, its combine) (Cherkasov, 1987; Viazovov, 1987; Tsedelin, 1988).

Enterprise performance indicators and bonus funds. In turn, exports became a more important enterprise performance indicator, and the growth of the wage fund, covering both basic pay and bonuses, was linked to the growth of exports in several European CMEA countries (Kulinichev, 1986).

Convertible currency retention quotas. Some European CMEA countries offered enterprises an additional incentive to export for convertible currency, in the form of a share of the resulting foreign exchange, which the enterprise could use to buy imports. These funds

could be spent for machinery and equipment, spare parts, materials, licenses, and business trips abroad. The percentage of convertible currency earnings retained by enterprises was higher for above-plan exports than planned exports. In some countries, the percentages were differentiated by individual enterprises, which therefore "bargained" with supervising authorities for more favorable treatment (Kulinichev, 1988; Pashkova, 1988).

Exchange rates. Official exchange rates in other socialist countries (as in the USSR) were often set on the basis of a hypothetical "gold parity" with the U.S. dollar that bore no relation to the relative domestic purchasing powers of the two currencies. Nor did it balance the socialist country's supply of and demand for convertible currencies, as shown by chronic deficits in the convertible-currency balance of payments.

Therefore, some countries, for instance Hungary and Poland, introduced "commercial" exchange rates based on the average cost (or price) of exports in domestic currency per dollar earned. However, domestic producer prices did not reflect relative scarcities on the world market (or often even in the socialist country). Therefore, if the equivalent of the foreign trade price multiplied by the "commercial" exchange rate were used in settlements for export or import transactions, some planned exports and imports would involve large losses or large profits for an enterprise. Even if the enterprise or supervising authorities wished to adjust production and foreign trade accordingly, their ability to do so was limited by shortages of materials and investment funds.

Hence, to provide enterprises "normal profitability," and thus "economic accountability," in the fulfillment of export and import plans, a complex system of multiple exchange rates was adopted. It involved adjustment of the basic exchange rate by

differentiated currency coefficients (DCCs). The DCCs varied widely by branches, products, and even enterprises. They thus were a subject of intense negotiations between higher- and lower-level units. For example, the latter wanted more favorable DCCs that would raise sales revenue from exports and reduce the need for cost reduction as a way to increase profit (Bakovetskii, 1985, pp. 104-105; Zaborovskaia and Kuznetsov, 1987, pp. 86-87; Viazovov, 1987, p. 19).

In contrast to administratively-set and administratively-adjusted nonscarcity exchange rates, foreign exchange auctions sought to let demand and supply establish exchange rates for convertible currencies. Soviet specialists studied Polish experience with such auctions. Sellers were enterprises offering part of their convertible currency retention quotas. Buyers included Polish enterprises (joint ventures were excluded from the auctions) without such quotas. The auctions, held twice a month, did not involve open sale and purchase offers in a public market. Instead, the state agency conducting the auction invited proposals for sales and purchases and sought to match them, if necessary negotiating separately with each party by telex. The Polish authorities justified this approach on the grounds that it preserved the anonymity of the participants in the process, kept the agreed rate secret, and averted currency speculation (Zverev and Telegin, 1988).

Joint ventures. Other socialist countries' experience with joint ventures with firms of capitalist market economies was thoroughly scrutinized by Soviet economists. They examined such aspects as the legal status, the forms and percentages of foreign and domestic partners' contributions to the venture's capital, control of management, sources of supply of materials, markets for the sale of output, tax rates and concessions, and transfer of profits abroad in

convertible currency (Fedorov, 1987; Kravchenko and Pleskanovskii, 1988; Manezhev, 1988a; Rodina, 1988; Rodina, 1989; Sadikov, 1989; Teperman, 1988; Vardomskii and Stepanov, 1989).

In these respects, Soviet analysts noted considerable variation across socialist countries, different treatment of individual joint ventures within a single country, and a trend over time to provide more attractive conditions for foreign firms to participate in joint ventures. For instance, countries differed in the extent to which joint ventures were included in state plans for output and supply, and in the share of their profits that could be repatriated. Individual socialist countries discriminated among joint ventures in regard to rates of profits taxes and effective exchange rates for conversions between foreign and domestic currencies. Both kinds of rates were often negotiated on a case-by-case basis. The maximum share of the foreign partner in the enterprise's capital was commonly set initially at 49 percent, but subsequent legislation often raised it, even to 100 percent.

Socialist countries expected that foreign partners in joint ventures would contribute foreign exchange, machinery and equipment, licenses, production know-how, and management and marketing skills. Socialist countries hoped that joint ventures would generate exports for convertible currencies, in the first place, or would produce import-substitutes that saved convertible currency outlays, in the second place.

However, socialist countries' experience with joint ventures was often disappointing. Prospective foreign partners sought commitments for the repatriation of profits in convertible currency that the host country was unwilling to provide. Foreign partners preferred to invest in services, light industry, and the extraction and processing of raw materials, rather than in

high-technology activities. Foreign partners frequently expected to sell a larger share of output in the national market, and a smaller share abroad, than the host country desired. Also, production of joint ventures was constrained by the shortages of materials, fuel and power, and transportation common in these countries. It was difficult to bring the quality of output up to the standards of the world market. There was little technology transfer from joint ventures to national enterprises.

Thus, Soviet analysts concluded, joint ventures are desirable in principle, but the host country will find it difficult to negotiate with prospective foreign partners, the ventures often will not meet expectations, and their combined effect on the host country's economy will be relatively small.

Special economic zones (SEZs). SEZs, or "free trade zones," are created to stimulate exports by offering foreign firms especially favorable treatment in regard to customs duties, taxation, foreign exchange transactions, price control, and regulations about the use of labor (Savelova, 1989).

Of the other socialist countries, China made the greatest use of SEZs, establishing a number of them in coastal cities. It expected that the special conditions in these zones not only would attract additional foreign investment, but also would enable the projects to be more successful than joint ventures in the rest of the country in transferring technology, meeting world market standards for quality, and expanding exports for convertible currency.

However, in China the total foreign investment in SEZs was small, and a major part of it was by overseas Chinese with ties to their ancestral homeland. The ventures were chiefly in tourist facilities and assembly operations in light industry. They required

considerable equipment and materials imported for convertible currency. But the share of their industrial output exported to the world market was low, because of poor quality as well as the foreign firms' interest in selling to the Chinese market. Also, the government had to make substantial investments in infrastructure like roads and utilities. Finally, smuggling, illegal currency operations, and corruption occurred in the SEZs (Portiakov and Stepanov, 1986; Bondarenko, 1988; China, 1988; Manezhev, 1988b).

In view of the Chinese experience with SEZs, Soviet specialists recommended that SEZs be established in the USSR only on a limited scale and after careful preparation. SEZs would be appropriate, for example, in Pacific ports and near the border with Finland. Business activity in SEZs should be subject to much less direct administrative control -- over inputs, outputs, investment, and trade -- than in the rest of the USSR. Each SEZ should have its own regulations on land use, taxes, pricing, use of labor, and other features. In this regard, the central authorities and the union republics should reach agreements on the distribution of authority over the creation and control of SEZs. Government bodies should understand the need for infrastructure investments in SEZs. Therefore, it would be sensible to start with relatively simple projects, for instance tourist facilities. In any case, an SEZ should not be expected to generate a positive net effect on the convertible-currency balance of payments during the first 5-7 years (Konovalov, 1989; Vardomskii, 1989).

Implications for economic relations among CMEA countries. Soviet experts acknowledged the conflict between national economic reform measures and the mechanisms established to coordinate economic relations among CMEA countries.

National economic reform measures sought to decentralize decision making and

increase the role of market forces. For example, these measures included a reduction in administrative allocation of goods, and an expansion of the authority of (profit-seeking) enterprises over production, investment, and domestic and foreign purchases and sales.

Soviet analysts recognized that such changes at the national level were constrained by CMEA's bilateral intergovernmental trade agreements, which determined a significant share of the respective countries' trade and the related production and investment (Klepatskii, 1988).

Thus, Soviet specialists proposed that CMEA "coordination" mechanisms should be altered to accommodate such national economic reform measures, and to achieve a new kind of "socialist economic integration" based on a "unified CMEA market" (Razvitie, 1988, pp. 7-11). However, they did not explain the specific features of such a new CMEA system or the concrete steps to achieve them, although they warned that the transformation of CMEA relations would be a complex, difficult, and lengthy process (Bautina, 1989).

III. TRANSITION TO A CAPITALIST REGULATED MARKET ECONOMY

Soviet specialists' published work on the transition to a capitalist regulated market economy in East European countries since 1989 is relatively sparse so far, because of the recency of the transformation in Eastern Europe and the publication lag in Soviet scholarly journals. Yet one can examine some preliminary analyses of Soviet specialists about major issues like privatization, marketization, and government regulation.

Privatization

Experience in Poland and Hungary indicates that privatization should begin with the sale to private owners of small enterprises in retail trade, personal services, and light industry. The sale should be by auction to the highest bidder, who should be able to get bank credit for a part of the purchase price. The second stage of privatization involves the transformation of larger state enterprises into joint-stock companies, so shares can be sold to employees, other persons, domestic institutions like banks, and foreign investors.

However, the state could retain some of the shares and be a majority or minority stockholder. Households will lack interest in purchasing shares or funds to do so. Also, the government should be cautious in determining the proportion sold to foreign investors, lest it be accused of "selling off" national wealth to foreign interests. Shares destined for sale could be sold in blocks over several years, rather than all at once, because it will be difficult to determine prices for shares. Results from sales of earlier blocks of shares can guide pricing of subsequent blocks.

Thus, the privatization process will be complex, lengthy, and perhaps only partial (Ol'shtynskii, 1990; Narinskii, 1990; Val'chuk, 1990, pp. 45-46; Vasil'eva, 1990).

Marketization

The transition from a socialist centrally planned economy to a capitalist regulated market economy involves the development of markets for goods, labor, capital, and foreign exchange (Aleksashenko, 1990).

In regard to the goods market, the government should reduce the use of output assignments, administrative allocation of inputs, and price control. But the changes may have to be gradual and partial, because shortages are widespread and decontrol will lead to sharp price increases (Moiev, 1991).

Over the longer term, the government should strengthen competition among firms. The number of firms should be increased by the breakup of large state enterprises and their sale via privatization. Collusion among independent firms should be combatted. State, private, and cooperative firms should be treated equally in regard to taxation, credit, price and wage regulations, and access to foreign exchange (Narinskii, 1990, pp. 103-105).

In the labor market, economic reform calls for a reduction in government controls over wages and employment. Workers will press for wage raises to match (or surpass) the rate of inflation in consumer prices. They will seek full "compensation" for inflation through centrally-decreed increases in wages, or pay hikes from individual employers. The government will need great popular support in order to be able to restrain wage increases and a resulting inflationary spiral. Also, unemployment is likely to grow as firms adjust production and investment to market conditions (and the loss of budget subsidies). Therefore,

expanded job placement, training, and unemployment compensation programs will be necessary.

Creation of capital markets involves establishment of independent commercial banks, and securities markets,[11] as well as central bank measures to assure positive real interest rates (exceeding the inflation rate). It will take years to establish such capital markets (Lukianov, 1990).

Reform of the foreign exchange market should seek to increase the degree of convertibility of the domestic currency in three dimensions: (1) for both enterprises and households; (2) for goods, services, and capital movements; and (3) at a uniform exchange rate. Poland was able to do so because its economic reform program was endorsed and supported by international organizations like the International Monetary Fund and the World Bank (Narinskii, 1990, pp. 104-105, 110).

Government Regulation

Government intervention is still important in a capitalist regulated market economy. In Western Europe, Japan, and the United States, without comprehensive, detailed, and obligatory national economic plans, governments can effectively influence prices, wages, employment, income distribution, and the relative development of individual branches and regions. To achieve their aims, governments use a variety of instruments and institutions of economic policy. They include tax preferences and subsidies (Miliukov and Senchagov, 1990; Kalmykov, 1990b); favorable credit arrangements (Simakov, 1990); labor placement and training programs (Timashkova, 1990); "incomes" policies (Kuznetsov, 1990, pp. 15-16); "indicative" plans and government purchases of goods and services (Kalmykov, 1990b);

and "consultation" with, and "guidance" of, the private sector (Senchagov, 1990; Simakov, 1990).

A special issue in government regulation particularly important in a large or multi-ethnic country (the USSR is both) is the distribution between the central and regional governments of authority over economic activity. This authority includes taxing and spending powers as well as control over production and investment by enterprises in a region's territory (Ivanovskaia and Petrov, 1989). Some devolution of authority to regional governments is advisable to permit them to respond to local interests and needs. However, this decentralization should be limited, for two reasons.

First, it is desirable to have some redistribution of income, through budget revenues and expenditures, from richer to poorer regions, to narrow the gap in economic development and per capita income. This goal was largely accomplished in Czechoslovakia, where some tax revenue collected in the Czech part was spent in the Slovak part. But similar success in reducing inequality across regions was not achieved in other East European planned economies, China, or Yugoslavia (Kuligin et al., 1989, pp. 116-119).

Second, the central government should have enough economic authority to maintain an integrated national market with a national economic policy. The experience of Yugoslavia showed the dangers of excessive decentralization.[12] Under the 1974 constitution, the six republics obtained powers and financial resources previously belonging to the national government. The federal government retained responsibility for defense and foreign relations, but most control over economic activity shifted to the republics. As a result, the country no longer had unified taxation and credit systems, a common price control program, or a single

foreign economic policy. The republics' pursuit of regional self-interest created a strong tendency toward regional autarky. It involved small-scale, high-cost production, lack of specialization, and low labor and capital productivity. Republics often preferred to trade abroad rather than with each other, and many trade transactions between republics were in foreign currency. This "economic nationalism" led to a large increase in foreign debt, rapid inflation, a drop in households' real income, a rise in unemployment, and strikes (Kuligin et al., 1989, pp. 119-123).

Yugoslav experience suggests lessons for the development of a regulated market economy in the USSR (Kuligin et al, 199, pp. 113-115). For example, the USSR should have national markets for goods, labor, capital, and foreign exchange. Generally applicable legislation for economic activity, for instance concerning establishment of firms and employment, should be formulated by the national government in consultation with regional governments. The latter could then adopt more detailed versions (*konkretizatsiia*) of the national legislation, as well as additional laws and regulations reflecting specific features of the region. The central government should control the monetary and foreign exchange systems; transportation, communications, and energy networks of national significance; and key parts of heavy industry. The regions should be responsible for most enterprises in their territory.

IV. CONCLUSION

Soviet scholars intensively studied economic reforms in other socialist countries. During the second half of the 1980s, they analyzed reforms within the framework of a socialist centrally planned economy. For example, they examined measures concerning the administrative organization of the state sector, planning, pricing, banking and credit, labor, agriculture, nonstate economic activity outside agriculture, and foreign economic relations. More recently, Soviet specialists considered privatization, marketization, and government regulation issues involved in the transition from a socialist centrally planned economy to a capitalist regulated market economy.

Soviet experts examined the reasons for economic reform measures in other socialist countries, the features of these reform measures, their positive and negative results, and possible lessons for economic reforms in the USSR. The published works of Soviet specialists reflected their longer unpublished studies for Communist Party and government officials. However, until relatively recently, published studies tended to avoid explicit criticisms of reforms in other socialist countries, and lessons for the USSR, in the expectation that readers would infer them.

These unpublished and published studies of economic reforms in other socialist countries influenced proposals for, and decisions on, possible reform measures in the USSR. For instance, assessments of reforms in other socialist countries affected Soviet measures like the shift from gross to net output as the key enterprise performance indicator, the effort to

regulate wage increases by taxation of enterprise wage funds, direct foreign trading rights for enterprises, convertible currency retention quotas and convertible currency auctions, joint ventures and special economic zones, "contract" and "free" prices, cooperatives, and leasing of state enterprises. On the other hand, for example, studies of economic reforms in other socialist countries explained the failure of contract brigades, illuminated the spuriousness of "self-management" by workers' councils, and identified how to improve socialized agriculture while questioning the possible gains from decollectivization.

Yet Soviet assessments of economic reforms in other socialist countries were, of course, only one "input" into Soviet policy making about economic reforms in the USSR. Communist Party and government decisions on the adoption of legislation, the ensuing articulation of detailed regulations, and their subsequent implementation were shaped also (and more) by the constellation of political forces, at the national and regional levels, for and against economic reforms. In this regard, Soviet political leaders have, not surprisingly, shown more concern for the acquisition and retention of power than for a fundamental transformation of the economic system comparable to the political and social changes the USSR has experienced under *perestroika* and *glasnost'*.

NOTES

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[2] In spirit the study is somewhat similar to Rozman's (1985) monograph on Soviet sinologists' views of China's class structure and the implications of their analyses for social change in the USSR. The present study differs from a "content analysis" like that of Jacobs (1990), which classifies articles published in the journal *Ekonomika sel'skogo khoziaistva* during 1971-1985 according to the foreign country and the aspect of agriculture covered on the basis of their titles, without also analyzing and evaluating the content of each article.

[3] For both authors and readers in the USSR concerned with economic reforms in other socialist countries, articles are professionally more important than books, for several reasons. Because the lag between writing and publications is much smaller, articles are more timely, both in coverage of topics of current interest to readers and in presentation of authors' more recent views. Articles are relatively more accessible to professional readers by subscriptions

to periodicals or at their own or other organizations' libraries, whereas books are published in relatively small editions and are not easily obtained at book stores (interview material).

[4] The Soviet professional periodicals included *APK: ekonomika, upravlenie* (formerly *Ekonomika sel'skogo khoziaistva*); *Den'gi i kredit*; *Ekonomicheskie nauki; Ekonomicheskoe sotrudnichestvo stran-chlenov SEV; Ekonomika i matematicheskie metody; Ekonomika i organizatsiia promyshlennogo proizvodstva; Ekonomika i zhizn'* (formerly *Ekonomicheskaia gazeta*); *Far Eastern Affairs* (complete translation of *Problemy Dal'nego Vostoka*); *Finansy SSSR; Foreign Trade* (complete translation of *Vneshniaia torgovlia*); *Izvestiia AN SSSR, seriia ekonomicheskaia; Khoziaistvo i pravo; Kommunist; Planovoe khoziaistvo; Sovetskoe gosudarstvo i pravo; Vestnik AN SSSR; Vestnik Leningradskogo universiteta, seriia 5: ekonomika; Vestnik Moskovskogo universiteta, seriia 6: ekonomika; Vestnik statistiki;* and *Voprosy ekonomiki*. The Western selective translation periodicals included *Current Digest of the Soviet Press; Problems of Economics; Matekon; Soviet and East European Foreign Trade;* U.S Foreign Broadcast Information Service (FBIS) *Daily Report: Soviet Union*; and U.S. Foreign Broadcast Information Service, Joint Publications Research Service (JPRS) *Reports* (various series).

[5] In 1990, in recognition of the disintegration of the "world socialist system," this institute was renamed the "Institute of International Economic and Political Studies."

[6] At the worst, to show complete "neutrality" the author examined each country in strict Russian alphabetical order.

[7] Articles in Soviet economic journals often fail to meet Western professional standards in regard to clarity of exposition, analytical level, use of quantitative methods, and

documentation of sources, but these shortcomings are not peculiar to work on economic reforms in other socialist countries.

[8] Soviet use of these methods is explained in Bornstein (1987, pp. 104-109).

[9] See the section below on nonstate activity outside agriculture.

[10] Yugoslavia, a "socialist market economy," was not included in this analysis.

[11] Securities markets that support the privatization process and the financing of private firms through the trading and valuation of securities differ from (1) the sale (in Hungary and China) of government bonds to absorb household savings or (2) the sale (in China) of "shares" in state enterprises to their workers to increase their interest in good work (Demina, 1990, p. 57; Pivovarova, 1990).

[12] Excessive decentralization, though not to the severe extent as in Yugoslavia, also occurred in China, but it was curbed by subsequent recentralization (Kalmykov, 1990a, p. 120).

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