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BETWEEN CONFORMITY AND REFORM

Economics under state socialism
and its transformation

Hans-Jürgen Wagener

The project

Comparative economics, dealing mainly with non-market systems, was once called, by B. Ward, a 'slum field of economics'. Marxist economics, although briefly *en vogue* in the West in the late 1960s and early 1970s, has never attained the status of an accepted and productive branch of the profession. So, what can be expected from a science that was focused on a socialist planned economy and inspired by Marxist thought, such as economics under state socialism? Yet, in each of the countries of Central and Eastern Europe hundreds of dedicated scholars were doing scientific work in economics for more than forty years after World War II: writing reports, publishing papers and monographs, visiting conferences, giving policy advice. Why are the results of such efforts so meagre? For they are meagre, aren't they?

Looked at from the outside there are two viewpoints: first, what may be called the potential Nobel Prize-winning point of view of great economists since Keynes (Blaug 1985)¹ and, second, the point of view of the specialist in comparative economics. If we browse through the eminent economists' literature (e.g. Blaug and Sturges 1983, Blaug 1985, Beaud and Dostaler 1995), the authors seem more or less unanimous: There are many East European economists among the highest ranks of the profession, but most of them are emigrants who attained their reputation as members of the Western, predominantly American, scientific community: Kuznets, Leontief, Lerner, Marschak, Domar, Kaldor, Fellner, Balassa, Scitovsky, Harsanyi, Georgescu-Roegen, Vanek, and many others.² And of the few eminent economists who lived and worked under socialism in Central and Eastern Europe after World War II, two are, again, known more for their

scientific achievements in England and America than for their publications when back home: M. Kalecki and O. Lange. What remains is a short list of three Soviet economists, L. Kantorovich, S. Strumilin and V.V. Novozhilov, and one Hungarian, J. Kornai. It is certainly not unfair to say that hardly any contribution of the three Soviet economists has really been absorbed into the standard body of economics (although, of course, it is well known that Kantorovich received the Nobel award for his development of linear programming algorithms; nevertheless in the east, he was considered a mathematician rather than an economist, and in the West it was Dantzig and Wolfe who set the tone in linear programming). This leaves us with Kornai as the only scholar who – as will be seen later – attempted a general theory of the socialist economy. This, indeed, is a meagre harvest, or is it the result of Western ignorance and arrogance?

The specialists from the slum field of comparative economics, of course, offered a much broader view. Being interested, like their Eastern colleagues, mostly in the workings of the planned system and being able to read the national languages, they were able to follow closely the debates between East European economists, to pass over the ideological bows, to relish the critical undercurrents, to weigh the reform proposals. In many cases they were *énigmes*, too, and had some concrete field knowledge of the system. There is a vast body of literature which will not be reviewed here. As far as economic theory is concerned, it was mainly the areas of political economy of socialism, reform of the planning system and mathematical economics that received special attention (see, for example, Trenl 1969, Nutt 1973, Ellman 1973, Lewin 1974, Zauberman 1975 and 1976, Nove 1986, Cave *et al.* 1982, Surela 1984, Lösch 1987 just to name a few representatives). Clearly, apart from mathematical economics which essentially analysed the perfect planning variant of the neoclassical paradigm, economics under socialism seemed idiosyncratic and western economists, not specially interested in planned economies, cannot be blamed if they expected little enlightenment from this side. What triggered sensations among the initiated (the Liberman discussion in 1962, the Prague Spring in 1968, *perestroika* in 1985), had little to offer the rank and file Western economist.

On the other side of the fence called the Iron Curtain it was of little importance to the rank and file eastern economist whether or not he entered the pantheon of the profession. He was faced with the task of bringing his professional competence in line with the ideological doctrine prescribed, of keeping *à jour* with all the vacillations of party politics and, finally, of contributing his share to the long-term evolution of a more rational economic system. Apparently, his task was in many respects much more practical than that of his Western counterpart. How could it have been other, since state socialism was not simply socialism, but scientific socialism? The fundamental science of this endeavour, Marxism, ascribed a special role to economic relations in society and, hence, to economics, in fact to

both branches of economics: political economy analysing antagonistic social relations materializing in commodities and values (this branch was bound to disappear together with the state under communism) and economics proper which was needed for the administration of the economy. Economics was bound to be the ruler's science (*Herrschaftswissenschaft*); no wonder the rulers concluded that it was too important to leave it to the economists. Here are to be found the germs of its degeneration, both of the system and of economics as a science under state socialism.

There was a real scientific problem: the system of a planned economy. Economics had started to address this problem right from the first days when socialist planning was conceived as potential reality, that is back in the 1890s (see Pareto 1896–7, 1907, Barone 1908, Pierson 1902). This was the beginning of the famous socialist debate which gathered new momentum when, in 1917, the Bolsheviks seized power in Russia and showed themselves determined to create a socialist system. The immediate reaction of economics was Mises' (1920) classic. But since a planned socialist economy had never existed before (we omit exotic cases like the Jesuits in Paraguay) there was no practical experience available by which to test the theoretical propositions. For Lenin, in desperate need of a model, German war practices (Rathenau) and their theoretical underpinnings (Neurath 1919) were left as the only option available; however, they had little in common with socialist ambitions. The economics of planning was developed in Soviet Russia in the 1920s on a comparatively high theoretical level (see Mau 1993), but still with only limited practical experience, and after Stalin's second revolution of 1928 with full empirical backing, but rather limited theoretical ingenuity (due to purges, work camps, shootings, when scholars like Chayanov, Kondratiev, Bazarov and others disappeared; see Jany 1972).

Soviet Russia was basically an agrarian and underdeveloped country by 1920. It is of no importance, in this context, whether Marx had ever meant such a country to introduce socialism. But it is quite clear that socialist planning was a special case under these conditions. The scientific and practical problem of a planned economy acquired a new dimension when, after World War II, the Soviet Union extended her sphere of influence, and the countries of Central and Eastern Europe set in motion a process of transformation to a socialist system. Not all of these countries were underdeveloped and agrarian; most of them were small and, by necessity, open economies. If the new system was to function in a satisfactory way in these countries, planning practice and planning theory had to adapt. The Soviet example was of limited use: the planning system ought to be subject to dynamic theoretical and practical evolution. For even if the socialists were guilty of the 'fatal conceit' of constructivism (Hayek 1988), it was unthinkable that an efficient mechanism of governing and guiding the economy had been found at first stroke and could be maintained unchanged through time and in different situations.

This is the starting point and central problem of our present study: How good was economics in Central and Eastern Europe in explaining and improving the socialist system of planning, and what was the contribution of science to system reform? If anything, this must be what Eastern European economists contributed to our science. For the failed experience of Soviet-type planning has become a historic example and will remain a textbook case of how it does not work. In this context, discussion about the workings of the system and possible reforms are to be expected to be highly informative. What we will rarely find in East European economics is a detached, abstract analysis leading to fundamental innovations in theory. As already hinted at, many interesting puzzles deriving from centralist planning have been taken up and treated in a sophisticated way by Western scholars. Examples are Leontief's input-output model based on Marx's schemes of reproduction and theoretically necessary for optimal planning, Domar's (1957) growth model inspired by Feldman (1928), Domar's (1966) and Vanek's (1970) theory of the cooperative and self-management, the theory of incentives (e.g. Weitzman 1980). The few exceptions to this rule are, of course, the names mentioned above, that is, the Soviet theory of optimal planning which is only the planning counterpart of the neoclassical theory of market equilibrium and, hence, of little avail for practical problems, and Kornai's (1980, 1992) theory of socialism.

The external observer may be inclined to infer from the failed socialist experience a correlation of bad theory and bad policy. And, indeed, the chapter that follows on Russia draws explicitly such a conclusion for the *perestroika* policy which was designed by eminent scholars of the optimal planning school. The example reveals the dilemma: optimal planning theory is excellent by Western professional standards. However, it is utterly irrelevant and thus bad theory for improving or reforming the Soviet economy of the 1980s. It did not know the notion of money, of institutions, or of individual behaviour which are crucial in this context. So, it may turn out in the end that economic thinking in Central and Eastern Europe over the last forty years had serious deficiencies, perhaps in some countries more than in others, due to political-ideological intervention. Whether or not this is true can only be determined by closer examination.

When political guidance, or even repression, is mentioned, it becomes immediately clear that science, teaching and research could not enjoy any constitutionally guaranteed liberties under a communist regime. This leads to the question which Lukaszewicz (1997: 13) asked in the course of discussion of the present project: 'is it possible that under conditions of an abortive civilizational mutation any cognitive process can proceed and bring about successful results in terms of general scientific progress?' He answered in the affirmative claiming, at least within the Polish environment, the possibility of intellectual sovereignty. The claim did not remain unchallenged: sovereignty presupposes liberty which is precisely what was not

given. However, what Lukaszewicz really meant by defining sovereignty, earnest study of the system and its characteristics, is intellectual sincerity which was difficult enough to maintain in certain situations. Autonomous science relies, as Gligorov points out (see Chapter 7), 'on the authority of the argument, rather than on the argument from authority'. In a hierocratic system, where holy scripts, fundamentalism or partisanship (*partinost*) prevail, the argument from authority cannot easily be put aside. As long as scholars have internalized the ideology, by definition they can be sincere: they are true believers. Where this is not the case, either exit, external or internal emigration, or cynicism, a distorted form of loyalty, — the voice option being precluded — is the alternative. It has not been as bad as that all the time and at all places.

Evidently, scientific results are not evaluated in terms of the sincerity of the researchers, but rather in terms of their productivity. The former may serve to separate the couriers of power from real scientists. As to the latter, it has to be asked: productive in terms of what — explanation, prediction, propelling theory? Explanation, especially of the deficiencies of the system, is the minimum one can expect. A brilliant and very influential example is Brus (1961). But with prediction and propelling theory we hit upon another dilemma. What was there to be predicted in a system which did not know independent agents and which was guided by the autonomous, and by no means unchanging, will of administrators? And which theory could be improved by scientific efforts? Political economy of socialism, the official paradigm, was one possibility to which, for instance, GDR economists confined themselves. Others considered it barren and unproductive. An alternative could have been neoclassical theory which, for better or worse, can help to elucidate planned systems. But this was ideologically interdicted and, therefore, could be used neither in classroom nor in publications. Kornai (1980) — and he was the only one who did — chose a byway by developing a theory of his own that was generally hailed in the West. The productivity of this theory, however, is not unquestioned and it could not be used in the classroom during the socialist period.

We come to the conclusion that assessing economics under state socialism is not an easy task. What we are dealing with is history of thought. Since, evidently, the contributions to economic theory proper are few and far between, we will not concentrate upon the history of economic analysis in the sense of Schumpeter (1954), but rather upon the history of economic thinking. This includes aspects of management of economic theory as a science, its institutional organization, and its representation in teaching. It also includes some aspects of the sociology of science. In the course of the present study a special interview project was conducted among Central and East European economists in order to collect their personal views. The results have been published separately (Wagener 1997), but we will make use of them in this chapter.

A special focus of the project is reform thinking. This derives from the assumption, already hinted at, that productive economic thinking under state socialism contributes to the design of the system and is itself informed by reform practice. There is continuous feedback between economic thinking and system development which yields a form of evolution. It will be seen in the individual chapters that many economists interpreted their task within the system in exactly this way. Already in the 1950s there were the first theoretical reactions to a practice which was unsatisfactory right from the beginning. Later, the reforms of the 1960s all over the region, including Yugoslavia, are the result of such an evolutionary process. In both (and many other) cases the 'natural' evolution was stopped by political power that saw its position endangered and, having been brought up with and knowing nothing else but orthodoxy, cried immediately 'revisionism!' It will be seen in a moment, however, that political reaction to reform ideas was not only due to ignorance on the part of the power élite, but a rational, survival-oriented answer to imminent transformation of the system. Thus, institutional inertia became the hallmark of state socialism. Again, we see the germs of theoretical and practical degeneration.

It is tempting, even if it is counterfactual, to ask what would have happened if the evolution of the socialist system had been allowed to continue without too much political interference. Would the Czechoslovak 'socialism with a human face' have proved viable? Would there have been real systemic innovations? One possible result of such a development can be hypothesized: perhaps what appeared as radical change in 1990 would have evolved continuously anyhow. A socialist market economy would not have worked properly, practice and thinking would have propelled the system to further liberalization and, finally, privatization. Isn't that the Chinese reform path? It is too early to draw such sweeping conclusions, but in face of this hypothesis the notorious dichotomy of shock versus gradualism seems ill-placed within the radical change of transformation as it happens in Central and Eastern Europe. Once continuity has become a stationary rather than an evolutionary process, radical change is the only emergency exit if stagnation is to be avoided. The chance for gradualism has been missed. This is one of the lessons the experience of state socialism has taught.

Transformation in itself, and particular transformation strategies, can only be understood against the background of real-sphere and cognitive developments during the previous period. This is why reform thinking, or the theory of the economic system and its mechanism, was given special attention in the project. However, a clear distinction between reform thought and reform practice must be made: the study does not aim at understanding practical policy measures and evaluating them in the light of the theories discussed. It is restricted to the cognitive pre-history of transformation and the first years of its proper history. A second restriction derives from the

first: the study cannot do justice to the entire scope of economic thinking. For, of course, economists under socialism were dealing with many fields of the science that will not even be mentioned in the following chapters. Many sincere scholars, once they had come into conflict with the party watchdogs, tried to move internally into niches of the science which were thought to be less sensitive and where they did decent work: history of thought preferably of the pre-classical period, operations research where high standards could be reached, economic history. Political economy of capitalism, the Marxist counterpart of comparative economics, also had a slight slummy touch in the East: it was bound to rely on the large body of Marx's writings on this topic which was palatable only for true believers and it was practically irrelevant such that – as happened in the GDR – prominent critics of economic policy were forced to restrict their scientific publications to this topic. And finally, there was a large group of economists working in the field of branch economics which, given the character of the system, was closer to business economics than economics proper.

Economic thinking under communism is heavily influenced by politics, that much has already become clear. Hence, the incisive events of political history must play an important role in its development. The whole period of investigation, 1945–95, can be roughly subdivided into several subperiods determined by the following events:

- 1948–9 Transition to full Stalinism in Central and Eastern Europe
- 1953 Death of J.W. Stalin; East German uprising
- 1956 20th party congress of the CPSU with Khrushchev's revelations on Stalin and Stalinism; Polish political crisis; Hungarian uprising
- 1962–3 Introduction of the East German New Economic System
- 1963 First year with a negative GNP growth rate in Czechoslovakia and, as far as we can see (Maddison 1995: 201), also in the USSR
- 1964 Ousting of Khrushchev
- 1965 Introduction of the Kosygin reform in the USSR
- 1968 Introduction of the Czechoslovak reform of the Prague Spring and its suppression
- 1970 Introduction of the New Economic Mechanism in Hungary
- 1976 Political crisis in Poland
- 1980–1 Appearance of the independent union *Solidarność* in Poland with subsequent introduction of martial law
- 1985 Gorbachev and his *perestroika*
- 1989 Fall of the Berlin wall

Around the major turning points we can group certain periods which exhibit a roughly parallel development in all countries. Yet there are leads and lags in economic thinking which will be documented in the following

chapters. To give just one example: up to 1956 full Stalinism reigned. In that year at the congress of Polish economists the Stalinist model was criticized by, among others, Brus, Drewnowski, Lange and Lipiński.³ Earlier, in 1954 the Hungarian economists Balázs and Peter had published critical studies calling for decentralization and market control (see Chapter 4) that remained unnoticed in the region. Also in 1956, but clearly under the influence of the Polish critique, the East German economists Behrens, Benary, and Kohlmeier ventured similar ideas. While in the GDR, despite destalinization, after the Hungarian uprising, any critical remark, whether the authors were as good Marxists as the ones named or not, was denounced as 'revisionism', in Poland an Economic Council headed by Lange and Bobrowski was installed in 1957 to work out a reform of the system in important features. That the respectable proposals of this council never had any policy influence is a different story.

The period from 1956 to 1970 may be called the reformist period. In the late 1950s and early 1960s reform economics flourished in the Soviet Union. As the overview shows, reform practice followed from 1962 onward with Poland as the only exception: there were many political crises and policy reversals, but never a distinct economic reform in Poland before 1990. Neither the New Economic System of the GDR nor the Kosygin reform in the Soviet Union gained the momentum or the impact on the whole society, including science, achieved by the Hungarian and Czechoslovak reform efforts of 1965–8. The latter two were developed parallel to each other with, apparently, very little cross-fertilization between each other. The reform impetus started to wane in the GDR in 1965 and by 1970 it was all over everywhere, except in Hungary.

What followed was called in Czechoslovakia the 'period of normalization' and in Russia *post festum* the 'period of stagnation'. It lasted in the Soviet Union until 1985 when *perestroika* set in. The GDR and Czechoslovakia enjoyed normalization until the end of the socialist system. Only Hungary and Poland experienced during this period a somewhat independent development, although totally different from each other. This manifested itself in reform thinking which flourished in both countries, but especially in Hungary where the New Economic Mechanism was further developed.

Being outside of the Soviet empire, Yugoslavia knew a different periodization. The subperiods were determined by the different models of a socialist economy which were dominated, after 1952, by workers' self-management and where the turning points, except for the reform period during the 1960s, were marked by constitutional reforms (see Mencinger 1996):

- administrative (Soviet-type) socialism: 1945–52
- administrative market socialism: 1953–62
- market socialism: 1963–73
- contractual socialism: 1974–88.

But interestingly enough, the differences are not as great as might be expected. The period 1961–68 was the reform period with an intensive debate in the first part and some reforms in the second. However, emerging transformation economics was cut off by the early 1970s when self-management became the unchallenged ideology and reform discussions stagnated. Transformation, actually along Polish lines, started in late 1989 (see Chapter 7). So, in fact, there must have been also other factors at work, besides Soviet dominance and national reaction, which shaped the time path of the socialist economies.

The theory

Certainly after 1956 the importance of Marxist theory and especially the political economy of socialism declined in Central and Eastern Europe, being maintained as the focal point of economic thinking only in the GDR. There are three reasons for this. First, East German economists considered themselves as innate heirs of Marx and Engels. Second, in the closed world of the Eastern bloc the GDR economy was considered to be the most productive one so the ideas behind it could not be that bad. Third, the very existence of the GDR depended upon the socialist system. This was certainly true: the end of socialism was the end of the GDR which had no other national identity. In other countries of Central and Eastern Europe the political economy of socialism served the function of an official doctrine which was more or less honoured, but not really believed in: it dried up.

As remarkable as its death is its complicated delivery. Since Marx had not written something of the like, it had to be invented. The development of the Stalinist system in the 1930s happened without any fundamental theory. Stalin himself noticed the deficiency and ordered in 1936 a textbook which did not see the light until 1954. The first such textbook had been published in Poland by Brus (together with Pohorille 1951), the same man who ten years later wrote the most influential critique of the system prevailing at the time (Brus 1961) and who on the eve of the socialist period came out with a book (co-authored with Laszki – both long since in Western emigration; Brus and Laszki 1989) venturing the possibilities of a socialist market economy. If anyone, it is Brus who personalizes the above-mentioned hypothesis of evolutionary interaction between theorizing and practice.

The political economy of socialism, which was supported by the dogmatic school of Marxism–Leninism and taught at universities all over the region, can be described in terms of the Lakatosian scheme (as in Mair and Miller 1991).⁴

- *World view* Marxism–Leninism (at times in a rather vulgar interpretation); there are objective laws of history; intellectual atavism ('The reaching of Marx is almighty, since it is true'); historical superiority

of socialism over capitalism; monopoly of the party in political, economic and ideological affairs (dictatorship of the proletariat) in order to bring communism about.

- *Values* Subordination of the individual under the collective; partisanship (*partinost*); solidarity.
- *Goals* To instrumentalize economic science for political activity; stabilization and perfection of the economic system; fighting bourgeois economics and the imperialist system; consolidation of party power.
- *Themes* Nature and scope of planning; character of commodities under socialism; labour productivity; administration of economic units; practical problems of sectors and functional fields (e.g. finance).
- *Methodology* Formally dialectics and historical materialism; materially politico-ideological conformity; selection of problems, use of empirical material and interpretation of results depend on the actual party line.
- *Criteria for assessment of theories* The classics (in varying composition: after 1956 Stalin was out of grace); party line; of course, also internal logical coherence.
- *Hard core* Marx's theory of value⁶, the economic laws of socialism: planned development (*plannomenost*), faster growth of sector I (means of production) over sector II (consumer goods); state ownership is the highest form of property; money does not matter; the primacy of politics.
- *Protective belt* There are still commodities under socialism; full communist consciousness exists only under full communism; socialism develops under conditions of competition of systems.
- *Positive heuristic* Show the inferiority of capitalism (hence the size-able funds devoted to political economy of capitalism); aid the party in its endeavour to build socialism.
- *Evidence* Classical texts; case studies; party decisions.

It has to be realized that the economic order of the socialist system does not follow from the political economy of socialism, but the other way round: the socialist system as antithesis to the Marxian concept of capitalism was in need of a political economy. Capitalism, according to Marx, was characterized by exploitation leading to class conflicts, by alienation leading to exchange value orientation, by crises deriving from market coordination, and by stagnation deriving from the property rights structure. The logical antithesis is a change from private property to social property, from individual planning, markets and money to collective material planning, from exchange value and profit orientation to use value orientation and solidarity, and from class struggle to harmony of interests. The problem of political economy was to operationalize these movements and find appropriate institutional solutions.

The paradigm resulted in seven propositions which may be considered the core of the Stalinist doctrine and remained more or less unchallenged in the open until the mid-1980s (cf. also Zaslavskaja 1984):

- 1 Under socialism there are no contradictions between productive forces and production relations, because the latter are always in advance of the former. Hence, socialism does not know stagnation, structural crises, and any system that is going to supersede it.
- 2 There are no fundamental conflicts between individual, collective and social needs. Democratic centralism mediates between all levels and provides for organizational unity.
- 3 In socialist production labour has a direct social character due to planning. A market transforming individual into social labour is redundant.
- 4 Collective social production is superior to all other (cooperative, individual) forms of production. From this follows the hierarchy of ownership forms.
- 5 Workers as bearers of labour power are the object of central planning, i.e. planning is not coordination of independent economic subjects, but conscious organisation from above.
- 6 Utility functions of individuals contain only material arguments. Hence, the economic system can be separated from the social, cultural and emotional system, and can be organized from above.⁷
- 7 Really existing socialism is scientific socialism: the level of knowledge is sufficient for conscious order and planning.

As far as economic order is concerned, two basic features have to be mentioned in addition which partly follow from the paradigm and partly may be considered as ideological traditions going back to the founding fathers Marx and Engels or to the naïve planning propagators Kautsky and Bebel. One is the attempt to treat the economy as a single large firm. This may be called the Kautsky–Lenin fallacy.⁸ It was Kornai (1959) who showed clearly the suboptimality of this approach. The other is the conviction that in a socialist planned economy all interrelationships are deterministic and can be designed and changed by conscious decisions. This may be called the Kautsky–Stalin fallacy, and was criticized by Hayek (1988) as fatal conceit. Clearly, it gave a special importance to the primacy of politics and to the role of the party in the economic system (and society which was Hayek's (1944) earlier objection: the road to serfdom).

The economic system of socialism is superior to that of capitalism, since it substitutes rationally coordinated planning on the basis of social property rights and solidarity for the exploitative and chaotic order of decentralized decision-making and market coordination. The superiority is due to the transition from individual to social rationality (no externalities), from exploitation to voluntary contribution (higher motivation), from

underutilization of capacities to full capacity utilization (less waste), from profit maximization to need satisfaction (no class conflicts), and, finally, from institutionally confined to unrestricted innovation (dynamic efficiency). This conviction was by no means restricted to Central and Eastern Europe. A widely read Western textbook on the economics of socialism (Wilczynski 1977: 208–10) repeated these claims even in 1977 (see also Brus and Laski 1989).

All this may read as a caricature. It is not. On the basis of this paradigm it was possible to develop a huge body of literature, to feed an army of university teachers and to govern an economy which supported the second world power. Economists from Central and Eastern Europe stress that the paradigm was, certainly after 1956, not generally accepted. In Poland and Hungary in particular the profession was critical; hence the claim of intellectual sovereignty. This is, however, only part of the story. For as critical about the ruling paradigm as one may have been, the question remains whether there was an alternative. At the universities and at the level of textbooks exclusive autarky of Marxism–Leninism prevailed throughout the communist period. Up to the 1980s, when a subterranean current of neoclassical microeconomics and Keynesian macroeconomics emerged, there were no paradigmatic alternatives among practitioners. This is reflected in the purely pragmatic character of the writings of those who were critical about the paradigm. Of course, it was also possible to produce a great deal of criticism about the actual economic regime and economic policy within the ruling paradigm – and such was the normal case in times of intensified reform thinking. What prevented a sovereign intellectual activity were the taboos which had to be respected: the core of the paradigm, especially questions of ownership, the principle of planning and the predominant role of the party (the primacy of politics) were not to be touched upon. Economists who conformed to these rules could feel themselves sovereign, but in fact they submitted to the argument from authority.

‘Economists were providing interesting and valuable diagnoses of various pathologies, but the search for the sources of the latter was too shallow, because several systemic features were out of reach as suspects’, as K. Porwit said in the course of our discussions. This situation had a far-reaching implication, in that it resulted in systemic optimism or the implicit acceptance of the superiority claim: the system in itself is viable, potentially optimal. If something went wrong, the suspects were individuals who did not understand the paradigm fully, who worked for their private interests or, who failed. It was simply not done to blame the system for its failure. It was taboo. So, there must be a possibility to improve, to make the system perfect.

Such a possibility, that is the innovation of historically untested systemic arrangements that derive from organic evolutionism and teleological constructivism, the dynamic forces of institutional change identified by

Menger (see Wagener 1992), cannot be ruled out *ex ante*. These mechanisms do not work, however, if the core elements of the system are taboo leading to, as H.-D. Haustein remarked, a ‘dogmatic ossification of Marxism in a religion of power’. The paradigm degenerates into a “scientific” camouflage for practical actions serving the interests of the rulers’ (K. Porwit). But since the taboo was widely respected, systemic optimism could be upheld. Almost to the bitter end there remained the hope for a ‘socialist civilizational mutation’ (as the Polish economist Pajestka had phrased it), the hope for a ‘socialism with a human face’. Here we may see the dividing line between reform economics, which, for all we know, could eventually have resulted in outright system change, and transformation economics, which departed from the knowledge of the unreformability of the socialist system.

Several features of real socialism have been isolated that lead to the unreformability of the system:

- Priority belongs to politics. The central taboo of the primacy of politics made universal state ownership control and universal interference of party organs a property of the system which could be abolished only together with the political power structure.
- Soft budget constraints (the Kornai verdict). It has been disputed theoretically whether central planning is in principle incapable of making the firms’ budget constraints really hard and thus inducing the efficient use of scarce resources. In practice this has undoubtedly been the case. State monopoly of foreign trade with a tendency to autarky (the Pierson verdict). To subject foreign trade to political decision-making and to exclude the national economies from the international division of labour has grave consequences, especially for small open economies.⁹ Again, some theoretical solutions of the problem of calculating foreign trade advantage under such conditions have been offered (e.g. Trzeciakowski 1978). In practice, political foreign trade control remained one of the central instruments of socialist economic policy.
- Secondary role of money and finance (the Mises verdict). Economic calculation and prices, despite valiant theoretical attempts and numerous policy reforms, never functioned properly. The Lange solution to this problem was never implemented – it may be assumed for good reasons. And where market socialism was tried out, as in Yugoslavia, it was unable to put all needed markets into operation (including a capital market and a foreign exchange market). The importance of economic calculation (*kozaizschet*) was theoretically recognized, but practically it collided with the party’s planning autonomy.
- Unity of economic activity and social policy. The provision of a great part of social services and (existing) unemployment was the task of state-owned enterprises, and this impeded the development of efficient

- business management and structural change. A separation of economic activity and social policy would have spoiled the system's alleged major achievement – full employment.
- Closed-shop system of *nomenklatura*. The selection mechanism for higher personnel was biased in favour of political conformity and against professional qualification, in order to stabilize the ruling élite.
- Reliance on paternalism. Political control was exercised in a discretionary manner. This led to patronage by the party secretary on all hierarchical levels instead of the objective rule of law (a rational 'Weberian' bureaucracy). The ensuing governance regime resembles pre-modern enlightened absolutism and mercantilistic policy rather than the hoped-for post-capitalist rationality and *glasnost*.

What does it mean to be locked in a system which is grossly suboptimal and, at the same time, turns out to be unreformable? In principle this can go on for an undefined period of time as North and Thomas (1973) have shown, comparing the successful Dutch and English systems with the less successful ones of France and Spain in the sixteenth to eighteenth centuries. The essence of unreformability lies in a certain power structure sticking to an ideology which it considers essential for survival. If there are no endogenous forces, like reform politics supported by reform thinking breaking up the locked-in situation, stagnation and decline will become endemic. There may also be exogenous forces causing or speeding up the collapse of the inefficient system. The competition of systems can lead to such a result which, however, is not our present problem. The important point has been made already in the last section: there was reform thinking inside the socialist system during the 1960s which, had it been taken up by politics, may have propelled the system to more efficient regimes, probably ending in a gradual transition to something very similar to what is now produced by transformation. The chance has been missed and stagnation resulted.

Comparing the individual case studies expounded in the following chapters makes the point quite clear. Due to the fact that she had adopted a model of market socialism quite early, Yugoslavia had already reached in the 1960s the point where efficiency and consistency considerations brought capital markets and foreign exchange markets onto the agenda, i.e. the point at which gradual transformation became possible. However, politics shifted away from such a far-reaching decision and so the system was perturbed in the existing contradictory state from which it could only be freed in 1989 by radical change. By way of analogy it may be hypothesized that politics in other socialist countries, notably the Soviet Union and the GDR, noticed the inevitably ever progressing requirements of continuous market-oriented reforms and preferred stagnation to transformation which would not have left the political system, i.e. their power base, untouched. In other words, party élites in the Soviet Union and Eastern Germany, for instance,

recognized the unreformability of the existing politico-economic regime and deliberately decided to go on with it at the price efficiency. This also implies that by the end of the 1960s the stage was set in Central and Eastern Europe for gradual system transformation. The power structure of the individual countries saw the danger and was still vigorous enough to prevent 'normalization' as it was called. From 1970 on the system was only 'perfected', and no longer reformed. Stagnation was the inevitable result. In order to overcome it, radical change became unavoidable.

Where it had been prepared mentally and where economic reform thinking was not completely choked in the years before, as, for instance, in Poland and Czechoslovakia, transformationary change could take place deliberately even if, as in the latter case, the state disintegrated. Where there had been no active reform thinking in the 1980s for whatever reasons, as, for instance, in the Soviet Union and in East Germany, or where other currents of thought like nationalism got the upper hand, as, for instance, in Yugoslavia and some post-Soviet republics, continuity in change seemed impossible and the economic system collapsed. The only apparent exception is Hungary. By 1968 Hungary had embarked on a reform path where reform thinking and reform practice interacted, not always with similar speed and not without certain stagnation periods. If we call this path continuous change, it was certainly slow. However, by the late 1980s reforms had proceeded so far that under transformation they could continue more or less organically. There was no shock therapy in Hungary, there was gradual change – because there had been gradual change before. All over the region transformation was accompanied by economic decline. But decline was overcome more rapidly in those countries in which transformation was realized most decidedly (see World Bank 1996). Within our sample such were the countries with at least some continuity in reform thinking.

After what has been said above about the quality of mathematical planning theory, it sounds rather strange to learn from Chojnicki (1997) that a consistent mathematical theory of the behavioural pattern and the development of a socialist economy has not been worked out. This needs some explanation. For indeed, in the following chapters mathematical economics and quantitative research play a rather subordinate role. In Russia, linear models were developed to a very high standard indeed. Hungarian input-output analysis was even used in practical planning in competition with traditional discretionary material balances (a competition which input-output lost because of its inflexibility). In Poland, there was a rich application of quantitative methods (Mactejewski 1996). So, why are these contributions considered untypical for economics under socialism?

Of course, orthodox Marxist political economy was rather unfavourable about quantitative approaches, criticizing a lack of realism, the a-historical character of the models, and the undue importance of quantitative methods.

Such criticism is not unknown to formalized abstract Western theorizing. On the other hand, analytical Marxism of Western provenance, from the early treatments of the Marxian transformation problem and growth theory onwards, has shown that Marxist theory is accessible for mathematical treatment. It is interesting to notice that Western analytical Marxism, as well as Western theories of the socialist economy had little to no influence upon theorizing in Central and Eastern Europe.¹⁰ What is even more surprising is that vital problems of central planning have been treated more comprehensively by Western scholars than in the countries where these methods were applied. For instance, feasibility, consistency and optimality of planning with material balances is a subject which one would expect to have been thoroughly studied in the GDR where orthodoxy and German traditions of material planning (Ballod, Rathenau, Neurath, to whom Lenin, as mentioned, took recourse when in desperate need of some ideas about socialist planning) were cherished. Nevertheless, the best treatments are to be found in the West (Hensel 1959, Montias 1959). The principal agent problem is, as it were, the central problem of plan implementation. It attracted attention in connection with the discussion of material incentives. The comprehensive treatments, again, are to be found in the West (Bonin 1976, Weitzman 1980)

Next, there was no formalized model of the socialist economy and its development, since there was no general model of the system at all. The difficulties with the textbook version of such a model have been mentioned already. The Kautsky–Lenin fallacy of treating the whole economy as a single firm and the illusion of organizational unity made the political economy of socialism disregard individual behaviour. There is no integral microeconomic theory of socialism before Kornai (1980), which was never accepted for general use, let alone for university curricula. Economists who have at least partly been under the influence of Marxian theory are suspicious of neoclassical assumptions and of mathematical formalism. Yet Marxism, as classical economics in general, is mainly a macroeconomic approach. The profession under socialism has failed to develop the appropriate microeconomic underpinnings. So, if there was any microeconomics it had *faute de mieux* to be neoclassically inspired.

The claim of scientific socialism was not interpreted, as it could have been, in terms of the possibility of implementing a huge general equilibrium model (such were, of course, the intentions of the optimal planners without, however, taking recourse to individual behaviour). Rather it was implemented by taking economic planning out of the hands of the scientists and by claiming scientific capabilities and qualities for party leaders and their decisions. This is hardly amenable to a general economic theory. The idea of analysing the behaviour of the *nomenklatura* and of developing a theory of socialist public choice would have been anathema. The necessity of defining a target function for optimal plans had already met

with serious difficulties. If one accepts the structure of the economy as represented in a model of it, if one accepts the constraints by quantifying them and if one accepts the need to maximize aggregate consumption over a finite or infinite time horizon as an innocent objective, there is little room left for party goals and party decisions. Under such conditions the primacy of politics cannot mean petty rutilage of enterprises and interference with day-to-day activity, but is in need of a reinterpretation which was never accomplished. Rather development plans on the basis of scientific assumptions, of Kalecki and others, for instance, were discredited as being too cautious or even revisionist (see, for example, Chapter 3). So, the models elaborated (for instance, the analysis of international economic cooperation by Trzeciakowski (1978) and others) treated, as a rule, only isolated areas of the economy, yielding theoretically interesting results which, however, remained irrelevant for economic policy.

Similar difficulties arise with respect to econometrics (Maciejewski 1996). Econometrics starts from the assumption that aggregate economic behaviour and interrelationships are of a stochastic nature and exhibit a certain relative inertia (stability). The political economy of socialism sees the planned system basically governed by deterministic interrelationships and, following the Kautsky–Stalin fallacy, assumes that these can be designed and changed by conscious decisions. Of course, there are the 'laws' of socialism. But it turned out to be quite difficult to give these laws a concrete content, and the basic one among them, the law of planned development (*plannedness*), was rather interpreted in terms of party voluntarism. It is well known that Oskar Lange was one of the pioneers of econometrics, having served during his American years as editor-in-chief of *Economica* and having written a leading textbook (Lange 1956). One would expect that this was not without influence upon Polish economic science. And, indeed, Poland was the only socialist country where noteworthy economic work has been done (for instance, at the Łódź centre of W. Welfe).

Yet the operation of the economic mechanism was informed by other approaches, as was reform thinking. Since there was no general theory of the socialist economy, these approaches must by necessity have been pragmatic. Asked about the guiding paradigm of their theoretical work, most economists in reformist countries of Central and Eastern Europe mention for the post-reform period (i.e. after 1970) neoclassicism and Keynesianism, but see themselves really influenced by institutionalism which, as a matter of fact, is still in search of a paradigm. Reform discussions rely heavily on plausibility arguments. Reform economics was no research programme in the sense of Lakatos; it could not have been such under the conditions of communist research organizations. This explains its *ad hoc* character.

Only in the period of transformation does it become possible to discern the influence of the various schools of thought whose theoretical background has been built up in several countries of Central and Eastern Europe,

notably Hungary, Poland and Czechoslovakia, during the 1980s (cf. Hoen 1995). Not surprisingly, it was in Hungary and Poland during the 1980s that 'normal' science, i.e. theory-informed empirical research with policy relevance, was practised and scholars contributed to the solution of puzzles also discussed by the Western profession. A good example is the Polish research of Charemza and Gronicki (1988) in the context of the disequilibrium discussion. Such an approach, even adopting the assumption of rational expectations, would have been completely unthinkable in the GDR of the same time. And this not only because Western approaches were banned as vulgar apologies of capitalism, but also because critical social and economic thinking in the GDR, even in the late 1980s, was theoretically still inspired by Marxism and young scholars wanted above all to rid themselves of dogmatic restrictions in interpreting Marx. The deformations of the society and economic system of the GDR were ascribed to a deformation of Marxist theory, but not to Marxist theory itself (which, taken by itself, is a sign of a strong paradigm – cf. the resilience of the neoclassical paradigm – but only in combination with theoretical innovation and productivity). Evidently, starting from their traditions of mathematical economics and econometrics, Polish scholars at the prestigious research centres could simply go on working after the system switch, while their colleagues in the GDR had lost their paradigm and their empirical base (and not much later their jobs).

The people

Being a scientific economist under communism was a politically sensitive job. How far this was the case, differed considerably from country to country. The variables of restrictive practices are numerous: education, access to literature, selection of research topics, freedom of discussion, freedom of publishing, contact with Western colleagues, study and research abroad.

Education was along orthodox lines in all countries. The teaching of political economy was a serious political activity. In the USSR it was strictly reserved for professors with party membership. The syllabus was confined and the teaching results were assessed by the ideological party organs (see Zaostrovsev 1995). Textbooks all over the region were under strong Soviet influence. The first 1954 textbook on political economy was widely translated, as were later ones. National roads to socialism did not yield significant theoretical deviations in the sphere of basic political economy. The only big exception, of course, was Yugoslavia. But the example shows the close links between accepted theory and the economic order. However, the importance of political economy seems to have differed in different countries: in Poland and Hungary in the post-1956 period pragmatic subjects like foreign trade, branch economics, fiscal affairs and planning practice

became dominant, while in the Soviet Union and the GDR traditional political economy remained the central subject. As may be expected, the period of 'normalization' (1970–85/89) produced a new stress on orthodox thinking. This was reflected in a new, unifying textbook in the USSR expounding 'mature socialism' called *Političeskaja ekonomija* (Rumyantsev 1976: the two volume version was for students of economics, while the one volume version, published one year later, was for general use) and in similar activities in Czechoslovakia, for instance (see Chapter 5). Even the 'new thinking' of *perestrojka* did not bring fresh air into political economy although a new 'radically changed' textbook was produced under the leadership of Politburo member Medvedev (Medvedev *et al.* 1988), a fact which reflects the unchanged basic economic philosophy of *perestrojka*.

Young students of economics were brought up on political economy or, only a tiny minority, on mathematical economics. In the latter case they received a thorough mathematical training, but as little Western style economics as their politico-historically trained colleagues (see also Alexeev *et al.* 1992). Young students could come across other schools of thought only in courses on history of thought or on political economy of capitalism. Naturally, there they were presented with critical views (the market economies of advanced countries showed all the signs of 'dying imperialism' as Lenin had described them) and rarely with the original texts from which they could have made up their own minds. Although even in the Soviet Union translations of a few modern classics (Keynes, Arrow, Baumol, Galbraith¹¹) and especially the introductions to these volumes were intended by the editors to provide information about theoretical alternatives, scholars without any other access to Western thinking and practice simply ignored them. The same fate seems to have befallen the translation (in a somewhat abridged version¹²) of Samuelson's (1964) *Economics*: absolutely no impact on Soviet thought can be discerned. After 1990, however, this edition had a brief revival: because of the urgent need of Western-style textbooks and an extreme shortage of supply (in Russian translation) it seems to have been used in classrooms (Zaostrovsev 1995).

The counter example of a rather early pluralization of education may have been Hungary (see Hámori 1995). Of course, in the aftermath of the crushed 1956 revolution ideological orthodoxy was strengthened. Also later, non-Marxist scholars, like Kornai, for instance, would hardly get an appointment as university professor. But from the early 1960s on there were several reforms of the educational system. Subjects such as sociology, for instance, which elsewhere in the region were considered 'bourgeois pseudo-science', were taken up in the curricula. Language laboratories deserve special mention, since they lay the material basis for access to foreign literature. The language capabilities of Hungarian and Polish economists were in stark contrast to their Soviet or East German colleagues. Even more important was the possibility of university teachers spending a year abroad or attending

international conferences. It may be wondered why the party allowed such travels, but in Hungary and Poland it did, whereas in other countries it did not. The Ford Foundation, and others, provided the financial means and a large number of Polish and Hungarian scholars were able to benefit from the opportunity. These 'American boys', as they were called in Hungary, were definitely lost to ideological indoctrination¹³ and they pushed for curriculum reforms.

In particular, the introduction of the New Economic Mechanism in 1968 was accompanied by a new wave of reforms at the universities. The market orientation of the economic mechanism, which formed the core of the intended system, made the branch orientation (industry, agriculture, foreign trade, home trade, transport) of the economics curriculum less well adapted to professional practice and necessitated the development of a functional orientation (finance and marketing). The adoption of marketing as a university subject in 1972 was undoubtedly an innovation previously unheard of in the whole of Central and Eastern Europe. The final reform before the turnaround in Hungary happened from 1986 on. It introduced, again an innovation in the region, the separation between economics and management in the third year and it introduced a rather (Western) standard structure of courses.

Soviet and East German scholars were rarely allowed to travel and the great majority remained unacquainted with Western economic thinking and practices of university education. The privileged among East German as well as Czechoslovak economists were able to study in the Soviet Union. This was experienced as an opportunity to widen their views, since the intellectual climate in Russia seems to have been less narrowly restricted than in East Berlin or in Prague. There were, within the general Marxist approach, local schools of thinking with their own publication outlets: Moscow, Leningrad, Novosibirsk. Access to Western scholarly publications also varied from country to country. While in the more liberal countries of Poland and Hungary they were, in principle, available although with a delay, in the Soviet Union and in Czechoslovakia they mostly were not and what was available (in English and in German) in East Germany was not really considered relevant. Economics in East Germany was characterized by a high degree of self-referentiality.

When the ruling doctrine is supported by the state and the ideological party apparatus while there are alternative theories and views in the air, it may be asked whether such thing as a clandestine college or a shadow science has developed. When asked about its existence (see Wagener 1997), above all Hungarian and East German scholars answered 'no', clearly for different reasons. From the early 1960s onward, alternative views could be discussed fairly openly in Hungary, although not always published. In the GDR the 'revisionism debate' of 1956–7 had disciplined the profession. On the one hand clandestine activities were extremely dangerous, and on

the other hand the majority of the profession accepted the claim of the special position of the 'front-state' GDR and the special role of Marxist science, in particular Marxist economics, within it. It is also important to remember that up until August 1961 exit was the most common route for dissenters in East Germany, and so that those who remained were generally in favour of the socialist system. The situation was slightly different in Czechoslovakia where, after the massive exodus of 1968–9 and the repressive period of the 1970s, clandestine colleges showed up at certain professional institutions (see Chapter 5) and were able to prepare a group of informed economists who later moved to leading positions in the transformation period.

Besides, one has to face the question: why should East European economists of Marxist and socialist provenance be enthusiastic about Western economic thinking in the 1960s and 1970s, when many young Western students of social science rejected the neoclassical mainstream lock, stock and barrel and organized alternative courses informed by Marxist thinking? Only the comparative decline of the socialist economic system, which, ironically, became apparent at exactly the same time, could induce East European scholars to question their theories and policies. In other words, socialist claims of installing a progressive and fair society were deeply rooted in the region and could be shaken only by persistent system failure. Closer research would probably reveal that they are still in place and that transformation is considered to be an attempt to find more suitable institutional solutions.

As H.-D. Haustein, an East German economist of stature, remarked, when he was studying at Berlin university in the 1950s, young intelligent scientists were not impressed by the doctrinal stupidities of the anti-revisionism campaign. What had impact was, for instance, the contribution (in the 1957 special number of *Wirtschaftswissenschaft* against revisionism) of the philosopher Scheier (1957) on spontaneity. Spontaneity and consciousness are basic qualities of human action, it was argued. Spontaneity, however, is a capitalistic atavism. Once there is social ownership in the form of state ownership, actions can be guided by conscious social will and plan based on knowledge of the objective laws of social development. Of course, the party leadership was in possession of such knowledge. This is Hayek's 'fatal conceit'. But Hayek was *persona non grata*, his books unavailable and, if available as in the West, rarely read by the believers in planning optimism. Wasn't this a constructive message for a young aspiring economist? Of course, the political message of the revisionism campaign also got through, namely that a deviating opinion would have raised political suspicion. But it was more likely to be the elder scholars who got scared. So, spontaneity as a creative element of evolution was for good out of discussion.¹⁴ *Nichts geschieht im Selbstlauf* (nothing happens autonomously) was one of the slogans of the Ulbricht period – everything had to be initiated from above.

Clearly, this must have a devastating effect upon any science, and especially so on a very politically sensitive one like economics. The profession would have liked to abandon the descriptive handling of planning theory, as Hausstein deplored, and to develop a clear axiomatic approach for the socialist economy. But research planning of the party ordered merciless a scientific interpretation and propagation of the actual party line. It is remarkable that the GDR did not produce a single eminent individual achievement in economics because of – it may be presumed –

- the elimination of free discussion,
- the isolation from international science,
- the politically motivated cult of secrecy, and
- the strict control of all scientific activities.

This brings us back to the question of intellectual sovereignty. There were undoubtedly gifted scholars with sincere scientific intentions and standards, but they lacked the space to develop their capabilities. Along that line a science degenerates.¹⁵

When transformation took off in the late 1980s, the starting conditions in the individual countries of Central and Eastern Europe were quite different. In Poland, Hungary and Czechoslovakia there were young, Western-trained economists who decided to change the economic order from a planned economy into a market economy. In Russia, a similar group of young economists with similar intentions gained influence, although they mostly lacked, however, the training in Western-style theory. The economics profession in the GDR was taken by surprise by the turnaround in 1989. Neither intentionally nor in cognitive terms were they prepared to manage the transition from plan to market, which was decided by the East German parliament and then left to Western specialists. Nowhere in the region could Western specialists gain such an influence as in the GDR which, of course, was also a consequence of the abolition of statehood.

The theoretical discussion, inspired by political–institutional requirements, naturally paralleled the discussion during the previous transformation from capitalism to socialism of 1945–9. The central fields of policy action of transformation, whether from capitalism to socialism or vice versa, are as follows.

- *Property rights* When switching from capitalism to socialism, socialization of ownership is top of the agenda. However, there can be discussion on who should exercise social ownership rights. The difference between Yugoslavia and the Soviet system makes clear that Marxism is open to different solutions. Switching back implies privatization, but, again, how far it should go and who should get the property rights *in concreto*, is by no means evident.

- *Coordination* Here, the switch from capitalist markets to socialist planning seems to be the more difficult step. In the 1940s there was no practice to be initiated and no practical theory of planning to be followed when socialism was introduced. In the transformation back to capitalism it was thought that markets evolve spontaneously when regulations restricting their working are abolished by liberalization. This, however, is an error. 'Well-behaved', efficient markets are made and rely on trust which requires formal and informal institutions and, hence, time.
- *Money* Clearly, a capitalist market economy relies on money. Although poorly reflected in the neoclassical paradigm, the role of money, and its institutional prerequisites, are sufficiently well understood by mainstream theory. It was different in the first transformation from capitalism to socialism. Can money be completely abolished? What role has it to play in a planned socialist economy? Banks are strategic ('commanding heights') in both processes.

So far discussion and policy action was similarly oriented in all economies of the region. Germany, however, had a special dimension of transformation in both cases which involved the individuals more than in her neighbouring countries.

- *Handling the past* The transition from capitalism to socialism between 1945 and 1949 was at the same time an opportunity to get rid of the remnants of the previous Nazi period. Socialism was presented as the only legitimate ideology of anti-fascism (which had the useful implication of equating anti-socialism with fascism) and certainly as the only effective practice. Similar arguments could be heard in Hungary, too. A complete exchange of the élites seemed imperative. With similar consequences the second transition eradicated the roots of communism, at least in the politically sensitive areas, where *Abwicklung* (winding-up) implied in most cases the loss of their jobs for academic personnel.

Of course, in other countries as well, teaching and research staff changed with transformation. But this happened in a less forced manner and more by voluntary exit of young able people opting out for business or administration, in some cases in the form of a second job, becoming scholar and businessman at the same time. Whether this is a new type of scholar, as Kukliński (1995) suggested, or only an intermediate stage during transformation, time will alone show. On the other hand, there are a number of young able people moving into economics from the closed-down units of the military industrial complex, as seems to be the case in Russia. The less mobile of the academic staff remain in their old positions. On average, the academic community appears to be getting older and older and prospects

for young able people are brighter elsewhere. The inherent danger has been noticed, but not dealt with. Handling the past is generally thought to be a matter of intergenerational change.

What's left?

Looked at from the point of view of the universal history of economic theory, economics under communism has not produced any spectacular new insights, theorems, laws or controversies which have to be memorized by all students of economics like, for example, the Cambridge controversy, Say's law, the Coase theorem or the Heckscher-Ohlin theory. Even in the fields of Marxist theory and debates referring to a socialist planned economy, the contributions from within the system are meagre. The fundamental Marxian theorem has been elaborated by N. Okishio and M. Morishima. The socialist debate which inspired eminent economists throughout the twentieth century received no outstanding contributions from Central and Eastern Europe, leaving aside Oskar Lange's computopian vision. Growth theory, so magnificently initiated in the late 1920s by G.A. Feldman (1928), was successively accomplished by E. Domar, R. Harrod and R. Solow. Similar was the fate of business cycle theory and Kondratiev's contribution. As has been said, only the mathematical theory of planning and input-output theory can claim a substantive impact.

We could come to the conclusion that (almost) nothing is left. Such a conclusion looks unfair to the large group of able and sincere economists in Central and Eastern Europe who worked on the project of coming to grips with the model and the practice of central planning. The following chapters will show the efforts dedicated to the research programme of economic reform, i.e. the search process for a viable system of planning which, regrettably, was impeded by politico-ideological restrictions. It took the capitalist market economy more than a century to develop in an evolutionary way a fairly efficient and just and, hence, sustainable system. The competitiveness of the planning system had to be established in a much shorter period and it could not rely on spontaneous forces.¹⁶ Reform thinking, therefore, is a most important scientific activity in the ultimately failed attempt to prove the viability and optimality of a planned system. However, the importance of concrete reform discussions, so characteristic of normal science under communism, can be illustrated by the fate of the contributions to monetary problems of young East German economists in the late 1980s. Within the very restricted confines of permitted theoretical evolution, some ideas and proposals may have been considered daring and innovative. Once the restrictions were lifted and the whole stock of Western theory suddenly became available, such contributions did not even reach the stage of publication any more. Together with the specific situation in which they were conceived they lost all professional interest.

A similar fate has befallen the human capital of the Western specialists in comparative economics. 'The doctrine was a kind of code; once the code deciphered it was much easier to understand the books and articles and to read between the lines, an exercise we were all familiar with' writes Lavigne (1996). Such capabilities are no longer needed.

So, what is left is certainly the abortive experience of a central planning system of the Soviet type and of a socialist market system of the Yugoslav type. There seems to be a consensus both within and outside the region that these systems are not sustainably viable. It has to be said that such a conclusion was reached only *post festum* by most scholars dealing with the systems. The Austrian, and especially Hayek's (1944, 1988) critique was taken as a philosophical objection, not as a prediction of collapse. However, the arguments which, taken together, establish the non-viability of the Soviet-type planning system and the Yugoslav-type socialist market system have been accumulated during the whole period of their existence. They are worth remembering, since they constitute the result of a truly evolutionary cognitive process, a body of knowledge with great practical relevance. Knowledge of the Soviet-type system, as well as of the Yugoslav-type system, its working, functional problems, deficiencies and failures, will, it may be hoped, be included in textbooks on economic systems and economic policy for a long time to come. This knowledge, however, is not linked to specific names, schools of thought or outstanding publications. It may turn out, for instance, that the only book written by a scholar from Central and Eastern Europe that is necessary for an understanding of the system will be Kornai (1992) published, in fact, also *post festum*. In all probability, only a few specialists of economic history and the history of economic thought will dig into the details of discussion and argument which accompanied the reform waves from War Communism until the New Economic Mechanism. On the whole, it seems that the contribution of Soviet socialism to economics was, above all, negative in establishing the counter-example of more successful market capitalism.

Nevertheless, we still study the mercantilist writings, although mercantilism as an economic system paradigm is considered inefficient (despite the fact that it is still practised *mutatis mutandis* in certain situations all over the world). For the writings of some mercantilist pamphleteers or scholars contain germs of the future for economic science. Clearly, what is valuable in Colbert, Hume, de la Cour, Petty, Hornigk, Becher and others, can be assessed only with the advantage of hindsight. This is the consequence of the evolutionary character of scientific theory. It therefore cannot be excluded, in principle, that the failed socialist experience also contains the germs of a future economic theory, difficult as it may be to imagine that right now. What these are, can also be assessed only with hindsight.

In view of the definitive obituaries for Marx, Marxism and socialism in general, it apparently needs to be stressed that the fall of Soviet-type socialism does not automatically imply the disappearance of the Marxist research programme, i.e. the critique of the capitalist economic system and its political economy. The neoclassical mainstream is under permanent scrutiny and attack by post-Keynesian, evolutionary, institutional, radical and other non-standard schools of thought. Marxism has been one of them. Yet it has to be admitted that no convincing alternatives have been offered by proponents of orthodox East European Marxism. It would be astonishing to find here germs of a new future economics. Despite the impressive development of economic theory in the West during the fifty post-war years, there remain a number of problems connected with the capitalist market economy which have been solved satisfactorily neither in theory nor in practice:¹⁷

- Distribution of income among wages and profits, part of the classical inheritance, has been utterly neglected by neoclassical theory or externalized as just a political problem.
- Unemployment has become a permanent feature of market economies. It cannot be reduced either by standard neoclassical methods (wage flexibility for example) or by interventionist approaches. How can we account for such a permanent deviation from equilibrium?
- The role of non-price signals, as, for instance, treated by Weitzman (1974) and Kornai (1980), is not restricted to planned economies and can be used to broaden equilibrium analysis in general.
- Growth and development are both, in theory and in practice, not well accounted for and insufficiently realized. This becomes plainly visible also in transformation. Why the Chinese transformation process, unlike that in Central and East Europe, lacks a transitional crisis and rather experiences a stormy growth period, as expected everywhere after deregulation, is still unexplained.

Of course, it was the planning system which was considered a panacea against all sorts of market failure. Eminent economists such as Kalecki were convinced of its superiority in this context. Again, it has to be admitted that the theoretical and practical solutions of these problems offered in Central and Eastern Europe are not unequivocally convincing although, some time ago, lessons were drawn from the socialist experience (see, for example, Ellman 1979). To sum up, even if the Marxist research programme is still relevant, at least Soviet-socialist theory and practice has not proved that it is productive. This is not the place to speculate over the future of socialism in general and its theoretical foundation.

If our evolutionary conjectures above are not entirely false, something more will be left. For even if transformation is characterized by considerable imitation and institutional transfer, the economic systems evolving in

Central and Eastern Europe will be influenced by their past, by the specific features of the socialist system and its intended and realized reforms and by economic, political and social thinking prevalent in the region. That is to say, transformed capitalism coming from socialist planning, even of the Soviet type, will yield a special type of capitalist economic order. If not, the evolutionary vision would, indeed, be falsified: past and path are irrelevant, convergence to the optimal order is absolute, if no restrictions, legal or ideological, impede the process. It is impossible to pinpoint now the germs of this specific order which are to be found in economic theory and practice of the past and assess their concrete impact. It is not so difficult to conjecture where such germs will concentrate: in property relations (see, for instance, the hesitance all over the region to put soil under free sale), in types of governance (see, for instance, what has been called 'recombinant property' in transformed capitalism; Stark 1996), perhaps also in social security (here, transformation is still lagging in all countries). Transformation objectives and the transition path will be influenced by experiences and ideas of the past. There are, it seems, several good reasons not to throw economic thought under communism into the dustbin of history.

Notes

1 Even in the pre-revolutionary period the region under review produced few economists of world fame. Because of the ever-changing political history of the region, it is difficult to link names to our six designated countries. After all, Russia included parts of Poland; Hungary was (a discernible) part of the Habsburg monarchy; Poland was partitioned; the Czech lands belonged to the Austrian part of the Habsburg empire and Slovakia to the Hungarian; a similar, but even more complicated fate was allotted to the former Yugoslavia: the GDR did not exist. If we disregard the latter, we find in Blang (1986) among the 100 great economists before Keynes, precisely five names from the region: L. von Borkiewicz, who was born in St. Petersburg, but was active in Berlin, R. Luxemburg, who also worked mainly in Germany, E. Slutsky, N.D. Kondratiev and O. Lange, the latter two being, in fact, younger than Keynes and thus belonging to the socialist period. Only Palgrave (1987) has a somewhat longer list, including for the pre-war period A.V. Chayanov, V.K. Dmitriev, G.A. Feldman, E.A. Preobrazhensky, P.B. Struve, M.J. Tugan-Baranovsky, W.S. Woytinsky and W.M. Zawadzki, and listing among those who worked in the region after World War II A.A. Konits, M. Manoliescu, V.S. Nemchinov, E. Varga and N. Voznesensky. The world fame of some of these names is, however, debatable.

2 Analysing origin and residence of the (at the time of publication) 674 living and 397 dead great economists of Blang and Sturges (1983), we arrive at the following result:

Country	Birth place	Residence
Russia	29	13 (of whom 1 living)
Hungary	13	1
Poland	10	2

Czechoslovakia 2
Yugoslavia 1

Again, for the post-war period this boils down to the above-mentioned six: Kantorovich, Novozhilov, Strumilin, Kalecki, Lange and Kornai. The great majority of those who were born in the region emigrated and made their names in the United States.

- 3 Proceedings published in *Ekonomista* 1956-5.
- 4 We have made extensive use of the contribution of Chojnicki (1997) in the discussion of our project.
- 5 There were such slogans to be seen in East Berlin on the occasion of Marx's centenary in 1983.
- 6 This implies that it has lost its property of a theory and adopted the property of an assumption.
- 7 This proposition may sound strange for two reasons. First, the political economy of socialism does not know utility functions. Here we are using Western terminology for something which it does know, namely needs and objective functions. Second, system theoretic partitioning seems to contradict Marxist holism. But once this proposition is accepted, the individual need not suffer from central planning.
- 8 Kautsky and Lenin were evidently unable to appreciate the irony in Marx's (1962: 377) remark: 'It is characteristic of the most enthusiastic partisans of the factory system that they cannot find a more serious criticism of any general organization of social labour than claiming it would change the whole society into one factory.'
- 9 This, of course, was the reason why the Dutch economist Pierson (1902) jumped on this point of Kautsky's exposition of the socialist system.
- 10 Two remarkable exceptions have to be mentioned. The fact that Sraffa's (1960) famous tract has been translated and edited in East Berlin shows that some people (in this case G. Kohlmey) were abreast of their time. At the same time, exceptional as it was as the only truly theoretical translation from Western languages it must be considered an accident at work, since it had absolutely no influence on East German economic thinking. The opposite case is Yugoslavia where B. Ward's and E. Furuborn and S. Pejovich's theory of the self-managed firm and property rights had a serious impact upon internal theory formation (see Chapter 7). Clearly, there was a huge difference in openness between the economics professions and society in general of Yugoslavia and East Germany.
- 11 Of course, neither Keynes nor Galbraith are especially conducive to appreciation of competitive market processes. Given *The General Theory* and *The New Industrial State* to be the only information available on the theory of the capitalist economic order, this order would neither appear very attractive nor its theory very relevant to a socialist system.
- 12 For a detailed analysis of the translation as well as for a general evaluation of Soviet treatment of Western theory see Gershenkron (1978).
- 13 'The some hundred thousands US dollars spent by the Foundation on the training of Hungarian professors proved to be the best fruitful investment of all times' (Hannori 1995: 20).
- 14 It is interesting to note that R. Luxemburg's 1903-4 critique of Lenin's verdict against spontaneity was published in the GIDR not before 1988, see Luxemburg (1988).
- 15 Jim Letzler quoted in the discussion a story told by A. Agranbegan (1989) about the Soviet economist Albert Vajnsajn, still known from the 1920s and later a student of

national accounting: 'Someone asked him "How can it be that you spent twenty years in camp, then came out, and immediately wrote your dissertation? Could you study in camp? Did you have books there?" "Goodness me, no", he replied. . . . "Of course, I regressed, too. So we caught up with each other."'

- 16 Stalin was quite far-sighted when he said: we will either catch up within 10 years with what the West has attained within 150 years or we will perish. His major error was to confine the insight to material production and to disregard the systemic resilience of capitalism.
- 17 Here, I make use of Lavigne's (1996) contribution to the discussion.

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