

**ECONOMIC REFORMS IN THE SOVIET UNION  
AND EASTERN EUROPE SINCE THE 1960s**

*Also by Jan Adam*

WAGE, PRICE AND TAXATION POLICY IN CZECHOSLOVAKIA, 1948-1970  
WAGE CONTROL AND INFLATION IN THE SOVIET BLOC COUNTRIES  
EMPLOYMENT AND WAGE POLICIES IN POLAND, CZECHOSLOVAKIA  
AND HUNGARY SINCE 1950  
EMPLOYMENT POLICIES IN THE SOVIET UNION AND EASTERN EUROPE  
(*editor*)

# **Economic Reforms in the Soviet Union and Eastern Europe since the 1960s**

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To the memory of my sisters and brothers

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JAN ADAM

# List of Abbreviations

## For Countries

CSSR	Czechoslovakia
GDR	German Democratic Republic
USSR	Soviet Union

## For Journals and Papers

FaU	<i>Finance a úvěr</i> (Czechoslovak)
HN	<i>Hospodářské noviny</i>
PE	<i>Politická ekonomie</i>
PH	<i>Plánované hospodářství</i>
SHN	Supplement to <i>Hospodářské noviny</i>
F	<i>Figyelő</i> (Hungarian)
KSz	<i>Közgazdasági Szemle</i>
Nsz	<i>Népszabadság</i>
PSz	<i>Pénzügyi Szemle</i>
TSz	<i>Társadalmi Szemle</i>
BK	<i>Bank a Kredyt</i> (Polish)
GP	<i>Gospodarka Planowa</i>
TL	<i>Trybuna Ludu</i>
ZG	<i>Życie Gospodarcze</i>
EG	<i>Ekonomicheskaiia gazeta</i> (Soviet)
PKh	<i>Planovoe khoziaistvo</i>
P	<i>Pravda</i>
VE	<i>Voprosy ekonomiki</i>
SEG	Supplement to <i>Ekonomicheskaiia gazeta</i>
GBL	<i>Gesetzblatt</i> (East German)
WW	<i>Wirtschaftswissenschaft</i>

## For National Statistical Yearbooks

Nkh	<i>Narodnoe khoziaistvo SSSR</i> (USSR)
RS	<i>Rocznik Statystyczny</i> (Polish)
SE	<i>Statisztikai Évkönyv</i> (Hungarian)
SEV	<i>Statisticheskii ezhegodnik stran - chlenov soveta ekonomicheskoi vzaimopomoshchi</i> (CMEA)
SR	<i>Statistická ročenka</i> (CSSR)

**For Miscellaneous Matters**

CMEA	Council for Mutual Economic Assistance
EM	Economic Mechanism
FTC	Foreign Trade Corporation
NEM	New Economic Mechanism
PA	Production Association (USSR)
PEU	Production Economic Unit (Czechoslovakia)
WOG	Large Economic Organisation (Poland)

# Introduction

CMEA countries are now going through the third wave of reforms, the first having been in the 1950s and the second in the 1960s. This book is devoted to the last two waves. This is not to say that the 1950s were not important for the development of the systems of management of the economy. Their importance lies not so much in the changes themselves – as is known, in all the countries the changes made did not transgress the traditional centralised system—as in their by-products, namely the experience gained, and the cracks in the Stalinist political economy caused by the debates before and during the ‘reforms’. It was a formative period for future reforms and reformers, and stimulated some notable studies which played an important role in the second wave of reforms. W. Brus’s book (1964) deserves special attention.

The reforms of the 1960s in Hungary and Czechoslovakia meant a breakthrough in the efforts to reform the traditional, centralised system of management. In the 1980s, the breach is being widened in Hungary. Poland is also engaged in a reform, along similar lines to Hungary. Recently Gorbachev pledged to institute a ‘radical reform’: from what we know about Soviet intentions, it is doubtful whether it will be radical in the near future. The fact that the Soviets are engaged in a reform at all is remarkable.

The focus of the book is primarily on an examination of changes in the systems of management of the economy (which can be called with some imprecision ‘the economic mechanism’), brought about by the last two waves of reforms in the most important CMEA countries, – USSR, Poland, Czechoslovakia and Hungary – in so far as they refer to the state sector in industry (agriculture is beyond the scope of this study), and the impact of these changes on the existing systems of management. More concretely, the book examines the goals of the reforms (including all the attempts to improve the systems of management; hereafter, in this introduction, the term ‘reform’ is understood in this way), their structure and consistency and their impact on the development of the systems of management. The purpose of this study is also to discover the problems socialist countries face in their effort to reform the system of management of the economy.

I have given a great deal of thought to the question of how to present the reforms. This can be done in essentially two ways: each building

block, for instance prices, taxation, wage regulation, can be discussed separately or the reforms can be treated, using a cross-section approach (market equilibrium, allocation of resources). The first approach has the advantage of giving the reader a good insight into how individual building blocks have been affected by a reform. However, it hides the danger that the global picture will not be clear enough. The second approach has the advantage of giving a general picture, but at the expense of more specific details about the operation of the individual building blocks and, in the final analysis, about the working of the whole system. I have opted for a compromise. The first chapter on the centralised system of management and to a lesser degree the second and the seventh, which are comparative chapters, are based on the second approach. The country chapters are structured according to the first approach; however, they are supplemented by a summary which provides a global view of the reforms.

This book is thus a study of the systems of management resulting from economic reforms. Problems, both economic (economic growth, productivity growth, welfare of the population, etc.) and political, are discussed only to the extent needed for an understanding of the rise of the reforms and their working, and so only few statistical figures are provided.

For reasons of space and also because of the language barrier, which would have forced me to rely on secondary sources, I have omitted Bulgaria and Romania. Though I know German well, I have left the examination of the 'reform' in the German Democratic Republic to my friend and colleague, Dr H. K. Betz. For practical reasons the chapter on the GDR in this book is an appendix, a self-contained study, not integrated with other chapters.

As with my two former books (1979, 1984), this one is of a historico-economico-comparative nature. It not only discusses the history of the reforms in individual countries and their specialties, but also points out their common and contrasting features. To this end Parts II and III have an introductory chapter. I have had some trouble finding a correct proportion between the joint chapters and the country chapters. I had to bear in mind three requirements: to avoid repetition, to save space and also to make the country chapters as self-contained as possible. As usual in such cases, I ended up with a compromise. Therefore the reader who is interested only in one or two countries is advised to read the joint chapters first and only then the chapters of his choice.

The book consists of three parts and a conclusion. In Part I, I discuss

briefly the classification of systems of management and the traditional, centralised system of management as it existed in the early 1950s in the USSR. The purpose of this part, which consists of only one chapter, is to help readers better understand the systemic problems faced by the four countries and the significance of the reforms of the 1960s and 1980s. The chapter has also a very practical purpose: it absolves me from continuously explaining how certain new systemic changes are related to the centralised system. I hope to have the reader's cooperation here.

Part II deals with the reforms of the 1960s. It consists of five chapters; the first, as already indicated, is devoted to common and contrasting features of the reforms in the four countries. A brief economic and political background is also given. The remaining four chapters are devoted to the reforms in the four countries. The structure of the country chapters in this part is more or less the same. I follow the official Hungarian structuring of the system of management in three parts: planning system, regulation system and organisational system. Each chapter ends with a summary in which I try to evaluate the reforms from a systemic viewpoint, their effectiveness and, in most cases, their impact on the economy.

Part III deals with the reforms of the 1980s. It also consists of five chapters (and the mentioned appendix) and is structured in the same way as Part II.

Some definitions of terms used in this study are required. First, the term 'reform' must be clarified. As is known, there is no uniform definition of the term. Many economists use the term loosely; almost every change in the system of management or in its subsystems (building blocks) is called a reform. Many call the periodical price revision, though it is without any systemic significance, a price reform. At the other end of the spectrum there are many economists who reserve the term 'reform' for changes which mean a significant departure from the existing system, e.g. an abandonment of the centralised system. In using the word 'reform' they are already evaluating the significance of the changes. For practical reasons I will follow a middle course between the two approaches. I may designate changes aiming at improving the system of management as reform (mainly if the discussion refers to changes in all four countries as a whole), though strictly speaking they do not qualify for the term. I will, however, not omit to characterise every 'reform' from a systemic viewpoint (see Chapter 1).

There is a very thinly drawn line between economic policy changes

and systemic changes, that is changes in the management system; in some cases the two coalesce to the extent that it is difficult to identify which is which. This is because both are the work of the government, the political leaders in power. Systemic changes – on a general level – are changes aimed at altering the institutional framework within which economic units as well as the authorities are to work. It could be said that they are economic policy changes on a more general level, whereas economic policy changes are usually, or more precisely should be, changes within the institutional framework and as such could be called economic policy changes in the narrow sense. When talking about economic policy here I always have in mind policy in the narrow sense. Needless to say, the system of management can only be effective if the economic policy is in tune with it.

In this study, I distinguish norms and normatives. By norms I understand primarily a technical relationship (norms of labour intensity) or a relationship between a certain performance and reward (performance norms, work norms). Normatives (or economic normatives) set the proportions in which money variables (revenue, net income, profit) are distributed between the state and enterprises and within enterprises.

The terms fiscal, monetary and money are not used uniformly in the literature. In my book the terms fiscal and monetary policies are used in the same way as in the West; fiscal policy stands for regulation of taxation and government expenditures, whereas ‘monetary’ refers to regulation of the money supply, credit and the interest rate. Both are used as instruments for influencing economic activities in a certain direction. ‘Money’ is used for operations where real money is applied (such as money rewards and the use of money instead of payments in kind).

The terms central planners and central authorities are used interchangeably and refer to the ruling bodies of the Communist Party as well as the government with its agencies.

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*Calgary*