

For decades the Left has believed that a socialist economy was inherently superior to a capitalist economy. But the picture is not that simple.

A Roundtable Discussion

Outlook for the Socialist Economies

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Chair *How would you assess the performance of the Soviet and East European economies over the last decade?*

Mario Nuti In the course of the 1970s the economic performance of the Soviet Union and East European countries deteriorated — compared with both past trends and the planned targets. This tendency has been particularly visible in the second half of the 1970s. In Eastern Europe, excluding the Soviet Union, the national product was planned to grow at 6.9% in the period 1976-1980, and in no year was such a target actually achieved. Gross industrial output was planned to grow at 7.8% and, again, such a target was never reached in any of those years, and a downward trend is visible almost everywhere with the exception of Bulgaria and the GDR where growth performance has been somewhat maintained.

In the Soviet Union, the national product was planned to grow at 4.7% in the second part of the decade, in the 1976-1980 plan, and this average rate was surpassed in 1978, but by and large the rates were below this target. In 1976 the growth-rate was 5.9%, in 1977 4.5%, in 1978 4.8%, and in 1979 2% compared with 4.3% in the plan. And the same is true, but even more so, of gross industrial output which had an average planned rate of growth of 6.3% which was never reached throughout the five year plan.

Julian Cooper If you look at the Soviet case, it seems to me that you can't speak of a dramatic decline in growth, even in the second half of the 1970s. Rather, there's been a very long term decline in growth rates from about the mid-1960s. I think the Soviet performance had been particularly affected by three very bad harvests in the last three years. This accentuates the downward trend. Industrial output has also been bad in the second half of the 1970s, but again one should not exaggerate. It's been an average annual rate of about 4.5% over the last five years which seems, by international standards, a reasonably respectable rate of growth, though currently, this year, it's below 3.5%. But productivity of labour has clearly stagnated. It grew about 6% a year in the first half of the 70s, and just over 3% in the second half.

Włodzimierz Brus The Soviet case is different from the East European, but not necessarily in the way Julian has suggested. First of all, the Soviet Union is a clear-cut case of slowdown, of declining

growth rates since 1950. Every five year period except 1966-70 showed an annual rate of growth lower than the previous one, and what is more, in every case the actual rate achieved was lower than that planned. The same applies also to the beginning of the 1980s where again we have a reduction, but as now all the rates are much lower the differences cannot be so striking.

However, in my view, the East Europeans are basically going the Soviet way and they would have done it earlier — in the first half of the 70s — if not for the substantial extra resources obtained through massive credits from the West. The Soviet Union did not borrow on an even remotely similar scale. According to the plans for 1981-85, further deceleration will take place virtually everywhere. Hence two questions must be answered: first, what are the general reasons for this loss of dynamism and second, to what extent was the dramatic turn that occurred in the mid 70s linked to some special factors like the energy crisis.

Michael Ellman I'd just like to make a couple of observations. Firstly, as Julian said quite correctly, there have been three bad harvests in the Soviet Union, 1979, 1980 and 1981 and these helped to produce very low growth rate statistics. Secondly, the output of certain individual industrial products is falling. Coal output fell in 1979 and it fell in 1980, while oil output has stopped rising. The growth of the Soviet economy, as measured by statistics, has virtually come to a halt.

Chair *Well, can we have a look now at the causes of this process?*

MN Clearly, one of the underlying factors must be the inherent inefficiency of the centrally-planned economy, exacerbated by the exhaustion of both labour reserves and reserves of raw materials and energy, so that growth has been acquired, as it were, at an increasing cost. Partly it has been a consequence, perhaps, of over-ambition — the kind of extrapolation of fast growth into the future made at the 22nd Congress of the CPSU.¹ There was a disregard for the limits to growth and, therefore, the persistence of economic policies which were, perhaps, well-founded before the exhaustion of reserves, but were no longer so by the 1970s and perhaps even in the 1960s. To this, I think, we must add the impact of exogenous factors, the adverse atmospheric conditions which affect agriculture and related industries, and also building and transport. It is easy to overplay these natural factors because this sensitivity to natural conditions is itself partly the result of a disregard for investment in agriculture

The roundtable was chaired by Monty Johnstone. It took place in Birmingham on 10 December.

and transport. Nevertheless, there have been some unfavourable exogenous natural factors. While another factor is the impact of the oil crisis and the world recession.

ME We have to remember here though that there is a big diversity of experience between the Soviet Union and Eastern Europe. The Soviet Union has benefited substantially from the increase in world market prices of its main exports, oil, gas and gold. It has benefited from trends on the world market while raw material importing countries like Hungary have lost substantially.

MN The recession has had a wider impact because of the opening of these economies in general to the West and the increasing reliance of the Soviet Union and other countries on the import of technology and grain. Moreover the expectation of being able to pay for these imports with exports has been frustrated by the world recession. At the same time the rise in interest rates in the West between 1973 and 1981 has led to a mounting burden of debt which was not anticipated and which has had a very significant deflationary effect on domestic policies.

JC I don't think the world capitalist crisis is such an important factor for the Soviet Union. It's a factor which affects the East European countries much more than the Soviet Union. In the case of the Soviet Union one must look much more to internal causes for the slowdown in growth which is, in any case, a long term process.

One of these is the very sharp decline in the rate of growth of the labour force, which became increasingly important over the 70s. Whereas in the earlier period there was plenty of labour available from agriculture, this has now dried up. The problem is further complicated by the fact that industrial employment in the Soviet Union continues to rise against the trend in many other advanced industrial countries, and so the labour problem is extremely serious. Then there is the exhaustion of easily available mineral and fuel resources. The shift to the East for mineral and fuel resources has involved very considerable costs indeed.

There is also the inertia of the planning and management system itself, and of attitudes within it — the failure to respond rapidly enough to these new circumstances. I think at the moment that's a very considerable problem. There has also been the diversification and multiplication of priorities in this period of increasing demand for and necessity of improving living standards, and also the burden of defence. It is undeniable that this has held back the whole rate of growth, not least because it may well have had an impact on scientific and technical progress in the Soviet economy.

ME There are two schools of thought in Eastern Europe about the relationship between the evident economic crisis in Eastern Europe and the world economic crisis. There are those who would lay the blame essentially on the capitalists and their crisis for having caused all the problems and those who stress the internal causes, the fact that the growth strategy pursued for many years has come to a halt, the fact that the economic institutions are increasingly unsuitable. In this connection, as far as the internal factors are concerned, I'd like to draw attention to the importance in the traditional planning system of the absence of any feedback mechanism — both economic through the market, and socio-political through independent institutions in society. This absence of feedback mechanism enables governments to pursue disastrous policies until they lead to a catastrophe, as in Poland.

Now a remark about the increasing cost resulting from opening up new regions of the country. It is obviously true that as you explore for oil or natural gas in increasingly remote and inaccessible areas, it

gets more expensive. But you have to bear in mind that some of the enormously expensive investment projects in remote areas that the Soviet Union goes in for are simply badly chosen like many of Poland's investment projects in the 70s.

WB I think we all agree that there are external factors. These external factors are very interesting to discuss, but I'm not sure they can be designated the main culprit. This would be too easy. First, we must recognise that as far as the Soviet Union is concerned, this was a long term trend of slowdown. Second, the external dependence of the Soviet Union is not so great anyway. And thirdly, in many respects the Soviet Union has gained in terms of prices during this period, particularly in relation to Eastern Europe.

Now, take Eastern Europe. As has been said already, the crisis elements would have appeared there earlier if it had not been for Western credits. But obviously they could not go on borrowing indefinitely, and when the brakes had to be applied, internal inefficiencies came to the fore. Let's take the case of Poland — well before 1980. Poland, until 1973, was a net exporter of food products; until 1978 it was a net exporter of energy. Towards the end of the 70s, it became not only a massive net importer of food but even a net importer of energy. This means that there had been domestic factors responsible for this sort of transformation which made Poland so terribly vulnerable to external conditions. So we can't actually separate internal and external problems: we have to look at the former in order to explain the growing external dependence and the growing vulnerability.

Now to the major causes of the decline. Most people point to, and rightly so, the over-centralised system of planning and management of the economy. But this has been discussed for a very long period, its deficiencies have been acknowledged all over the place, not only in countries like Yugoslavia and Hungary, but even in the Soviet Union. And despite everything, nothing has changed. Why? There is no answer to this question without taking into account the political system, which excludes any kind of pluralism. Major economic decisions are imposed from above without genuine social control, and there is no mechanism of verifying the consequences of these decisions. There is not market verification — nobody is going bankrupt. There is no political verification — nobody loses an election for wrong policies. The only thing that remains is an explosion.

JC In discussing the declining performance of these economies, I don't think the growth indicator should be the sole measure we use. I think this is a mistake. One must take account of the fact that these countries have positive factors like full employment with relative price stability in most cases compared with the West in the recent period, and also on the whole greater social equality in terms of earnings.

But what is becoming more and more apparent as these societies develop is that they have their own contradictions which I don't think were really appreciated at all in the 60s by Soviet economists or socialists elsewhere. The fact that a society tries to maintain full employment and control prices brings about new problems, new difficulties. The problem facing economists in the East and the West is unravelling and understanding these contradictions in order to devise policies to tackle these problems.

ME This is a very important matter, about how certain advantages

¹ At its 22nd Congress in 1961, the Soviet Communist Party adopted its current programme which stated that the Soviet Union would 'surpass . . . the USA in production per head of the population' by 1970 — *ed.*

are intimately linked with certain problems. On the one hand you have full employment in Eastern Europe, and I regard that as a serious achievement; on the other hand you have shortages, and these shortages are closely linked with the working of the economy and with full employment. You have to try to balance one against the other, but you may well get neither.

WB This is true, but we must take into account the link between full employment and the proper use of material factors which, when wasted, may create a threat to full employment. In the East European economies, shortages of raw materials, especially energy, strongly constrain useful employment. Yet in spite of this, the use of energy per unit of output is much greater in the socialist countries than the West. There has been very little progress in the conservation of energy since 1973. Eastern Europe does not seem to have responded to that great shock. Why? Because of a faulty economic system which lacks a means of economic verification and relies on purely administrative instruments. Everybody is interested in increased inputs, in getting more inputs for less outputs. Prizes are actually awarded for waste and if this is not altered, neither the falling growth trend will prove reversible nor will useful employment be guaranteed.

ME That means that the system is having a steadily increasing negative effect. The question is why?

WB Because the complexity of the economy is growing and the importance of these economic criteria as opposed to simple quantitative criteria are increasing; over time the negative elements of the system play an increasingly important role. In addition, there is a political and sociological problem. People form permanent attitudes and habits when constantly exposed to the perverse 'rules of the games' of this system. In the long run, this is perhaps the greatest damage: people become anti-social.

ME Yes, one of the most striking aspects of socialist planning is the enormous privatisation of economic interests. Because the system works in a crazy way and people feel alienated from the social system, they only interest themselves in their own personal affairs, the deals they can do in order to get scarce goods and generally how they can maximise their own position and that of their family, and to hell with the rest of society. That, of course, taken on a large scale has an effect on the workings of the economic system in a way not always captured in macro-economic statistics.

MN We are saying the system is becoming increasingly inefficient. I think this is partly because of the very success of previous policies which has undermined the justification for those policies, partly because we are seeing a deterioration of the external conditions, and partly because a number of things, like shortages, are cumulative. So it's not just that the system is becoming more inefficient because of its own drawbacks. It's a rather more complex picture.

ME If you want to plant in any country in the world the kind of resource-intensive economic system which goes under the name of socialist planning, then the USSR in the 20s and 30s was the ideal place because it had so many resources that weren't being used, both labour resources and natural resources.

WB I want to emphasise that in my view it is completely wrong to think that, for instance, in conditions of plentiful resources, as in the USSR in the past, you can apply a system which does not give due

consideration to efficiency, and then simply switch it off. It is very difficult to extract oneself from the political, social and economic implications of such a system. The long run price may be much too high.

Chair *Could we go on from here to look at the specific question of agriculture and the supply of food which is obviously crucial to the problems we've been discussing?*

ME The main problems in Soviet agriculture are the high costs of production and the attempt to hold state retail prices stable. The high costs of production are a dramatic feature of Soviet agriculture, and an integral part of Brezhnev's agricultural policy has been an enormous investment in agriculture on a very large scale over very many years. But the returns on the investment are, to say the least, disappointing. In addition there's an enormous subsidy bill in the Soviet Union because the retail price of meat has, I think, been kept constant now for 19 years. Since the mid 70s the output of meat has stagnated, and is no higher now than it was in 1975, but money incomes have risen sharply which means that there are ever increasing shortages and this is a serious problem. Any economist will tell you that you can abolish shortages by raising prices, but as we all know that has certain implications and causes certain problems which are a worry for a government.

Now, it must be said that for climatological reasons Soviet agriculture is rather vulnerable to changes in natural conditions, and that this has nothing to do with socialism or collectivisation. The Soviet Union has had three bad harvests — in 1979, 1980 and 1981 — and this has been a very important cause of these three bad and disappointing economic years. You would normally expect, after a run of three bad harvests, better weather and a better harvest. If this is so, it will have a favourable impact on the whole Soviet economy and I myself expect that to happen.

I should like to make one observation of a more general kind: in my view the fundamental reason for the problems of agriculture in socialist countries is that the theory on which their policies are based is erroneous. According to this theory, large scale socialist agriculture is enormously superior to small scale private agriculture. I think this is definitely wrong, has been shown to be so in many countries, and has very important implications. It means that all these enormous investment programmes for building a large scale Soviet livestock sector are based on an erroneous conception. In contrast, it must be recognised that there are specific advantages in small scale agricultural production.

JC I agree with the first half of Michael's analysis, but have doubts on the second which I'll specify. I think the Soviet leadership is at last beginning to recognise that bad weather is a fairly normal state of affairs that has to be planned for.

I think the labour supply system in the countryside is clearly very important. The loss of labour from agriculture has been quite dramatic in the Soviet Union over the last 20 years, and the ageing of the labour force in the countryside, the fact that young people don't stay and settle there to introduce modern technology, is important. So although about one-fifth of the Soviet labour force is still in the agricultural sector, a remarkably high share by international standards, demographically its structure is not very favourable.

One of the main problems about Soviet agriculture has been the lack of differentiation in approach: an attempt has been made to impose a standard pattern over the whole countryside. But it seems to me we can't say the whole theory of large scale collective agriculture is wrong. Rather, some of the advantages of large scale production haven't been fully realised and probably only apply to certain

forms of agriculture. We're seeing slowly and haltingly a willingness to have greater differentiation of policy and flexibility in relation to agricultural production and some role in it is clearly going to be played for a long time yet by the private sector, which is undoubtedly a highly efficient sector of Soviet agriculture.

WB I'm glad that Michael has raised these more general problems because we have to say, and it's very significant that on the whole the socialist countries are a burden on the world food problem and not a contributor to solving it. I agree with Michael also that the superiority of large scale agriculture has been exaggerated. What I think the recent experience of Eastern Europe shows is that some kind of balanced approach is needed and not a one-sided approach in another direction. The best results in agricultural production in socialist countries are now being obtained where some kind of careful combination of large scale collective production with small scale private or semi-private production is possible. Hungary is a good case in point of such co-operation between collective and private farms.

ME I agree with Wlodek on these matters. I'd like to make another remark connected with agriculture in order to stress the importance of it. It's difficult for people here to take agriculture very seriously, it being such a small branch of the economy in Western Europe. It is necessary to emphasise that food shortages are of enormous political importance in the countries where they occur, in particular Rumania, Soviet Union and Poland. Everyone knows about the importance of food shortages in Poland. Rumania recently introduced bread rationing, and there is a situation of serious food shortage. There have been strikes and riots and, according to some reports, the President of Rumania had stones thrown at him when he tried to address angry workers. I myself expect in the next six months there will be strikes and riots scattered around the Soviet Union in various small places. These will result from food shortages. People are very concerned about food shortages and will go on strike or organise riots, not in an organised political way, but simply in a spontaneous way to express their discontent.

MN I'd like to make two remarks on agriculture. First, that large-size units are most unusual in capitalist countries, in fact, it's one sector where you don't find joint stock companies and large units, certainly not the kind of size you find in the Soviet collective and state farms. The problem of large size has been compounded by the neglect of investment in agriculture, especially in state farms, because clearly if you use wage-labour and therefore don't rely on the immediate self-interest of the farmworker, you must have large amounts of machinery and fertilisers. Second, on relative prices and the impact of prices on the supply of agricultural goods, I think that ultimately there has to be an improvement in the terms of trade between agriculture and other sectors. Now, this seen from the point of view of industrial workers must mean, and this is something that Polish unionists have not yet recognised, a lower standard of living for industrial workers.

WB There was relatively large investment in Polish agriculture during the 70s. But it was completely wrongly directed. The re-direction of investment, in the Polish case, to private agriculture would bring a substantial effect.

JC It seems to me in the Soviet case, anyway, and it may well be true in Eastern Europe as well, that the problem of investment in agriculture has not simply been its misdirection within agriculture but rather the neglect of the infra-structure. Only now, with the so-

Julian Cooper



Michael Ellman

Mario Nuti

Włodzimierz Brus

called 'food programme' is the Soviet government beginning to realise the enormity of the problem and that it must be seen as a whole. In the Soviet case, investment in storage and refrigeration facilities and transport may, in fact, in the short run be more beneficial in terms of improving the food situation than investment in agriculture.

ME I wish to disagree with Julian's optimistic analysis of the so-called 'food programme'. He thinks the food programme will have a very good effect but it is a typical grandiose investment project like those tried in Poland in the mid-70s. It will probably cost thousands of millions of roubles and produce few positive results. Some of the main problems of agriculture actually come from the economic mechanism. They are similar to the problems industry suffers from and, unfortunately, in Soviet-type societies farms have less political influence than important industrial plants and suffer even more.

Chair *Let's turn now to the question of economic reform. What are the main obstacles to changing the over-centralised system which, as was already recognised by the late 50s and early 60s, no longer corresponds to the needs of the economy?*

WB I'd say there are three main obstacles. The first is political in the sense that some people at the top believe that changing the economic mechanism may undermine the political system and their political power. I think this is not entirely true and perhaps now, with the experience of Poland where reforms have not been carried out and the degree of political stability in Hungary where reforms have been made, there may be an inducement to change. Nevertheless, it is a fact. The second factor, which I distinguish from the first one, is the vested interests of a large group of people, both those at the top and those who form the second layer of administration. They stand to lose in personal terms, especially so as the positions in the bureaucratic hierarchy are linked with all kinds of privileges which were revealed most clearly in Poland but which obviously exist everywhere in socialist countries. The third element is the genuine difficulties in introducing and running a new system, a reformed system; this requires a very consistent, patient economic

policy in order to create more favourable conditions for this to operate. The Hungarian example which we have evoked so often today shows clearly all these difficulties.

ME I've one point of agreement and one of disagreement. As far as agreement is concerned, I think the self-interest of many officials is a very important matter. People often say, especially people I've met on the Left in Western Europe, that since reforms are so desirable, they obviously ought to be introduced straight away. The fact of the matter is that the importance, future and status of a lot of people is bound up with this system.

I'd like to add now a note of discord which doesn't apply to the small Comecon countries, but does apply to the Soviet Union and insufficient attention, I think, is generally given to it: namely, a basic determining factor in Soviet policy, as with the Russian Empire before it, can be described as '*raison d'etat*'. The fact is that the Soviet Union is a great power in a world of great powers and has to compete with the others; this has important implications. It means that in determining the overall policy of the Soviet state, military programmes and certain non-economic investment projects like the BAM railway² are of great importance. Everybody knows that you don't facilitate your military programmes by having economic reforms.

JC Obstacles to change in the East European countries are different to those in the Soviet Union. In the latter, the very structure of organisation of the economy itself and industry is clearly a major factor. The fact that industry in the Soviet Union is basically controlled by about 35 industrial ministries means that there's an immense concentration of power by vested interests which by and large refuse to co-operate with one another unless their heads are knocked together by some formal arrangements. Even within the ministries, the divisions don't co-operate very easily. Khrushchev tried to solve this by sweeping them away and replacing them by regional organisation: that clearly wasn't the answer either, he just didn't appreciate the complexity of the problem. What we're now seeing in the Soviet Union is the growth of informal arrangements rather like those of the Khrushchev period. The Soviet economy is an economy of great heterogeneity of resources on a multi-level basis. At the top, there are the high priority sectors of defence and one or two civilian sectors which command the best resources and highest priorities. It seems extremely difficult to get an overall structure of reform appropriate to such a system and the various interests within it.

Now on the direction of recent reform in the Soviet Union. The July 1979 mini-reform was interesting in the sense that it brought together lots of experiments of the preceding period: reorganisation and a sort of merger movement, some changes in the planning system, the strengthening of the programme principle in Soviet planning, some changes in the economic mechanism and a net output indicator which is supposed to produce a more efficient use of materials and resources, and other things. The problem about this is that the reforms have been introduced in a half-hearted way. But I would say that in the Soviet case there's still a lot of slack to take up by partial policies on lots of different fronts rather than by more radical reform. It seems that the Soviet Union has still quite a lot of mileage in that kind of approach, but it may not be the case in the Eastern European countries.

ME One has to distinguish between the intentions of measures announced and what actually happens. Julian gives the impression

that a thousand and one marvellous things have been done, but what has actually happened? Various things have been announced and none have turned out as expected; all of them have taken much longer than planned.

WB There is a Polish saying to the effect that you cannot change your sheepskin coat by pinning a small flower to it. And this is what has actually happened in most of the instances mentioned by Julian. Genuine economic reforms mean changes which involve the abolition of the two pillars of the command system of planning: (i) obligatory targets given to enterprises and (ii) the physical allocation of resources. Of course, in any system, there will be some who perform better and some who do worse. The GDR is probably doing better within the existing system than the Soviet Union is, but in both cases the fundamental deficiencies remain.

I agree with Michael that 'imperial' considerations may play a role in perpetuating the old system, but in the long run the 'imperial' considerations may also press for economic reform. Because you cannot indefinitely secure the growing efficiency of the military-industrial complex in an overall deteriorating economic context.

Chair *May we now pass on to the question of technical innovation and ask why the technological gap between the socialist countries and the capitalist countries, which it was assumed would be closed, has not in fact been closed?*

ME In contemporary Soviet plans, action on technical progress comes first. That shows you the symbolic significance that is attached to it. Not only that, but tremendous inputs go into the science sector of the economy. Just count up the number of people, according to the statistical handbooks, who are engaged in scientific research. But as far as producing new products is concerned, the results are disappointing. Why is this? Well think how the whole thing is organised. In every sector, there is a ministry to which are attached one or more scientific research institutes. It has a kind of technical monopoly. And what does it do? It does an investigation, has a plan, produces reports. Suppose someone comes who has a new idea, who doesn't work there or isn't in the plan — they tell them to go to hell. They are not interested in that. Their job is to fulfil plans not produce revolutionary new products — that's something entirely different.

One of the striking things about capitalism is that it generates revolutionary new products, one after the other. Before 1750 there was virtually no technical progress for thousands of years by modern standards. Since then we have seen rapid technical progress and that is associated with a particular form of economic organisation, industrial capitalism, which has certain well known problems but also certain advantages as well. Why does it innovate? Because there are firms which compete. If they fail, they get driven out of business and go bankrupt. To succeed, to make profits, they must innovate. Some products are anti-social, like cigarettes, but others are quite useful, like personal computers. No satisfactory mechanism to replace the capitalist industrial firm as a generator of rapid technical progress has been found under traditional socialist planning, which is why Hungary, which has gone furthest in the direction of economic reform, is now having a major discussion about why there is no such thing as socialist entrepreneurship and how to create it. That is a very topical and important problem for Comecon.

JC Socialists in the past have had a very simplified view that socialism, by its very nature, will be more dynamic in the development of science and technology. Historically that has been shown not to be true. One of the things that characterises Soviet technology

² This is a giant railway project in the Soviet Far East — *ed.*

is its unevenness. In some sectors you find relative strengths compared with world technology, in some extreme backwardness. In general, however, you can say that as you move from science to the wider diffusion of technology, performance declines compared with the West.

WB I agree with Michael. I must add though that recently we have seen one very successful example of socialist entrepreneurship, Hungarian entrepreneurship, with the Rubik cube. And now he is a millionaire!

I fully agree though that there is unevenness. The Soviet system has managed to achieve relatively high technological development in a few selected areas at great cost. Now what are the restrictive factors? First, it is again what Michael mentioned, this straitjacket of the over-centralised planning system. Second, the lack of diffusion, so even if substantial technological progress in one area is achieved, the spill-over is very small. This is paradoxical because one of the accusations against capitalism was the hampering of the spread of new technology through commercial secrets. Apart from general causes of weak diffusion in socialist countries, the dogma of bigness may also have played a role. In many cases, small firms are generating technical progress which is sometimes take up afterwards by the big corporations. This is particularly true of electronics and related areas. There are really no similar small firms in the socialist countries.

ME The Soviet Union, as Julian said, is quite good at new scientific ideas, but less good at introducing them into production. There was an American report published a few years ago in which the author, a consultant for the American government, suggested that American firms should buy licences for Soviet technology from Soviet research organisations, produce the products themselves and put them on the world market. I thought that was a funny joke when I first read it. But I recently had discussions with a multinational company based in Holland that is actually involved in doing this, and they think this is a splendid thing. And they are showing, in a funny kind of a way, that they are superior, from a production point of view, to the socialist system.

JC Another important factor in the level of technology is the weakness of customer power in these economies. There is no powerful countervailing force from the customer pushing firms in the direction of higher levels of technology. The exception, of course, being the military and those sectors which are now heavily involved in foreign trade. Foreign trade is having an impact in some sectors of the Soviet engineering industry where they have succeeded in getting on to the world market and have been obliged to raise the quality of their products.

ME One of the most important results of this technology problem is to be seen in the structure of foreign trade. The USSR is now the world's second largest industrial country and what does it export to the West? Does it export sophisticated industrial products? No. It primarily exports raw materials, namely, oil, gas, gold and wood. That partly reflects the fact that it can't produce the necessary high quality goods and partly poor marketing. Now let's take another country, namely the GDR. This is the most advanced of the Comecon countries. It is a country where the national income per head is now in excess of the UK. And look at the structure of its foreign trade, for example with West Germany. It exports not advanced industrial goods but by and large primary products. And now, as a consequence, it is having increasing problems with its foreign trade, its balance of payments.

JC On the question of what the technology gap actually is. Research done suggests that over a wide range of industries and sectors the socialist countries lag behind the West. But it varies from sector to sector. In computers it's about 6-8 years behind and the evidence suggests that over quite a long period this gap hasn't really narrowed very much. What has been happening is that the Soviet Union has been improving its technological level but at a rate similar to that on average of the West.

ME There is a technology gap — it is a significant problem — and despite what we all expected, particularly people on the Left, it seems just as big now as it was 15-20 years ago. There doesn't seem to have been any significant reduction in that gap and that is kind of queer both because of what we used to think about the advantages of socialist planning and also because the socialist countries have devoted enormous efforts to importing technology.

WB This is a very pertinent question. The import of licences and technology will never by itself close the gap if you simply implement the technology and stop there. It must be further developed: it must become a sort of ignition for the economy. This unfortunately does not usually happen in Eastern Europe.

Chair I *would like to lead on from there to the energy sector. Would somebody like to deal with the energy problem?*

JC The Soviet Union does undoubtedly face an energy problem. There is no question about that and it has come about with the exhaustion of the readily available reserves of coal and oil. While there isn't the crisis situation in oil which the CIA, for a while, predicted, certainly there is a slowdown in Soviet oil production. The new 5 year plan sees a small growth over the period. Predictions after that are that it will start to decline in absolute terms. The Soviet Union will have a problem in the short run of covering an energy gap which it hopes eventually will be filled by nuclear power, on which it will rely very heavily.

In the meantime, it will look to natural gas and coal. The Soviet Union is very fortunate in still having substantial reserves of natural gas which can be exported for many years yet without any real problems. It will be a major foreign exchange earner over the next 10-15 years. At the same time, it is trying to revive the coal industry again with a massive new investment to increase coal production.

MN The energy problem is exacerbated by the high level of energy consumption per unit of output. Even after allowances are made for the different structure of output in, for instance, the OECD countries and Eastern Europe and the Soviet Union, we find that not only is energy consumption higher but they have not responded to the energy crisis to anything like the same degree as the West. There has only been a very modest rate of decline in energy consumption per unit of output.

Another aspect of the energy problem, especially in Eastern Europe, is the very considerable reliance on coal as well as oil. This is partly a blessing in disguise, and partly an indication of backwardness. The East European countries are known to be very dependent on Soviet oil deliveries and this dependence and sensitivity is not the same for different countries. In order of dependence we can rank Czechoslovakia, Hungary, GDR, Bulgaria, Poland and Rumania. One major factor for the Eastern European countries in the future will be an increased reliance on oil deliveries from non-Soviet sources. This in turn involves a considerable increase in the unit cost of oil for these countries and it will require considerable

effort on the part of these countries in the promotion of exports to the hard currency areas in order to pay for that oil.

WB For Comecon, the main energy problem is the smaller Eastern European countries and not the Soviet Union. For the Soviet Union, if it had not been politically committed to exporting a very considerable part of its resources to Eastern Europe, the situation would be different. But together, of course, it's a very acute problem, exacerbated obviously by the balance of payments constraint which makes it very difficult to increase imports of oil from non-Soviet sources. Moreover, the Polish situation adds a new headache to the energy balance for the entire region. It may mean a real fall in the production of coal and probably for a long time the Eastern European countries will have to find some sort of substitute for that part of Polish coal which is no longer being exported to them. As far as nuclear energy is concerned, the socialist countries are in an advantageous position of a kind because so far no one publicly protests against the construction of nuclear power stations, regardless of their safety standards.

ME I would like to deal with another aspect of this energy problem. It is absolutely clear that the small Eastern European countries are economically a burden on the Soviet Union. The Soviet Union is selling to small Eastern European countries for transferable roubles, below the world market price, energy that could be sold on the world market for hard currency. That is an important matter and those people who think that relations between the Soviet Union and the small Eastern European countries are a sort of traditional, economic imperialism are making a big mistake. Comecon integration is not being pursued to bring economic gains to the Soviet Union.

Chair *Now let's turn to the prospects for the future.*

WB It looks as if we face at least 5 years of almost stagnation in these countries. The decline in growth rates is a much greater blow for the Soviet and Eastern European economies than it would be in a comparable Western situation. So I think prospects for the future are very difficult. It can be alleviated, I think, by very well thought-out changes in the system. Although nothing sensational can happen at once in the economy under the influence of such change, it can become a source of some relatively modest but sustained improvement. To what extent such changes will be carried out is another story.

ME I must say that if economic stagnation comes about, and I am less sure than the other speakers that it will, it would cause serious legitimisation problems for the regimes in Eastern Europe since a large part of their legitimacy comes from their success up until now in generating high rates of economic growth.

WB I have not said stagnation, but virtual stagnation. Let me qualify a little. Excluding Poland, the annual growth rate was 4.5% in the previous 5 year plan period. Now the plans are lower again compared with the previous performance and still there is justifiable doubt about their fulfillment. So I think on average we can expect something around 2.5-3% growth within the next 5 year period. This is what I have in mind.

JC I am inclined to agree with Wlodek on this. A realistic expectation for the Soviet Union is a 3% annual rate of growth of national income over the next five years. Now, the effects of this will partly depend on what happens in the capitalist world. If, as seems likely, the Americans are heading for deeper recession, and there is no real

prospect of a major upturn in the next 5 year period in the capitalist countries, then the problems of legitimisation that Michael spoke about must be seen in a slightly different light. Moreover, even with lower growth rates, these countries will have a better employment and prices position, excluding perhaps Poland and one or two other countries.

WB What you are saying is that the legitimacy of the system may be saved by deep recession in the West, hardly a consolation.

MN I would put myself on the lower range of optimism in this group. There will be on average a modest growth, probably less than 2.5-3%. And this will be barely enough to compensate for the unavoidable deterioration in terms of trade which will occur throughout Eastern Europe, and also the Soviet Union. On the question of legitimisation, a parallel crisis in the West is not going to satisfy the population at large, in the sense that expectations are somewhat different. It is not a question of comparison of performance, the individual perception of performance will be paramount. So we can expect disappointment and therefore unrest, which might lead to forms of democratisation, or alternatively, forms of authoritarian rule.

Chair *What are the implications of all this for the Left in Western Europe?*

ME We are now living through a world economic crisis, as in the 30s. However in the crisis of the 30s, there was a very widespread view that socialist planning was the solution to economic problems. Once you had socialist planning — which was understood as the traditional Soviet economic system — then you had the solution to all your economic difficulties. But the present world economic crisis is very different from that in the sense that one of its first casualties has been socialist planning. It's an unfortunate fact, but an important one, that we are drifting into a situation in which socialist planning will be as much of an electoral liability to the groups on the Left as the dictatorship of the proletariat.

WB I agree that socialist planning has ceased to be an automatic political asset. This is deplorable because planning on a national scale has an enormous role to play, and therefore it should regain its former political attraction. In order to achieve this, we must stop simply using slogans about planning and concentrate instead on careful examination and explanation of the kind of planning which will be able to stand up better to social expectations. What is completely wrong is to close our eyes to all the conflicts which planning under socialism can never resolve. This is the worst possible solution. I am not even mentioning here the need for an uninhibited critical assessment of the Soviet-type planning.

JC I think Michael has exaggerated. To ordinary people facts like full employment and security are important. But I do think there are lessons for the Left. In the past the Left has had a very abstract and rather Utopian view about socialist economies. The events of the recent period are beginning to lead to a more differentiated and realistic approach.

MN The most important thing for the Left in the West is not to lose confidence in socialism because of the deterioration in economic performance in the socialist countries, and to look at socialism as it actually exists as a kind of living organism which is capable of changing. There is some hope in that direction. But the best thing for the Western Left is to produce its own model of socialism. •