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CONVERGENCE IN PLANNED ECONOMIES

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I. Summary

It is the thesis of this paper that, regardless of the ideological commitments of the planners or the degree of plan comprehensiveness, certain basic tendencies to converge emerge in all forms of economic planning. Five such areas have been isolated and illustrations presented from the experience with widely different types of planning in a number of countries--Yugoslvaia, China, the U.S.S.R., Czechoslovakia, Mexico, France, Scandinavia, and the ECAFE countries. There is increasing recognition of the roles played in the process of economic growth by: (1) the price mechanism, interest rates, cost-profit relationships, and productivity, with a view toward improving allocative efficiency, minimizing waste, and rationalizing the cost structure; (2) material incentives, in order to foster work effort; (3) economic pluralism, to mobilize public participation and support; (4) functional banking, with a view toward catering to and increasing the financial viability of firms; and (5) flexibility in planning, in order to provide against administrative bottlenecks.

Hence: (1) If not the market rate of interest, then at least some kind of rate-of-return-equalization criterion must be applied by the planners, in order to avoid misallocation of resources. (2) "Enterprises" must be operated not merely on the basis of "output maximization," but also due regard must be given to "cost minimization." (3) "Average-cost-plus" policy does not necessarily lead to maximization of returns from investment, as the cost structure itself may not be optimal. (4) "Financial responsibility" requires that "enterprises" be subjected to

various forms of charges, like depreciation and amortization charges. (5) To arouse active enthusiasm among the workers towards increased efficiency, aid must be sought from "differential wage" payments, non-economic incentives being insufficient. (6) It is necessary to have many centers of decision-making and implementation of policy (though within the over-all framework of plan strategy), and some sort of "economic pluralism" is essential in bringing the plan to the people. (7) Both the strategy and the implementation of planning must be flexible in order to lend resilience to the plan. (8) "Functional banking" is a potent factor of accelerated growth rates. (9) Once the economy gets going and the dimensions of various economic issues get unwieldy, central or monolithic management leads to definite errors; the state must consider a phased and graduated withdrawal through delegation of authority; "target planning" or "indicative planning" with guidelines of policy, rather than crippling the market through multifarious controls, is desirable. (10) The tendency towards decentralization is associated with lesser bottlenecks, greater efficiency, and higher growth rates, though the empirical evidence is not conclusive.

Further, reference has been made to the studies of J. Vanek and E.E. Hagen, which indicate support for the view that a scrupulous adherence to the implications of convergence makes for more efficient and faster economic growth.

II. The Hypothesis of Convergence

A careful study of the experience in most countries with planned economic growth bears out the fact that, regardless of the strategy and

the ideology of planning, with the passage of time there is aroused among the planners an increasing recognition of (1) the importance of the price mechanism, interest rates, cost-profit relationships, and productivity, when considering optimal resource allocation; (2) the importance of economic (as distinguished from non-economic) incentives in promoting work effort; (3) the need for economic pluralism, rather than monolithic administrative planning, in mobilizing effective participation of the various economic groups in the country; (4) the role that a network of functional banking can play in facilitating the growth process; and (5) the need for flexibility in planning, particularly in plan implementation. There is an element of unity, therefore, in the midst of diversity.

"The plans emerging in capitalist countries differ from communist planning," observes Landauer,[1] "by structure and by choice of means of execution...(yet) in some very important respects the lines of development of capitalism and communism tend to converge." Convergence arises because, regardless of the type of planning employed, all economic activity is conducted under constraints--of time, expectations, resources, flows and stocks, preferences, and, most of all, experience--so much so that a phenomenon like business cycles, which are ascribed strictly to capitalism, may arise in a collectivistic economy. It is held, for instance, that the "leap forward" years (1958-60) in China represent a boom

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[1]Carl Landauer, Contemporary Economic Systems--A Comparative Analysis (New York: Lippincott, 1964), pp. 536-37.

period which was followed by a severe depression.[2] Communist planners, having been grossly over-optimistic in their investment calculations during the "leap forward" boom, over reacted in 1961-62, just as in a business cycle in a market economy.[3]

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[2]W.W. Hollister, "Capital Formation in Communist China," in Chou-Ming Li, ed., Industrial Development in Communist China (New York: Praeger, 1964), p. 52.

[3]George Staller, "Fluctuations in Economic Activity: Planned and Free-Market Economies, 1950-60," American Economic Review (June 1964), 385-95, is a very instructive and revealing study, with the following results. There is a considerable variation in the degree of fluctuation both within and between the groups. The path of growth was quite smooth in some countries (Poland, the Soviet Union, France, Italy, Norway), while in other countries it fluctuated widely (Bulgaria, Yugoslavia, Greece, Turkey, the United States). Considering both groups together, the lowest fluctuation in total output occurred in the Soviet Union and in Norway, the highest in Yugoslavia and, to a lesser degree, in Turkey. The output of agriculture fluctuated little in Poland, Czechoslovakia, Luxembourg, Sweden, and the United States, and widely in Yugoslavia and Canada. Industrial output of the Soviet Union grew more smoothly than that of any other country considered; the United States registered the highest fluctuations. The growth of construction was smooth in the Soviet Union, France, and the United Kingdom; it varied greatly in Bulgaria, Rumania, and Turkey.

The performance of the Soviet Union is of particular interest, not only for the obvious reason that it is the most powerful nation of the Communist bloc, but also because it is the one with most experience in economic planning. Except for agriculture, it experienced the lowest fluctuation among the planned economies. Its performance, however, seems to have been duplicated by free market countries. It was either matched or surpassed by France, Italy, Norway, and Sweden in total output; by Austria, Denmark, France, the Federal Republic of Germnay, Luxembourg, Sweden, the United States, and the United Kingdom in agriculture; and by Denmark, France, Italy and the United Kingdom in construction. Only in industry--the show-window of its economic growth--does the Soviet Union demonstrate a greater stability in growth than the free market economies, being followed by France, Sweden, and Turkey.

Three pairs of averages were calculated--first, the averages for the eight planned and the 18 free market economies. Second, since fluctuations in total output might depend on the level of economic development (with agricultural output comprising a large and widely fluctuating share), only those OECD countries are considered which had in the mid-fifties per capita incomes similar to those of the Communist bloc. Finally, four planned economies (Czechoslovakia, East Germany, Hungary, and Poland), which had previously belonged to the economic (Footnote continued on next page)

Let us now deal with each of the above-named five areas where trends toward convergence emerge.

A. Prices, Interest Rates, Cost-Profit Relationships, and Productivity

In Yugoslavia, planners now commonly feel that the market "plays an important role in correcting the planned proportions of distribution and consumption, since it is precisely on the market that a direct check can be made as to whether these proportions have in fact been established in accordance with the action of economic laws and whether the measures necessary to enforce them have been taken." Even trade names and licensing of manufactures by patent holders have reappeared. Nonetheless, a substantial number of domestic prices are still subject to direct control, and until 1961, international transactions were carried out under a complex system of multiple exchange rates and trade restrictions. "Price and exchange controls have seriously distorted some prices and furnished misleading incentives to consumption, current production, and most importantly to investment; nevertheless, it remains true that for most commodities, prices are determined freely by supply and demand."[4]

The Federation's announced objective is to continue to reduce administrative intervention in the market. For instance, in November 1963 Yugoslavia became an associate member of the General Agreement on Trades and Tariffs (GATT) under conditions which require her to abolish most

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community of Western Europe but which introduced economic planning after World War II, are compared with the Common Market countries.

In all these comparisons the indicated mean fluctuations were higher in the Communist bloc than the OECD economies for all four categories. Only in industry is the mean for the planned economies close to the average for free market countries.

[4]Albert Waterston, Planning in Yugoslavia (Baltimore: John Hopkins, 1962), p. 50.

of the direct controls on imports and foreign trade. Also, after consulting the International Monetary Fund (IMF), the government at the end of 1960 adopted a far-reaching foreign exchange and import reform, to be put into effect over the next few years. "The reform provided for the introduction of a uniform rate of exchange of 750 dinars to the dollar; replacement of coefficients by a uniform clearing rate with premiums for some exports; removal of some restrictions on imports; and a simpler system of allocating foreign exchange. These measures, if carried out, should gradually bring Yugoslav prices into line with world prices."[5]

The goals of a "socialist market economy" are to be achieved by the following means. (1) Allow a steady but gradual shift in the distribution of the national income in favor of direct personal incomes, to the disadvantage of both gross investment and "indirect income," thus creating a steady demand pressure on the consumers' goods sector of the economy, as well as greater incentives to production. (2) Reorganize the credit and banking system, including the creation of a unique socialist capital market, in order that investment decisions may be more flexible, less political, and without the existing bias in favor of infra-structure projects. The purpose of this is to channel funds into the right places to meet growing consumer demands more efficiently. (3) Gradually free prices, to restore consumer sovereignty in relation to available resources by establishing more "real" use values. (4) Admit that the small size of the domestic market requires the creation and toleration of monopolies --

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[5] Ibid., p. 60. The "new" currency rate is expected to be 1,000 to 1,200 dinars to the dollar: The New York Times, June 17, 1965, p.12.

in many sectors to achieve an economic scale of production. The potential evils here are to be handled eventually by admitting foreign competition, and temporarily by price and other controls.[6]

"The long-term aim of the Yugoslav authorities is stated to be increased reliance, as the position of the economy grows stronger, on the operation of the price system, subject to general re-orientation by the central authorities through their comprehensive social plans."[7] "Except as applied to monopolies and public utilities, price control is not regarded as a permanent feature of the Yugoslav economy, but rather as a temporary expedient to deal with the maladjustments and inflationary tendencies associated with the change-over to a more decontrolled type of economy. Not only has the range of goods covered by the various types of controls been gradually reduced, but scarcities have been relieved by raising certain controlled prices, for instance, house rents and tariffs on electricity."[8]

Further, under the Yugoslav system of decentralized decision-making, interest rates are reintroduced as a cost of capital. They do not play a decisive role in production costs, since federal plans allocate investment funds to the various sectors; moreover, investment funds are loaned at

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[6] Dennison I. Rusinov, "Yugoslavia's Problems with 'Market Socialism,'" American Universities Field Staff Southeast Europe Series, XI, No.4 (1964), 14. A recent report declared that the market should be allowed to function more freely and unnecessary foreign trade regulations should be abolished. The New York Times, June 17, 1965, p.12.

[7] C. Dupont and F.A.G. Keesing, "The Yugoslav Economic System and Instruments of Yugoslav Economic Policy: A Note," IMF Staff Papers, VIII, No. 1 (November 1960), 84.

[8] J.M. Fleming and V.K. Sertic, "The Yugoslav Economic System," IMF Staff Papers, IX, No. 2 (July 1962), 211-12.

subsidized rates (e.g., 2 percent for electrification; 3 percent for agriculture, construction, transport, and commerce; and 4 percent for industry and mining). Some attempt has been made to set interest rates competitively within the allocations made by federal plans, by using a system in which loans are made to borrowers who (among other things) are willing to pay the highest interest rate; but most rates are still fixed at subsidized levels.[9] "Before providing investment finance for any individual project, the Investment bank has to ensure that the income arising from the project will be sufficient to cover the interest charge on the loan, the cost of repaying the loan over a certain maximum period, and the capital tax on that part of the additional capital against which no loan is outstanding."[10]

The Chinese New Economic Policy suggests that internal conditions are more similar to those of their arch-enemy, Yugoslavia, than their anti-Yogoslav vituperations would lead one to think. In September 1962, when the Tenth Plenum was meeting, Red Flag published an article excoriating the Yugoslavs for their return to capitalism.[11] However, the far-reaching decentralization put through in November 1957 was a tacit recognition of the fact that the Chinese economy could not be directed as a single entity, that regional planning and cooperation would play a vital part in propelling the economy forward, and that expertness rather than

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[9]Waterston, op. cit., p. 60.

[10]Fleming and Sertic, op. cit., p. 217.

[11]Ch'en Mao-i, "Let Us Talk about the Worsening of Economic Conditions in Yugoslavia," Red Flag, No. 17 (1962), 24-31.

"redness" was required for making economic decisions. Management discussion now deals with technical production and marketing problems, not Party policy.

Policy in China has shown a continuing emphasis on the need to economize, to meet financial targets, to find a correct price policy, to thoroughly reform the banking system--for financial authority and responsibility in enterprises and in the country as a whole. "There has been discussion on how to set prices in order to satisfy interests on all sides, how to make commodity turnover more efficient, how to accelerate the circulation of capital, how to increase labor productivity, how to save on this and that."[12] But one thing has become clear: "The main targets that are given by the State to enterprises to meet are not output targets but profit targets... This does not mean that production is being discouraged...but rather that the leadership attached paramount importance to accumulation, with which to finance its future programs of expansion."[13]

Even in Yugoslavia the Investment Bank consults with the appropriate chambers, associations, and other interested groups while studying applications for loans from enterprises. If, after screening the applications, the Bank is satisfied that more than one applicant is qualified to carry out the project and service the loan, it will generally apply a series of economic criteria to determine which applicant will receive the loan, including the project's expected profits, repayment prospects, proportion of financing from the applicant's own resources, and rate of interest offered by the

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[12] Franz Schurmann, "China's New Economic Policy," in Li, op. cit., p. 72.

[13] Ibid., p. 73.

borrower. When selecting a project for a loan, the Bank tries to eliminate political factors.

In an attempt to use economic criteria even when giving preference to less developed areas, the Bank may separate the competitive bidding for projects in depressed regions from those in the more advanced ones. The Bank may also require that the borrower engage consultants, reorganize, improve its management, or otherwise take steps to become more efficient before it will make a loan. In addition, preference for investments in some economic sectors rather than others is imposed by regulations which set minima for participation by borrowers in the financing of projects for which the Bank makes loans.[14] "Each enterprise or local authority applying for loans has to submit a detailed preliminary set of investment documents (investment program, preliminary construction program with calculations as well as the specifications for equipment, and preliminary price list). The purpose is to make investors carefully consider all the economic criteria of the project; the only exceptions to this rule are special cases such as projects necessary to incite growth in an underdeveloped region, for instance. In addition to the above, the Bank often insists upon a special guarantee of the commune."[15]

Further, in order to provide enterprises with stronger incentives to reduce costs by economizing on manpower, investing in productive equipment, and otherwise increasing productivity, a series of significant

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[14] Ibid., pp. 74-75.

[15] Savka Dabcevic-Kucar, "Decentralized Socialist Planning: Yugoslavia," in E.E. Hagen, ed., Planning Economic Development, p. 204.

changes was made early in 1961 in the regulations governing the incomes of enterprises. The most important involved the replacement of the progressive income tax by a flat tax on gross income, supplemented by an excess profits tax to catch windfall profits when income exceeded 6 percent of invested capital. Amortization allowances for equipment in the transport and metallurgical industries and in agriculture were increased to allow quicker replacement of capital equipment in these branches of the economy. The distinction made in previous tax regulations between funds used for fixed investment and those used for working capital, which had led enterprises to over-invest in fixed capital, was abolished. In order to induce enterprises to make more effective use of invested capital, the 3 percent tax on it was increased to 4 percent. The separate tax on land was eliminated, and the value of the land owned by the enterprise is now included in the tax base for the 4 percent rate. Other new regulations, which have the effect of greatly increasing the cost of borrowed capital funds, are intended to stimulate investors to accumulate and use more of their own capital than in the past and to repay loans from the various investment funds more quickly.

Prior to 1961, republics, districts, and communes received most of their revenues according to the amount of wages paid out within their boundaries, and as a result local governments tended to pressure enterprises to employ additional workers. The new regulations, which were intended to get local governments to encourage the accumulation of capital by enterprises; provided that, in addition to receiving 13 percent of the wage bill of enterprises, republics and communes also are entitled to the proceeds of a 20 percent tax on the amounts allocated by enterprises to

their investment funds. Also, to educate workers to view their enterprise not only as wage earners but also as sharers in its profits, wages were treated as a part of the residual income of enterprises and not as a cost of production.[16]

It is amply clear from the above that in Yugoslavia and in China increasing attention is being paid to the usefulness of indicators like prices, interest rates, costs of production, profit rates, productivity, and accumulation.

B. The Importance of Material Incentives

In discussing the Soviet economy, Rudolf Bicanic observes:[17] "it is worthwhile to examine the oversimplified assumptions under which the Soviet system has operated. They include: an unlimited demand for capital goods, in a definite order of priorities; an unlimited demand for consumer goods, in a population purposely kept at low levels of consumption; unlimited efficiency of administrative incentives; an unlimited role of state power in economic planning." But once the administrative incentives begin to lose their effectiveness, the efficiency of the state power as the infallible planner decreases, and other, more effective economic incentives have to be applied. For instance, in their concerted and ardent efforts to industrialize and develop the economy rapidly, the leaders of the Chinese Communist Party have given work incentives an important

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[16] Waterston, op. cit., pp. 63-65.

[17] In "Economic Growth, Development, and Planning in Socialist Countries," in Nelson, ed., Economic Growth, Rationale, Problems, Cases (Austin: University of Texas Press, 1960), p. 186.

role--a role which operates narrowly within the limits set by economic necessity and ideology. The pendulum has swung from an emphasis on material incentives (First Five Year Plan, 1953-57) to a stress on non-material incentives (1957-60) and back again (1960 on).[18] These major policy changes have reflected the significant turns in the grand socio-economic strategy of the Chinese Communist Party. The Party will continue to vary incentives in a dualistic way; the limits to which they can push non-material incentives will depend greatly on the conditions and attitudes of the peasants.

In Yugoslavia, while the level of wages for workers of an enterprise as a group is largely governed by the level of profits, wage scales retain considerable importance in providing the individual workers with an incentive to produce, through different wages for different types of workers and through piece rate systems. To an increasing extent, however, the attempt is being made to provide this incentive by paying workers in particular units of the enterprise on the basis of the profits accountable to these units.[19] The distribution of earnings on the basis of individual rather than group productivity and output tended to make workers concentrate on their own jobs and neglect the teamwork needed to raise group productivity. It was to correct this defect that a situation was created in which "the direct producer also becomes a manager, a fact which, in our conditions, is regarded as a decisive factor for further development,"[20] and a new

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[18] Charles Hoffmann, "Work Incentive Policy in Communist China," in Li, op. cit., p. 92.

[19] Fleming and Sestic, op. cit., p. 209.

[20] Mika Spiljak, "Remuneration or Distribution According to Work," Review of International Affairs (Beograd), XII (January 1961), 14.

system of "distribution according to complex output" has been created. In discussing the new system, the Yugoslavs admit that "in developing the criteria of work for individuals and individual productive departments, we have made use of the experience of both socialist and capitalist countries."[21]

Another illustration of incentive wages is the "two-part wage-schedule" system followed in Yugoslavia. One part consists of a guaranteed basic salary, varying according to the job, the qualifications, and the experience of the incumbent; the second part will be a variable amount paid monthly according to the efficiency and initiative of the jobholder, as determined by fixed criteria.

It is, however, in their application to enterprise earnings as the guiding principle of production policy that economic incentives have been developed most expansively. Here, two kinds of incentives have been devised to stimulate enterprises to greater production and more rational use of their productive capacities and labor. The purpose of one set of measures is to promote increased output by levying fixed charges on an enterprise, irrespective of its volume of output. These include a depreciation charge on its capital equipment, interest on borrowed funds, a tax on its fixed and working capital, and (until 1961) a land tax. Since the proportional burden of these charges declines as output rises, it is in the interest of an enterprise to make the greatest use of its capacity to increase productivity in order to increase income, and thereby the potential income per person employed. The second set of measures has been incorporated in the tax system to promote the allocation of enterprise income to investment

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[21] Ibid.

purposes. Thus, a personal income tax must be paid on enterprise earnings distributed to workers, but (until 1961) none had been levied on earnings set aside for investment.[22]

In June 1956 the Council of Ministers of the Soviet Union approved a "standard statute" for machine-building industries which provides for bonuses to engineering and managerial personnel for the design and introduction of new technology. "A notable and novel feature of the measure--and incidentally an important sign of the growing appreciation of economic criteria in decisions pertaining to growth--was tying of the size of the bonus to the anticipated annual economic gain from the introduction of the new technology."[23] In other words, it is being recognized that the "government man" is not a "meta-economic man" who maximizes a whole variety of things, mostly non-economic, but definitely an "economic man." The Soviets are trying to bring into existence, as it were, a whole array of "economic men," socialist in form, perhaps, but largely bourgeois in content.[24]

The task of providing effective inecentives in a socialist economy is doubly difficult. As Waker and Zielinski observe,[25] first, the operational price and incentive systems always must be analyzed together, not in isolation. The latter, however, is usually practiced by the planning

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[22] Waterston, op. cit., p. 53.

[23] G. Grossman, "Soviet Growth: Routine, Inertia, and Pressure," American Economic Review (December 1959), 67.

[24] Joseph S. Berliner, "Discussion...," American Economic Review (December 1959), 85-86.

[25] In "Socialist Operational Price Systems," American Economic Review (March 1963), 109-27.

authorities. For every incentive system there is an appropriate price system, and changes in one will always be accompanied by compensating changes in the other. Otherwise, there will be a contradiction between prices and incentives used, from the point of view of their influence on plan fulfillment. Second, with direct economic calculation, there is no optimal price or incentive system per se. We can find, however, an optimal combination: that which best serves plan fulfillment and which precludes price or incentive stimuli not in harmony with planned tasks. Third, the "price consequences" of any incentive system or of contemplated changes in it (i.e., changes in rules and/or intensity of incentives) always have to be carefully analyzed to avoid a possible negative effect on plan fulfillment. And vice versa, any price changes have to be analyzed from the point of view of their impact on the functioning of the given system. Finally, the choice of any given incentive system determines the system of operational prices which can be effectively used in conjunction with it, and vice versa. Thus, the effects of average-cost-plus pricing operate in contradiction to the stimuli of gross output incentives. This mutual interdependence of the incentive and operational price systems limits the planner's freedom of action in making both price and incentive policies.

C. Economic Pluralism

Closely associated with providing material incentives is the tendency in the planned economies to mobilize public participation in the planning process. Such participation, whether direct, as in the case of target planning in France, or indirect, as in the case of workers' participation and profit-sharing in Yugoslavia, has the effect of making planning and its

implementation a concern of the people, rather than just a task to be fulfilled by the government.

In China, for instance, since 1961, "independent managerial authority is being stressed, and it is being made clear that the enterprise manager must make the correct economic decisions with the capital furnished him and the tasks which the state assigns him.[26] The financial side of things is apparently still rigorously controlled by the state banks through the system of "current accounts," and neither money nor credit is supposed to move directly between economic units. But the manager appears to enjoy considerable autonomy with regard to purchase-sales and production agreements. In China, since 1957, the so-called system of profit-sharing has grown. Since 1961, greater emphasis is being placed on "direct contracting." This means that within the framework of the plan and according to the prices set by the state, two economic units may agree on the exhange of goods for such and such a price at such and such a date.[27] Again, in China, the former technique of planning, in which the lead was taken by the specialized ministries of the central government, was changed as a result of 1958 regulations into what came to be known as a "double track" system, in which local equilibrium was to play a leading part, and the ministries and local authorities were to cooperate. The central authorities were to distribute only the "balance transfers" of the major local

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[26] Chin Li, "Discussion in the Very Recent Period by Our Country's Economists on Problems of Socialist Economic Accounting," Ching-chi Yen-Chiu (Economic Research), No. 11 (1962), 66-67.

[27] Schurmann, op. cit., p. 79.

authorities and not the total production of the country.[28]

"The success," said Pierre Masse, "of the French planning technique is due to a combination of concerted effort by government and private enterprise."[29] Where public action and private initiative exist side by side, as in France, it is not sufficient to draw up a plan which could remain a statement of intentions. One must be given the means for implementing it. That is why two things have been given specific attention in French planning. First, the "Modernization Commission," which is the epicenter for exchange of information and cross-fertilization of ideas between the government and the private sector, is composed of various groups representing diverse interests in the economy. These groups belong to three major categories: heads of firms and leaders of employers' associations; workers (all four big unions have representatives on the commission); and civil servants of the departments involved. Experts, mostly with academic background, and users' representatives make up the rest of the members. No rigorous proportion is requested in the composition of the commission, which adds to the flexibility of the organization. The spirit counts more than the letter. The commission seeks agreement, not the majority vote.

Particularly because the statistical material and the development of national accounts have still a long way to go to cope with the demands of extensive planning, the usefulness of such contacts has grown, and the

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[28] Wang Kuei-wu, "An Important Change in the Method of Drawing Up Annual Plans," Planned Economy (Journal of the State Planning Commission), No. 9 (September 1958), 13.

[29] In "Private Investment," in Problems of Development (Organization of European Economic Cooperation, 1961), p. 89.

number of commissions has multiplied. "Today, there exist 20 commissions related to branches of economic or social activity, 5 concerned with the main problems of all the branches (financing, manpower, research, productivity, regional planning). The total number of members in commissions and working groups was around a thousand during the First Plan. It is now approximately 3,500."[30]

A second reason for the plan's success is its coherence, the fact that it foreshadows, if everybody plays the game, a situation in which inputs and outputs of different branches will be exchanged on balanced markets.[31]

In Yugoslavia, the philosophy of "social ownership" and "workers' self-management" has necessitated several significant changes. For instance, the 1946 constitution was amended, in 1953, to abolish the federal government, the ministries, and the federal control commission. Rather, the principle of "government by assembly" was re-affirmed, with the Federal Peoples' Assembly as the highest organ of authority of the "Federated Peoples' Republic of Yugoslavia,"[32] In the Yugoslav milieu, the "commune," which occupies a unique place as one of the pillars of the new social and economic order, is a "symbiosis of local self-government and the machinery for social management concretized at the level of the local community."[33] While the commune exercises a considerable influence over economic organ-

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[30]Pierre Masse, "French Methods of Planning," lecture delivered in London (April 22, 1961, mimeographed), p. 8.

[31]Ibid., p. 22.

[32]Waterston, op. cit., p. 25.

[33]Jovan Djordjevic, "The Communal System in Yugoslavia," International Review, Annals of Collective Economy, Collective Economy in Yugoslavia, XXX, No. 2/3 (April/November 1959), 170.

izations, "it has no right to intervene in the organization of economic and working processes or in the economic operations and administration of undertakings."[34] Further, the various chambers of commerce and industry, economic associations, and trade unions also have an important part in the preparation and execution of governmental plans. These groups have much to say in the setting up and carrying out of enterprise plans, as well as in the implementation of official economic policy. They form important links between the planning offices at all governmental levels and the economic organizations, by coordinating the plans of the groups of enterprises with which they work. There is also a variety of economic and technical institutes, which assist in the preparation of enterprise plans by preparing special studies on methods and economic problems.[35]

Commenting on Mexico's economic growth in recent years, Lewis observes that the neo-classical explanation, in terms of forced savings, capital/output ratios, etc., cannot explain this phenomenal rate of growth. Rather, he feels, it is the important institutional innovations, on the basis of what he calls "functional representation," "social-function theory of property," the system of "executive government" consititutiing the decentralized public corporation, and the labor union under the over-all direction of the state, that adequately explain the secrets of Mexican economic growth.[36]

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[34] Ibid., p. 194.

[35] Waterston, op. cit., p. 36.

[36] G.K. Lewis, "Mexico's Economic Growth--Prospects and Problems," in Nelson, op. cit., pp. 252-55.

The important point to bear in mind is that this emphasis on mobilizing large-scale public participation in the economic affairs of nations is not something peculiar to the countries where some attempt at formal planning has been made. In the United States, the Employment Act of 1946 ordains the same thing. "The Congress hereby declares," it says, "that it is the continuing policy and responsibility of the federal government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and state and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."[37]

In the Soviet Union, the concern about the lagging pace of technological growth was expressed at the June 1959 Plenum of the Central Committee, convened expressly to examine the pace of technical progress.[38] It is as yet too early to assess the result of the June Plenum. But one of its consequences bears special mention: the unusually broad mobilization, even for the U.S.S.R., of a large variety of professional and official bodies, and of what might be called the "active public," to uncover instances of

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[37] Quoted in S. Harris, Economic Planning--The Plans of Fourteen Countries (New York: Knopf, 1949), p. 22.

[38] Pravda, June 25-July 3, 1959, quoted in Grossman, op. cit.

indifference or opposition to technical progress, and to force a more attentive and compliant attitude on the part of enterprises. The Republican Scientific and Technological Commissions; the "technical-economic councils" of the Sovnarkhozy; "technical committees" (composed of specialists and organized after the June Plenum) and "permanent production conferences" (which include also representatives of the rank and file) at individual enterprises; local soviets; local chapters of professional societies; those typically Soviet entities, local "societies of inventors and rationalizers;" Komsomol "light calvary;" and finally, and probably foremost, the expressly created "committees for party control over management" at primary party organizations--these are only some of the official and "public" bodies charged with inquiring continuously into technical matters at individual enterprises. Perhaps the resort to such methods on an unprecendentedly wide scale is a measure at once of the exasperation of the regime with the conservatism of the bulk of the enterprises and of the earnestness with which it views its economic and technological challenge to America.[39]

Dealing with the present difficulties of Soviet planning, Nove classifies them into two types: those relating to the position of the planners, and those relating to the behavior pattern of enterprises.[40] With regard to the former, Nove observes, there is ample evidence that the planners are overwhelmed by the complexity and burdens of planning both output and input of many thousands of enterprises. As the size of the economy in-

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[39] Ibid., pp. 69-70.

[40] A. Nove, "Prospects for Economic Growth in the U.S.S.R.," American Economic Review, Proceedings and Papers (December 27-29, 1962), pp. 541-54.

creases, so the number of planned interconnections increases much more rapidly. The key problem in operational planning is what in Russian is called Uvyazka, or ensuring consistency of different portions of the plan. Yet the sheer volume of work requires it to be divided between different institutions or different offices within the same institution. The supply plans often fail, at the micro-level, to match one another or the production plan, creating headaches and hold-ups at the enterprise level for which the planners are responsible. Plans for costs, labor productivity, and profits, calculated in yet other offices, may not match output or supply plans or one another. Investment plans, a vital aspect of the long-term growth plan, are not properly geared to the current production and material allocation plans, so that machinery is not ready for installation, building materials fail to arrive, and there is an alarming rise in unfinished contruction. All this is complicated by the fact that the leadership is pursuing several objectives at once, so that priorities become blurred, or at least difficult to enforce.

Thus, planners find it remarkably difficult to give priority treatment to the list of "especially important investment projects" which they themselves have drawn up. For example, in the Russian Republic in 1962, the entire investment plan was 89 percent fulfilled, but the percentage for the "especially important" projects was only 83. There are, in addition to the above, bitter complaints from below concerning "the endless musical chairs" of repeated changes in the plan through the year to which it is supposed to apply, a consequence of the desparate attempts by planners to cope with an impossible task. Thus, the investment plan for the Tatar A.S.S.R. was amended "almost 500 times" during 1961.[41]

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[41] [illegible] p. 545

While decentralization seems to be the obvious remedy for such a mess, it is stream with innumerable difficulties because of multiple commitments. For instance, within the system, only the center is in a position to know the needs of industry and of society at large, since these are not transmitted by any economic mechanism to any territorial authority. The latter is, therefore, unable to foresee the effects of its decisions on the economy of other areas, and under the circumstances, decentralized decision-making must lead to intolerable irrationalities. On the face of it, it appears as if decentralization is both indispensable and impossible.[42] Similarly, "at the enterprise level, plans are fulfilled at any price, to the detriment of quality, reliability, and durability."[43]

Several reform proposals, designed to provide a rational basis for choice at the micro-level, have been put forward by Russian economists like Kharkov and Liberman, in the pages of Pravda and elsewhere. By basing incentives on profits (rather than output), following a drastic change in the price system,[44] "the proposal would free central planning from detailed supervision over enterprise, from wasteful attempts to control production not by economic but by administrative methods," as Liberman put it.[45] Nemchinov, another advocate of similar reforms, would like to

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[42] Ibid., p. 546.

[43] I. Borovitski, in Pravda, October 5, 1962, quoted in Nove, op. cit.

[44] A similar view was presented by Berg: "The task of optimal and continuous planning cannot be carried out satisfactorily without a reform of price fixing." "Can one speak of any optimum," he asks, "if the criterion of its determination is unclear at existing prices?" Pravda, October 24, 1962, quoted in Nove, op. cit.

[45] Pravda, September 9, 1962, quoted in Nove, op. cit.

see planners planning only final output, leaving intermediate stages essentially to inter-enterprise arrangements; he would "convert the material allocation system into state trade, cease distributing commodities through an endlessly complex system of material allocations."[46]

D. Functional Banking

Another area in which the experience with economic growth in planned economies of diverse shades tends to converge is the role played by functional banking. In Mexico, a relatively free planned economy, and in Yugoslavia, a socialized economy, there is a remarkable congruence of experience in this field. Functional banking has, however, played a significant role in several other countries of Europe, Asia, and Latin America.[47]

One is reminded of Gerschenkron's hypothesis[48] that "the more backward was a country's economy, the greater was the part played in its industrializing by special institutional factors designed to increase the supply of capital to the nascent industry and, in addition, to provide it with less decentralized and better informed entrepreneurial guidance; the more backward the country, the more pronounced was the coerciveness and comprehensiveness of those factors." The experience of Mexico and Yugoslavia, as well as other countries, bears testimony to Gerschenkron's hypothesis.

The justification for the establishment of "development corporations"

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[46] Pravda, September 21, 1962, quoted in Nove, op. cit.

[47] Antonin Basch, Financing Economic Development (New York; Macmillan, 1964).

[48] In "The Early Phases of Industrialization in Russia and Their Relationships to the Historical Study of Economic Growth," in Harry E. Supple, ed., The Experience of Economic Growth (New York: Random House, 1963), p. 428.

or "development banks" runs by now a familiar course.[49] (1) In underdeveloped societies, the state is the only social institution that can accumulate sufficient capital resources to impel economic change. (2) The state can use its ability to control authoritatively the allocation of resources, so that the scarce potential available may be most rationally employed in stimulating economic growth. (3) Where desires for economic growth have not permeated the entire society, the state is the logical instrument of tutelage and action for those limited elites who understand and seek economic development. (4) Productive activity on the part of the state, to paraphrase Gunnar Myrdal, may serve to break the cycle of cumulative and circular impoverishment and create self-generating growth.[50]

In Yugoslavia, despite the increasing importance of self-financing by enterprises through compulsory amortization funds and voluntary investment funds, which account for some 30 percent of gross investment financed by the social sector, the Investment and the Agricultural Banks together provide some 70 percent of all investment loan funds.[51] As stated elsewhere in this paper, the Investment Bank is in a position to influence investment policy throughout the economy as a result of the various criteria that it applies in scrutinizing and sanctioning loan applications. Some of the criteria are, for instance, profitability of investment; ratio of the value of additional output to that of the new investment; need for additional

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[49] William P. Glade, Jr., and Charles W. Anderson, The Political Economy of Mexico (Madison: University of Wisconsin Press, 1963), p. 105.

[50] In Rich Lands and Poor (New York: Harper and Row, 1958).

[51] Fleming and Sertic, op. cit., p. 216.

capacity; impact on foreign exchange; minimum participation by the enterprise itself; ability of the income arising from the project to cover the interest charge on the loan; the cost of repaying the loan over a certain maximum period; and the capital tax on that part of the additional capital against which no loan is outstanding; insistence on detailed information with regard to cost, construction period, and the probable yield of the investment; guarantee from the commune under whose jurisdiction the enterprise happens to be; etc. As a result, investment is channeled in the desired directions, and at the same time, sufficient financial availability facilitates investment activity.

In Mexico, bankers have been functioning as revolutionaries, vindicating in full Gerschenkron's hypothesis. The central theme that runs through the chain of a variety of banks in Mexico is that specific banks must cater to the need and look after the interests of specific components of the economy. For instance, the Central Bank of Mexico looks after, besides the standardized central banking activity, the promotion of a healthy securities market in the country. It also intervenes in the working of the stock market to prevent violent fluctuations in the prices of stocks. That Mexico could achieve such a high growth rate with little inflation can be largely attributed to the policies of the Bank of Mexico.

Some other prominent banking institutions that may illustrate the functional banking technique in Mexico are the following:[52] the Nacional Financiera, which is Mexico's archetypal development bank catering to

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[52] For a detailed account of the structure of Mexican banking and the revolutionary role that it has played in Mexican development, see Glade and Anderson, op. cit., pp. 103-92.

the needs of new projects, etc.; the Foreign Commerce Bank, functioning as the promoter, organizer, and developer of foreign commerce; the Public Works Bank, providing capital to the municipalities and state governments, besides looking after the infra-structure of the economy; the Agrarian Credit Bank; the National Warehouses; the Bank of Cooperative Development; the Small Merchants Bank; the Transport Bank; the Armed Forces Bank; several other public credit institutions like the life insurance companies, the polytechnics, the Mexican Institute of Social Security, etc. In other words, Mexican banks have acted both as entrepreneurs and as agents for the promotion of entrepreneurial activity in Mexico.

And what is true of Yugoslavia or of Mexico is also true of any other developing country, whether falling under one category of planning or the other;[53] there is a strong tendency towards a network of functional banking, each bank specializing in one definite branch of economic activity. This is as it should be, particularly during the earlier phases of economic growth.

E. Flexibility of Planning

The tendency to delegate initiative to the local units, to mobilize public cooperation, to disentangle economic criteria from political and ideological stigmas, and to decentralize in general lends a degree of flexibility and resilience to planning. This may assume two forms: flexibility of the strategy of planning and flexibility of the instruments of policy. The former, generally speaking, is harder to achieve than the latter.

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[53] See Basch, op. cit., pp. 124-243.

Strategy of planning is relatively less flexible because the commitment to it extends over the whole plan period, or even over a number of plans, in the case of perspective planning. Instruments of policy, on the other hand, may be adapted to the dictates of circumstances. "Priorities" may be taken as an instance of the former, while monetary policy, fiscal policy, the policy of physical controls, the tariff policy, the policy with regard to plan implementation (such as delegation of decision-making at various levels, or the other way around, namely, having fewer and fewer epicenters of decision making), and the like could illustrate the latter.

Under the French type of target planning, with a pluralistic implementation network of various economic groups in the country; or under the Scandinavian (Norway, Sweden) or the Dutch types, where the key parameters of policy are controlled by the central planning board; or even under the Mexican type of planning, where certain pre-conditions for successful execution of policies like the establishment of investment banks have been created, it is easier to expect greater flexibility. On the other hand, where, as in the case of India, even the spheres of activity for the public and the private sectors have been delineated according to various "industrial policy resolutions," or as in the case of China or the Soviet Union, where the "private sector" is rather unwelcome, the degree of flexibility (despite recent disillusionment) is bound to be rather small. In countries like Yugoslavia, under "market socialism," despite the over-all strategy of growth and ideological commitments, rigidities of planners are far more amenable to the logic of experience and the demands of circumstances.

A typical case of built-in flexibility of planning technique is that of Norway. There a national budget is based on three alternative

principles:[54] (1) descriptive analysis of individual plans (diagnosis); (2) hypothetical forecasting of future developments (prognosis); and (3) international planning (program). The government prepares a budget for manpower, foreign exchange, and materials, all of which may be in short supply. Included also are budgets for consumption, investment (private and public), production, and public activities. Should international economic conditions deteriorate, a special budget held in reserve would be uncovered. In preparing the plans, the planners assume cost of living, prices, and tax system constant. Should prices, taxes, or wages deviate from the levels assumed, or should productivity not attain the assumed level or foreign deliveries not equal amounts anticipated, adjustments would be made accordingly. All the budgets are interrelated. In order to favor investment, for example, it will be necessary to allocate foreign exchange, imports, manpower, and commodities in a manner to encourage the output of capital goods.

In Czechoslovakia,[55] the latest trend in planning is towards broad-basing the decision centers among the Communist Party, government ministries, producers and consumers, workers and managers. "As now envisioned, central planning will consist of little more than predicting market and production opportunities here and abroad and choosing among major trends of possible development." A note of increasing flexibility is being struck through "translating the principles into guidelines for new

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[54] Harris, op. cit., pp. 347-48.

[55] The New York Times, November 6, 1964.

methods of determining wages, prices, rents, taxes, credits, interest rates, foreign and retail trade policies, and methods of conducting decentralized transactions and labor relations."

In the Dutch type of planning, again, emphasis on "alternate possibilities" of economic events, both at home and abroad, is levied and blueprints of alternatie plans kept ready.[56]

An illustration of the tendency towards flexibility of planning through decentralization and through heeding economic rather than political and ideological considerations for accelerating the pace of economic growth is obvious from President Tito's statements at the Fourth Plenum in Yugoslavia.[57] Statements like "Economics should be emancipated to some extent from politics...," and "...useful and profit-yielding enterprises should be built only in places where this will prove to be profitable and useful...we must not build 'political factories' any longer..." amply illustrate the dawning realization of economic criteria in Yugoslavia. The controversy at present going on between the "liberals" and the "traditionalists"there also augurs well for flexibility.[58]

In the Soviet Union, there has been a sudden and growing shift in attitude toward agriculture--the perennial problem of the Soviets--and a complete reversal of policy is under way. The size of the state farms is being reduced and that of private farms enlarged. Also, the number of private farms, which outstripped the collective farms both in productivity and in yield, is likely to be increased. This revision of attitudes is due

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[56] Harris, op. cit., p. 389.

[57] Rusinow, op. cit., pp. 9-10.

[58] Ibid., pp. 17-22.

to the fact that though "private plots in the Soviet Union amount to only 3% of the cultivated land, yet they supply about 33% of gross farm output and nearly 50% of livestock production. The high productivity of the plots compared with yields of the state-operated farms has been a source of embarrassment to Russia's leadership, whose long-range goal is collective farm economy."[59] Khrushchev's plicy, which emphasized state ownership, reduced private plots, and placed limitations on private ownership of livestock, is no longer followed.

In the "administrative machinery for planning in the ECAFE region," emphasis has been placed on decentralization, as "an attempt to centralize responsibility would result in nothing more than the assumption of some routine administrative work involved in enforcing various controls and regulations for that purpose." "On the whole, therefore," the study concludes, "it may not be desirable to entrust to a central planning agency the functions both of preparing and implementing the plan."[60]

In fact, in several countries of the ECAFE region, various attempts have been made to delegate implementation of plans and thereby introduce flexibility.[61] For instance, in India, there is a four-tier planning machinery, viz., the Planning Commission at the center, the State Planning Departments at the state levels, the village Panchayats or councils, and the extension staff at the village levels. The extension staff is expected to assist the village in formulating goals which are tailored to the

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[59] Wall Street Journal, November 9, 1964.

[60] Economic Bulletin for Asia and the Far East, XII, No. 3 (December 1961), 31-32.

[61] Economic Bulletin for Asia and the Far East, XIV, No. 2 (September 1963), 19-20.

resources available, as well as to some over-all conception of priorities, but which at the same time reflect the desires of the village. Ceylon has made active use of village committees which participate in the planning process through their association with the District Coordinating Committee. Local government organs, along with rural committees, also are given an important role in plan formulation and implementation. An attempt is being made in Ceylon to strengthen rural development societies at the village level and to extend their powers so as to make them effective agents in "planning from below" and in bringing about integration of local planning with national planning. In the Philippines, the range of functions of the provincial councils is being extended to include economic planning, in addition to the traditional function of community development planning. In Taiwan, certain variations of the community development approach, especially the farmers' and fishermen's associations, have been used as a means of drawing the vast unorganized agricultural sector into planning and at the same time developing local initiative and responsibility. Similar patterns are witnessed in most other countries.[62]

III. Convergence and Growth

At this stage, two observations may be made with regard to the relationship between the rate of economic growth in various planned economies and the various aspects of convergence which have been detailed

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[62] For a comprehensive survey of the similarity of patterns of decentralization in various countries with diverse shades of economic planning, e.g., Brazil, Burma, France, India, Poland, Senegal, Sudan, United Arab Republic, Yugoslavia, etc., etc., see UN Technical Assistance Program, Decentralization for National and Local Development (New York, 1962), esp. pp. 133-243.

above. First, the tendencies towards scrupulous adherence to strict economic criteria as far as possible, the provision of economic incentives at various levels, economic pluralism, decentralized implementation of plans, and functional banking have been the result of frustration with the outcome of monolithic administration. Second, though the evidence is not yet conclusive, at least two studies can be cited in support of the contention that these tendencies have been associated with more rapid growth rates. Recent shifts in policy in Czechoslovakia, China, and the Soviet Union illustrate the first point. Jaroslav Vanek's study of Yugoslav economic growth and E.E. Hagen's study of countries in Latin America and Asia bear witness for the second point.

A. Vanek's Study of Yugoslavia[63]

Taking 1947 as the base year in Yugoslavia (when industrial output stood about 21 percent higher than 1939 and agricultural production about 10 percent below the average of the 'thirties), Vanek distinguishes four distinct periods through which the Yugoslav economy has passed: 1947-52, 1952-56, 1956-60, and 1960 on.

During the first period, 1947-52, GNP grew at an average compound rate of 2.4 percent per annum; in the second period, 1952-56, at 8.8 percent per annum; in the third, 1956-60, at 12.5 percent per annum; and during the fourth, which covers the current five year period, it is expected to increase at the rate of about 11 percent per annum.

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[63] In American Economic Review, Papers and Proceedings (December 27-29, 1962), 555-6.

The first period was characterized, Vanek observes, by "highly centralized administrative management of the economy, with very little reliance--if any--on the price mechanism and only the roughest regard to an efficient resource allocation. Forced farm collectivization and compulsory state deliveries were the rule in the agricultural sector. Also, political tensions that arose in the latter part of the period between Yugoslavia and Russia led to complications. For instance, trade with other Communist countries that was initially very important virtually disappeared in the years following 1948, and development credits extended by Soviet Russia were cut off."

As a result, and this corresponds to the second period, Yugoslavia sought its trading partners and creditors outside the Communist bloc and made an attempt to find less rigid and more efficient forms of economic organization, better suited to its particular conditions. However, not all the credit could be given to these internal reforms, as two additional factors helped Yugoslavia realize higher growth rates. These were unused capacity accumulated in the preceding period, and massive economic aid received from the U.S.

The success of the third period, says Vanek, can be largely imputed to the "new forms of economic organization." Autonomy was given to workers' councils in individual firms, with one of its effects a high degree of market competition. As a result of this, there was a more efficient allocation of resources. Profit-sharing incentives were given to the workers, or as Vanek puts it, "a corporation's stockholders will be better informed and more concerned about the working of their enterprise if they are its workers than if they are not." The internal rates of return were

equalized as a criterion of resource-allocation--a process aided by the banking institutions in Yugoslavia.

A relative fall in the fourth period Vanek ascribes to three causes. First is changes in statistical definitions (for instance, certain services of labor, about 10 percent of national income, are called unproductive and are not reckoned as components of national income). Second, there was a drastic reform of producers' income tax, from strongly progressive to proportional, in 1960. Such a tax, although probably desirable in the long run, may have acted as a strong dis-incentive in the short run, especially with prosperous undertakings. Third, both in 1960 and 1961 agricultural output declined with respect to the preceding year, thus affecting manufacturing industries adversely.

Vanek makes a final observation:[64] "let us draw at least one international comparison...Considering the very rough evidence we have on the comparative levels of economic advancement of Russia and Yugoslavia, it can be argued, as a first approximation, that the state of economic development of Russia in the early 'fifties was about that of Yugoslavia in the latter part of that decade. If this hypothesis can be accepted as correct, then with comparable shares allocated to gross investment, an average rate of growth of 12.6 percent must be recognized as significantly higher than that of about 7.5 percent (in Russia); and all other things but the form of economic organization being approximately comparable, it appears, as could be expected on a priori grounds, that the Yugoslav form is more efficient than the other. On a per capita basis--a measure that some might prefer--

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[64] Ibid., p. 561.

the comparison comes out even more favorably for Yugoslavia; the rates of growth thus evaluated become 11.6 and 5.8 respectively."

B. Hagen's Study of Africa, Asia, and Latin America[65]

Hagen divides the countries of Africa, Asia, and Latin America into three categories: competitive, semi-competitive, and authoritarian; he selects eleven indices of economic development, broadly under welfare, communications, industrialization, urbanization, and education;[66] and he chooses the period 1950-60 and classifies the countries in the descending order of their rank in economic development. The results are tabulated in Table 1.

TABLE 1.

Classification of Countries by Type of Political Structure and Rank in Economic Development

Development rank	Competitiveness of Political Structure: Competitive	Semi-Competitive	Authoritarian
Asia and Africa			
1	Lebanon		
2	Malaya		
3			United Arab Republic
4	Philippines		

(Continued on next page)

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[65] E.E. Hagen, "A Framework for Analyzing Economic and Political Change," in Development of the Emerging Countries, An Agenda for Research (Washington: Brookings Institution, 1963), pp. 7, 11.

[66] The elven indices used are: welfare--GNP per capita in 1957, doctors per 1,000 persons in about 1956; communications--vehicles per 10,000 persons in about 1958, telephones per 10,000 persons in about 1958, radios per 1,000 persons in about 1957, newspaper circulation per 1,000 persons in about 1956; industrialization--energy consumption per person in about 1958, percent of labor force employed outside agriculture and service sectors in the latest census year; urbanization--percent of population in cities over 100,000 population in about 1955; education--percent of population literate at a date within or close to 1950-60, ratio of enrollment in primary schools to population of school age.

Table 1 (continued)

Development rank	Competitiveness of Political Structure: Competitive	Semi-Competitive	Authoritarian
5	Turkey		
6			Iraq
7	Ceylon		
8		Morocco	
9		Jordan	
10		Tunisia	
11			Libya
12		Ghana	
13			Iran
14		Thailand	
15		Indonesia	
16	India		
17		Malagasy Republic	
18			Saudi Arabia
19		Burma	
20		Cambodia	
21		Cameroons	
22		South Vietnam	
23		Nigeria	
24			Pakistan
25			Laos
26			Liberia
27			Sudan
28		Togoland	
29			Ethiopia
30			Afghanistan
Latin America			
1	Argentina		
2	Uruguay		
3	Venezuela		
4			Cuba
5	Chile		
6		Panama	
7	Mexico		
8	Costa Rica		
9		Colombia	
10	Brazil		
11			Paraguary
12		Peru	
13		Ecuador	
14			Dominican Republic
15			Nicaragua
16			El Salvador
17			Bolivia
18		Guatemala	
19			Honduras
20			Haiti

Hagen's conclusion is: "It is obvious from these tables that there is a high degree of correlation between degree of political competitiveness and degree of economic development. By and large, the array of countries sweeps downward to the right. Higher degrees of economic modernization are associated with a greater degree of competitivness of political structure." But, he observes, "the correlation between technical-economic and social-political change, of course, gives no indication of the direction of causation."[67]

IV. Conclusion

"There is an old saying," to quote Edward Mason, "that every country gets the socialists it deserves. It is equally true that every country gets the government, the type of business leaders, and the forms of labor organization it deserves."[68] In the same vein, one might say that for every country there is a type of planning that best suits the socio-cultural and historical uniqueness of its people.

However, if "command, exchange, solidarity, and tradition" are the "bricks" of the capitalistic system, the same is true of socialistic systems.[69] This is because the basic principles governing economic interrelationships are universalistic; only their application has to be tempered and adapted to the peculiarities of specific cases.

Furthermore, whereas the state has a vital role to play during the

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[67] Ibid.

[68] In "Interests, Ideologies, Stability, and Growth," American Economic Review (March 1963), p. 7.

[69] Landauer, op. cit., pp. 218-29.

earlier phases of economic development in bringing about structural changes and facilitating the subsequent process of growth, there seems to be sufficient cause to doubt its continued efficiency, for several reasons,[70] under the heavy mantle of centripetal bigness. The need for decentralized policy implementation and pluralistic decision-making, within the framework of an over-all strategy of growth, seems to be imperative, particularly during successive stages of the growth process.

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[70] T. Morgan, "The Theory of Error in Centrally Directed Economic Systems," Quarterly Journal of Economics (August 1964), 395-419.