

THESIS ELEVEN

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THE ECONOMIC CRISIS EAST & WEST

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THE CRISIS & BEYOND

*Andre Gunder Frank
Johann P. Arnason
Lewis Siegelbaum*

*Boris Frankel
Grant Evans
Eldred, Roth, Hanlon & Kleiber*

*After Reaganomics & Thatcherism?
Critical Marxism in East Europe
Socialist Competition &
Construction in the USSR
On recognizing states
Bill Warren's *Imperialism*
Reconstructing Value-Form Analysis*

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On the Slowing Down of the Growth of Eastern-European Socialist Countries*

Janos Kornai

All the questions raised by the editors are interesting as well as important. Yet I shall not even attempt to answer them, except for two questions. I do not feel qualified for judging the situation and development perspectives of the advanced capitalist and the developing countries. Although I have been studying the Eastern-European socialist system for over thirty years, I still have not a sufficiently thorough knowledge of it. I am not infrequently surprised by events which I have not expected. How should I then consider myself an expert in the fields in which I have never done any regular research?

Therefore, I shall confine myself to a summary answer to questions 6 and 7, and shall restrict even this answer to the case of the European socialist countries, for I am not well acquainted with the Asian, African and Latin-American experience.

At the end of question 7 the editors ask; "Will the impressive economic growth of the post-capitalist European economies continue?" History has already replied: This is no longer a question, since the answer is to be looked for in statistics: growth is slowing down considerably. This is also reflected by the targets laid down for the coming years. It seems to be beyond doubt that the growth rate of the 1980s will be, as for the aggregate output indicators of each country, essentially lower than that of the 1960s.

The slow-down has several causes, which I shall try to examine. The order in which I shall mention them is not an order of importance. Time, that is, a certain historical perspective, will be needed so that we can analyse, *a posteriori*, the impact made by each factor on the slowing down of the growth rate. (Not mentioning that other factors, unforeseen by me, may occur as well.)

1. One resource of the fast growth following the socialist transformation was the absorption of the slack inherited from the previous system, that is, the activation of resources that had been passive before. A lot of things come under this category: unsold stocks, under-utilised fixed capital, empty flats, luxury villas and castles with only a few occupants, hospitals, schools and roads of a low utilisation rate, and so on. In the course of the socialist transformation this slack was drawn into active production at an almost stormy speed.

The change taking place on the labour market has a particular importance within this sphere of phenomena. It takes place slower and may last ten, twenty or even thirty years. In this period open unemployment is gradually eliminated and even latent over-population is absorbed.

It seems that the European socialist countries have by now exhausted these slack resources, and thus one of the most important sources of fast growth has closed up. Production keeps hitting its physical constraints. The system has not any reserves left even in the fields in which it would be most urgent to settle the unforeseen tasks of adaptation. It often happens that the lack of a certain kind of material, a part, a semi-finished product, or of energy, halts production. Residential buildings, roads, railways, buses, hospitals, and schools are often full to bursting. Generally speaking: infrastructural establishments, and other components of fixed capital are over-crowded, over-loaded, and over-utilised. Various kinds of activities — such as caring for children, for the sick, for the old — used to be household obligations, and are now left to some extent unattended. An immense rate of women went to work, while the duties that used to be performed within the household have not yet been fully taken over by formal organisations (day-time homes, hospitals, homes for the old, etc.), thus adding to the over-crowdedness of these institutions. By now labour shortage has grown chronic in these countries, with one or two exceptions. Participation rates are extremely high.

To use the terminology of Eastern-European literature: over is the period of extensive growth in which it was possible to increase production through activation of previously passive resources. The intensive period has begun which can only reckon upon the improvement of the efficiency of resources already activated, that is, drawn into production. The latter involves necessarily a lower growth rate.

2. As a result of growth so far achieved production has become more complex. The situation outlined under item 1 — the increased importance of efficiency and productivity — presses for technical development. Therefore, demands on quality are also higher: firms and the different non-profit institutions want more, better, as well as more up-to-date means of production, and households want more, better and more up-to-date consumer articles.

This is one more reason why the old methods of economic management oriented on the quantitative growth of production now prove less useful than before. It was easy to give instructions and prescribe obligatory output targets and input quotas, while the country was very poor and produced and consumed only a few kinds of goods. At the present production standards, however, a million kinds of articles must be produced and allocated. This necessitates new management methods. This is the necessity that lies behind the Eastern-European reforms and decentralisation efforts.

This aspect of the change affects also the growth rate. Technical development, the introduction of ever new products, quality improvement, and the widening of the variety of goods absorb physical resources as well as intellectual energies: such physical resources and intellectual energies which could in previous years be spent entirely on the quantitative growth of production.

3. In the period of fast growth there were dominating as well as repressed sectors. In the latter category belonged, in most socialist countries, housing, trade, public transport, health; in several countries agriculture as well. The lag of the neglected sectors hinders in numerous ways the progress of the national economy on the whole and may cause dissatisfaction among the population. An increased pressure is put on economic managers and planners to make up for the neglected development tasks.

These are, however, highly capital-intensive sectors. The larger investments are effectuated in these sectors, the more resources — investment, labour, convertible currency — must be drawn away from the sectors — mainly from industry — which contribute more obviously to the aggregate output macro-indicators. Therefore, this realignment is also perceived as a slow-down.

4. In my view, the socialist countries joining into the international division of labour, and therein their trade with the developing and the advanced capitalist countries are not among the factors decelerating growth. On the contrary: their growth may be promoted, for example, by the import of advanced technologies and by the specialisation in one or another product, advantageous for them. Sales on the capitalist market may give an impulse to home production: it forces these countries to improve the quality and to raise the technical standards of their products.

As for debts, they present a problem similar to what I mentioned in item 1. The possibility to take up credits is a special form of the "slack". As long as it is available, it is an easily raised resource to speed up growth. Yet this has its upper limits, just as the other forms of slack. Either the credit granting disposition of the creditors gets exhausted, or the credit taking ability of the country slows with increasingly heavy debts. The latter phenomenon occurs among other things because the repayment and interests of earlier credits puts ever more unbearable burdens on the economy of the country. In any case, the tolerance limit of debt is in itself a resource constraint; and, if the economy has hit this constraint, it will then grow with more difficulty and at a lower rate.

The problem is to a certain extent similar to the factor mentioned in item 3. There we talked about the accumulation of a kind of internal "debt": such neglected tasks the further postponement of which becomes increasingly an impossibility. In turn, their fulfilment will absorb considerable resources, once it is started. The situation is similar with the external debts. When the country gets into debts, it will have to make monetary sacrifices. And when it starts actually to make repayments, the sacrifices are forced out: the growth of economy and of real wages slows down or even stops.

After this overview of the deceleration factors I wish to make one more general remark. Question 7 contrasts in a certain sense the technical-economic and the