Seminar Paper No. 374

WHY ECONOMIC REFORMS FAIL IN THE SOVIET SYSTEM

- A PROPERTY RIGHTS-BASED APPROACH -

by

Jan Winiecki

INSTITUTE FOR INTERNATIONAL ECONOMIC STUDIES

University of Stockholm

ISSN 0347-8769

Seminar Paper No. 374

WHY ECONOMIC REFORMS FAIL IN THE SOVIET SYSTEM

- A PROPERTY RIGHTS-BASED APPROACH -

by

Jan Winiecki

Seminar Papers are preliminary material circulated to
stimulate discussion and critical comment.

January, 1987

Institute for International Economic Studies
S-106 91 Stockholm
Sweden

WHY ECONOMIC REFORMS FAIL IN THE SOVIET SYSTEM

- A PROPERTY RIGHTS-BASED APPROACH -

by

Jan Winiecki

Introduction

Analyzing disequilibrium characteristics of contemporary Western economies, Mancur Olson sided with the new classical macroeconomists in the sense that - given the tendency of markets to clear and rational expectations of economic agents - disequilibrium suggests that there are mutually advantageous transactions that have not been consummated. At this point, however, he departs from the new classical macroeconomics and turns toward a structure of incentives, and thus of institutions and policies, that stimulate certain actors to ignore potential gains of unconsummated transactions. He insists, and rightly so, that a satisfactory macroeconomic theory has to explain who has the incentive to generate disequilibria, to bring about recessions and unemployment (see e.g. Olson (1982, 1984a, 1984b)).

Olson pointed out that governments have no such incentives - and not only in representative democracies. "Even in dictatorial systems, the dictator has an incentive to make the economy of the country he controls work better, since this will generate more tax receipts he can use as he pleases and usually also reduce dissent" (Olson (1984a, p.637)). There is probably no better starting point to an inquiry answering the question why reforms fail in the Soviet-type economies. Olsonian incentives, which are nothing else than an application of the old Roman cui prodest (who gained) principle of criminal law to modern

economics, suggest, contrary to the widespread opinion, that it is not "small but powerful group of high and highest leaders" that stands to gain most in terms of power and privilege from "the preservation of the existing order" (Thalheim (1986, p.40)).¹

Such a powerful group at the top could satisfy its desire for both power and privilege through the alternative undemocratic system, i.e. through issuing authoritarian don'ts rather than totalitarian dos. The inefficient command-rationing system of economic control typical for the STEs would not be a condition sine qua non of such authoritarian solution. Accordingly, a search has to begin for those with incentives to keep the Soviet-type economy inefficient that goes beyond those powerful and privileged few.

In the following sections this author will define who and why has the strongest incentives to keep the STE inefficient and prevent successful (i.e. market-oriented) reforms. First, incentives to prevent decentralized management in the state sector² are spelled out and, second, incentives to prevent the expansion of the (more efficient) private sector are outlined. With the "whos" and "whys" well defined, the author proceeds next to "whens" and "hows", i.e. to strategy and tactics of aborting, limiting and/or reversing market-oriented reforms by those who stand to gain from the failure. In conclusion, prospects for ongoing reforms in some STEs are considered as well.

¹ Cf., however, Bauer (1984) who stresses the existence of the whole social stratum interested in maintaining institutional status quo.

² State sector is intended to mean both state and cooperative sector, i.e. what in Soviet parlance is called "socialized" sector.

1. Who Gains from Status Quo and Why:

Disincentives to Decentralized Management in the State Sector

As this author pointed at elsewhere (Winiecki (1986c)), most of the analysis of the Soviet system, including that of the economic subsystem, centered excessively upon power distribution - to the detriment of wealth distribution - across the ruling stratum. In this incentives-oriented study it is the distribution of wealth that becomes definitely the center of attention.

The above shift is not intended to mean that power and its distribution do not matter. On the contrary, the rulers of a system like the Soviet one may regard control over working population through the system of hierarchical commands and implementation reports as a valuable asset. But it is important to realize that wealth distribution has been much more important in determining attitudes of the ruling stratum toward market-oriented reforms. Without this component, it is difficult to explain why reforms - badly needed by the rulers themselves due to flagging economic performance - have failed to materialize or, if they did, why they failed (or at best brought about very little improvement).

At this point Douglass North's explanatory framework for the structure and enforcement of property rights and its changes over time should be brought into the picture. Applying what North called a predatory theory of state (see, e.g., North (1979)) to the Soviet-type state, basic services of such state have two objectives:

(1) Specify the fundamental rules of the property rights structure i.e. specify the ownership structure in factor and product markets that maximizes the rent to the rulers and the ruling stratum (the fact that it is extremely muddled in the STEs is irrelevant here, since such muddle actually facilitates the expropriation of the rent); and

(2) Provide a set of public goods and services designed to lower transaction costs, i.e. increase efficiency upon which the growth of wealth is predicated (elsewhere economic growth is a synonym of wealth growth but in the STEs the two are different in size see, e.g., Winiecki (1986a)).

Now, two reservations are made, or, to be more precise, two reservations made by North (1979) are waived. First, North saw complications that arise with the advent of representative government. In spite of their parallel existence with states having representative government, Soviet-type states are clearly of the pre-representative government nature and, as such, can be easily analyzed within the basic framework referred to above.

In another article North (1971) pointed out that his model - predicated upon profit maximization - not always holds, given, i.e., the existence of social reformers who endeavored to devise institutional arrangements for the benefits of others. However, since we explore the contemporary Soviet-type states, the existence of non-existence of social reformers at the beginning of such states is irrelevant for our purpose. The ruling stratum in the Soviet-type states was rather quick in degenerating, i.e. establishing property rights in such a way that maximized their rent, as witnessed by such insiders like Trotsky (1937) and Djilas (1956).

It is rather the opinion, expressed in a Hungarian consumer survey that "everything is available, just not always, not everywhere and not to everyone" (Farkas and Pataki (1984, p.288))³ which reflects best the reality. Thus, another of North's reservations can be waived as well.

³ The said authors do not elaborate, however, upon the sensitive theme of privileges, i.e. the last fragment of the quotation.

Having said this, the present writer hypothesizes that in the Soviet-type states the typical conflict North (1979) spells out, i.e. conflict between the efficient property rights designed to lower transaction costs (those increasing wealth) and property rights designed to maximize rent to the ruling stratum is strongly in evidence and that the rulers - those "few powerful people at the top" in most analyses - will avoid offending powerful segments of that stratum who benefit most from the status quo. Consequently they agree to maintain a property rights structure favorable to those groups, regardless of effects upon efficiency. In fact, modes of distribution of wealth resulting from the structure of property rights in existence differ from other pre-representative government type states (traditional and "modern" autocracies) to such an extent that an institutional change leading to lower transaction costs and increased wealth is much more difficult. No STE repeated the successful, efficiency increasing institutional change of, e.g., South Korea or Taiwan.

To make these greater difficulties in improving STE efficiency transparent, the differences between the modes of wealth distribution in the "ordinary" autocracies and the "extraordinary" Soviet-type one should be clearly delineated. In the former, either old traditional hierarchy or new military/police based elite appropriates itself a larger share of the created wealth than it would obtain under the representative government. They simply get higher salaries, more "perks", etc., while their status symbols (articles of conspicuous consumption and/or modern professional equipment) have the priority claim upon the state budget.

The above mode of wealth distribution is not, however, the only one in the Soviet-type system. Its ruling stratum consists of four

segments or, to put it differently, as this author did elsewhere (1986c) there are four pillars of the system: communist party apparatchiks, economic bureaucracy, police and military. All may (and do) receive larger share of the created wealth. Their salaries may be relatively higher, their "perks" are relatively more important in the shortage economy⁴, yet the mode of wealth distribution is the same as in "ordinary" autocracies.⁵

But in the Soviet-type system there is also present yet another mode of wealth distribution that first of all maximizes the rent of the two out of four segments of the ruling stratum: party apparatchiks and economic bureaucracy. This mode - unknown elsewhere - enables them to draw benefits through the protracted interference in the wealth creation process itself. There are principal ways in which these two pillars of the system maximize their rent.

The first is through nomenklatura, i.e. the right of the communist party apparatus - from the central committee down to the enterprise one - to "recommend" and "approve" appointments for all managerial positions in the economic (and public) administration hierarchy and managerial positions in enterprises. These appointments have always been made primarily on the basis of loyalty rather than managerial competence and apparatchiks have usually appointed themselves and their card-carrying cronies to these well paid jobs. This has been tantamount to the protracted interference in the process of wealth creation, adverse for at least two reasons: it signifies the severe limitation of the pool of talents from which managers are appointed and, given the well known

⁴ Salaries and costs of various subsidized services for the ruling strata are kept secret in respective communist regimes.

⁵ It may be added that status symbols in the Soviet-type system are more extensive, since they encompass also white elephants of forced industrialization with little (if any) productive efficiency.

negative selection process under totalitarianism, the pool of nomenklatura-included talents is not only drastically smaller but also of below average competence relative to any other pool in a given society (assuming similar occupational, age, sex, and other characteristics).⁶

The second way of maximizing rent is through various kickbacks from managers of - primarily industrial - enterprises. In a shortage economy these kickbacks are mostly of non-pecuniary nature. Enterprise managers offer those who appointed them and other superiors and colleagues who may help them in their career a variety of goods and services (they are also given the chance to benefit in the same way themselves). More often than not such offers include goods in short supply that enjoy higher black market price but here are sold at the list price or even at a reduced one using excuse of lower quality (lower quality goods do reach the market en masse but kickback-related ones are carefully selected!). They include e.g. delegating workers from auxiliary divisions to build a country house at a sharply reduced price, restore a city apartment on the same low price basis, build a one-of-a-kind furniture for the apartment of a superior on the the same basis, etc. Myriad of goods and services may be sought for in a shortage economy at one time or another. They are thus easily obtained and often not only without time consuming search but also at a reduced price.

⁶ With respect to one aspect of a negative selection, i.e. character traits, see Polish organizational psychologist who - without pointing his finger in the too obvious direction - writes nonetheless his own version of the Copernicus-Gresham law: "In bureaucratized, technocratic, punitive and pathological organizations, where fundamental laws of human behavior and human development are ignored, egoists, conformists, cowards and people without moral scruples begin to play more important roles than individuals concerned with everybody's welfare, people who are brave, honest and responsible. Under such conditions - in plain words - bad character drives out good character." (Kozielecki in Zhycie Gospodarche (1986) Nos. 51/52.

This protracted interference in the wealth creation is made possible by the muddled property rights structure. Since means of production are - in words (but not in fact) - socialized, since workers are "the hegemonic class" in a socialist society and since a communist party is "the leading force of the working class", any appointment through the nomenklatura procedure can be justified. And, just like with an earlier reservation, it does not matter whether property rights were originally devised in such a way for the purpose of maximizing rent for the said segments of the ruling stratum under communism or not. What matters is that they serve the purpose beautifully.

Also, since loyalty is the first and foremost concern, managers, once appointed continue to be evaluated on the basis of loyalty in fulfilling commands (planned targets, ad hoc commands etc.) rather than the efficiency (bottom line effects of enterprise activity). That, of course, allows them to absorb, without being held accountable, all the costs of kickback activities. Thus, the leakage of wealth is effectuated not only through losses incurred and gains forgone by managers of below average competence in business activities themselves but also by the distractions from these activities.

As nomenklatura is a communist party instrument, personal shifts from the apparatchiks to economic bureaucracy are by far the most frequent. The reverse flow is also frequent since young bureaucrats (usually stronger on ambition but weaker on competence and ethics than the average) regard the road even to bureaucratic career as being faster if it includes the spell in the party apparatus. The interaction of that sort is much less intensive in the case of the remaining two pillars of the system.

The consequences of partly differentiated modes of maximizing the rent for the ruling stratum are of primary importance for economic reform prospects in the Soviet system. All segments of the ruling stratum prefer status quo to the representative government alternative for reasons stated above. But two segments only - party apparatchiks and economic bureaucracy - have in addition a strong incentives to maintain institutional status quo in the economic sphere.

Thus, decentralization assumes, as a first step, the substitution of parameters for commands, and since parameters like e.g. interest rate need not be disaggregated (in contrast to plan targets!) the intermediate levels of economic bureaucracy become superfluous. But a look at Figure 1 shows clearly that the liquidation of the intermediate levels of economic bureaucracy (shaded area) not only affects the bureaucrats concerned employed there but also reduces the pool of available well paid jobs to which party apparatchiks may be appointed through nomenklatura. It is only to be expected that such change will be strongly resisted.

The next step (or, in fact, a process), i.e. strengthening of the budget constraint of enterprises through holding them financially accountable for effects of their business activities, will also be resisted since costs of kickback-related distractions from business activities would begin to affect the balance sheet and rewards for managers and workers. As that could affect every actual and potential receiver of kickbacks, the resistance would be very widespread.

Actually, financial accountability could affect the whole system of dependence based on loyalty. The conflict resultant from divergence between the loyalty requirements and those of financially sound performance is an everyday occurrence in modified STEs like Poland and

Hungary where financial indicators matter. Its outcome, however, is predetermined in favor of loyalty by the existence of nomenklatura.⁷ To put it simply, an enterprise manager caught in the dilemma whether to follow a "suggestion" of his superiors or pursue another - more financially rewarding - option chooses the first one and asks for subsidies afterwards. Otherwise he might lose his job. That is why even in the farthest reformed STE like Hungary budget constraint continues to be "soft" (to use Janos Kornai (1979,1980) well known phrase).

Finally, the strongest resistance would meet attempts to abolish nomenklatura and supersede it by the selection based on merit. Therefore it never happened, even with respect to managerial posts in the economic sphere i.e. the one where efficiency gains are most important for the ruling group. In 1981 in Poland the discussion centered around the reduction in the number of nomenklatura-covered managerial posts in enterprises, while managerial posts in economic bureaucracy at higher levels were still regarded as "naturally" belonging to nomenklatura. Just as naturally, after the introduction of the martial law, old nomenklatura-covered posts that were to be filled by the merit-based selection process were put again under nomenklatura (in actual fact many new ones were added - see the last section).

There is a lot more of decentralizing, market-oriented, and generally efficiency increasing measures with respect to the state sector that would meet with strong resistance of these two pillars of the Soviet-type system that benefit most from maintaining the institu-

⁷ Hungarian authoress Therez Laky (1980) points out two most important sources of dependence in a modified (or reformed) STE like Hungary: the multilevel institutional structure left intact in the 1968 reform and the rights of appointment and dismissal of enterprise managers retained by the superior levels of economic bureaucracy.

tional status quo.⁸ But those few referred to above give a good idea of the disincentives to decentralize. While "small but powerful group at the top" does not necessarily need central planning as a necessary ingredient of its rule, those upon whom they depend in maintaining that rule do draw not inconsiderable benefits from the existing institutional arrangements. Now, a ruler (or nowadays a ruling group) may try not only to change economic institutions but also political ones by aligning himself with the military and/or the police and switching from totalitarian to "ordinary" authoritarian form of the pre-representative type of government.⁹ He (they) may succeed or not depending on the circumstances.¹⁰ But if he seriously tries (they seriously try) to change economic institutions only, he (they) may face a revolt of party apparatchiks and economic bureaucrats who have strongest incentives to abort change and, failing this, to change the ruler. Thus, a classical competitive constraint in North's predatory state is put on a ruler (or a ruling group). Since the ruler perceives that the change in property rights structure affects income of powerful constituents with close access to alternative rulers, he will accordingly agree to maintain the existing structure, favorable to these constituents, regardless of its effects upon efficiency (North (1979))

⁸ There are many other strongly resisted measures like, e.g. breaking down of large enterprises, since they liquidate more highly paid posts (with pay scales dependent on size). Not only measures but certain market-type outcomes of various measures like equilibrium prices would be resisted because they could result in increased costs or reduced benefits for the privileged stratum. Thus, e.g. a car that an apparatchik or any other member of the privileged stratum gets on the basis of allocation coupon (asygnata) costs at the free market in contemporary Poland 110-130% more. Raising car prices to the equilibrium level would automatically reduce either wealth or income of receivers of asygnata.

⁹ See this author's "breakdown within the ruling stratum" scenario in Winiecki (1986c).

¹⁰ Described in Winiecki (1986c).

A special feature of the Soviet-type system is that even if competitive constraint on the ruler is lessened and reforms begin, it is both party apparatchiks and economic bureaucrats who are entrusted with their implementation. Reforms (if not aborted or weakened from the start) may then be sabotaged or distorted - and reversed - afterwards.

Thus, the author established clearly and unequivocally who in the STE gains most from maintaining institutional status quo and why, and thereby who resists change most strongly. Upon the basis of the above a very high probability of failure of decentralizing, market-oriented, efficiency increasing reforms may be confidently predicted.

One reservation should be made here, however. The intensity of resistance would differ with respect to sectors of the economy. Since the best paying nomenklatura-covered managerial jobs, as well as those giving greatest possibilities of various kickbacks, are in industry, it is industry reform that faces the strongest resistance and, accordingly, the highest probability of failure. The economic history of STEs registered some relatively more or less successful reforms of state agriculture where this mode of drawing benefits is more limited and benefits themselves are much smaller, but to date no successful reform of state industry have taken place.

2. Who Gains from Status Quo and Why:

Disincentives to the Expansion of Private Sector

The expansion of private sector in the production of goods and services may be regarded as a complement to decentralizing, market-oriented reforms in the state sector aimed at the overall increase in efficiency of national economies of the Soviet-type state. In theory at least they could be regarded as a substitute, given the strong resist-

ance to market-oriented change in the state sector, but in practice attempts at reforms of the latter coincided with the increased room for expansion for the former. Twists and turns of the policy toward the private sector have been even more numerous, though, as they also coincided with various forced concentration drives in the state sector during which large state enterprises often gobbled up small state and private enterprises alike.¹¹

The fact that private sector, since the imposition of the Soviet-type system, has been but a marginal contributor to economic growth and efficiency (except in agriculture) is invariably ascribed to the ideological hostility. It is interesting to note that the same ideological argument comes to the fore both when Western experts and journalists look for the source of innumerable vilification campaigns and additional obstacles that follow each official policy facilitating the expansion of the private sector and when a ruling group in a STE explains unsatisfactory results of its pro-private sector policy change. The follow-up of the latter group's view is usually some circular memorandum for economic bureaucracy or another political task to party committees to lecture on the need to overcome "old style", "dogmatic" approach with respect to the role of private sector under socialism - but to no avail.

This ideological explanation of failure to harness private enterprise to improve the performance of persistently disequibrated and structurally distorted STEs is highly deficient in the opinion of this writer - and for two reasons. Firstly, since ideological fervor generally subsided since the imposition of the system, why there is hostility towards the private sector that continues unabated and is expressed as

¹¹ See, e.g., the concentration drive in East Germany (GDR) in the mid-1970s.

zealously as in the distant past? Without sensible answer to this question, ideological explanation remains unconvincing.

Secondly - and more importantly - ideological hostility has to be overcome first and foremost at the top. It is actually the ruling group that has to "eat the toad" by confessing indirectly that the state sector cannot do what the private sector is expected to do with the new policy¹² (any policy change announcing even the most limited room for expansion of the private sector amounts to precisely that). Is there any reason to expect that some lower level bureaucrat or party apparatchik, whose position depends not on performance but on loyalty, will dare to be plus catholique que le Pape (assuming that he does harbor doubts) and sabotage the latest twist of the party line?

This author's approach, following the millenia-old cui prodest principle, suggests that there must be strong disincentives for certain groups to follow that line. In the previous section we pointed at the two modes of wealth distribution within the ruling stratum or alternatively among some segments to it that are simultaneously present in the Soviet-type system. It is the latter mode of protracted interference in the wealth creation process that is conspicuously absent (or extremely limited) in the interaction between these segments of the ruling stratum and the private sector.

Thus, there are no well paid nomeklatura-covered posts in small private enterprises to be appointed to, nor is there "soft" budget constraint present, so conducive to the variety of rent maximizing kick-backs mentioned in the proceeding section. A shift of activity from

¹² It is immaterial at this point whether state sector is completely unable to do so, or unable to do so at the expected cost, or in the expected time or at the expected place. It is as immaterial whether it is unable or unwilling to do so because it means that there are no incentives that would induce that sector to change its attitude.

state to private sector reduces the possibility of party apparatchiks and economic bureaucrats to extract rent from the state sector that would otherwise have to turn out the loss-making output in the large (expanding or newly built) state enterprises with many new well paid nomenklatura-covered jobs. The hostility toward the private sector is based here not on the actual losses but gains forgone that it would be possible to extract, given the existing property rights structure in the main sector of the economy.

But the story does not end here. A bureaucrat (or even an apparatchik who can indirectly influence each decision) may extract the rent by taking a bribe for concession to set a private industrial firm, or open a restaurant or a repair shop. But this way of extracting the benefits goes against property rights structure in the private sector. It is much more dangerous; in plain words it is a criminal act. By contrast, preying on the state sector is either fully legitimized (e.g. nomenklatura, goods rationed at the center's order) or, like system-specific kickbacks, belongs to the "grey area" between the improper and the criminal. Negative selection assures that moral scruples are rare among takers and something akin to political earthquake, like the "Solidarity" period in Poland, is needed to threaten all perpetrators of the latter acts rather than luckless individuals whose punishment was decided by higher-ups to be a showcase of a trumpeted anti-corruption campaign.

It should be stressed that only what this author calls "secondary" corruption within the ruling stratum, i.e. one not legitimized by the ruler or the ruling group is (from time to time, in some cases) punished in the Soviet-type system. Following North's property rights-based approach we would define secondary corruption as a conflict between the

utility function of the ruler and that of his agents. The inability of the ruler to constrain his agents perfectly results in the diffusion of some of the ruler's monopoly rent (North (1979)).

Incidentally, this dissipation is the greater, the more difficult (meaning: more costly) is the measurement of output (see Barzel (1974) and Cheung (1974)). Since this measurement in the STEs is most difficult in industry (see Winiecki (1982, 1986a)), the dissipation is greatest precisely in that sector. It is so great that it trickles down to some of the ruled as well, viz. widespread "imaginative reporting" on the implementation of plan targets by enterprises from which benefit both nomenklatura-covered managers and, to a smaller extent but in large numbers, all employees of given enterprises.¹³

3. When and How Reforms Fail:

On Modus Operandi of "Counterreformation"

We outlined already who and why has incentives to abort or reverse decentralizing, market-oriented, efficiency increasing economic reforms in the state sector. It is the same two segments of the ruling stratum, i.e. party apparatchiks and economic bureaucracy, that have also incentives to thwart attempts aimed at the expansion of the private sector. Of interest, however, is also to learn when and how such attempts are undertaken, what measures are used by the parties concerned to assure that reforms become phony already at the start or are made so inconsistent internally that their failure is all but certain and, con-

¹³ According to A. Shitov, the vice-chairman of the People's Control Commission of the USSR, every third enterprise out of those checked-up was found guilty of such irregularities (Planovoe Khoziaystvo (1981) No. 11). It is assumed by the present writer that those caught in the act of doctoring their reports make in turn a part of those who paint a rosy (or only rosier) picture to obtain plan implementation-related rewards.

sequently, the process of reversal brings about status quo ante (if not exactly in form than surely in substance). In other words we are interested not only in explaining the existence of North's (1979) competitive constraint but also its mode of operation in the Soviet system. The acceptance by the ruling group of phony or quasi reforms as a starting point (see below) is a sign of its perception of such constraint; so are reform reversing decisions taken by them afterwards.

Let us begin with the statement that although the efficiency of "counterreformation"-oriented actions may be different at different stages of reforms, circumstances may make it impossible for the interested parties to choose at a given moment the first-best solution. To give the most obvious example, the popular pressure combined with the disastrous economic situation in Poland precluded aborting the reforms through the introduction of completely phony reforms not only in 1981 but even under the martial law in 1982. Some ways to improve the disastrous situation had to be found after all, since the ruling group understood that at least some of the problems were not the outcome of Gierek's mistakes and "Solidarity"-organized strikes (as they tried to convince the general public).

Stipulating the above, it is self-evident that (1) aborting reforms is less costly in terms of effort expended by the interested parties than reversing reforms and (2) reversing more inconsistent reforms (with inconsistency consciously built into the systemic modifications) is less costly than reversing less inconsistent reforms. Aborting reforms is not construed here to mean that no changes whatsoever are introduced. It means that these changes not only do not threaten property rights structure in the state sector that allows party apparatchiks and economic bureaucracy to continue to maximize the rent

according to the second, system-specific mode of wealth distribution but also do not change either institutions or procedures of central planning. Examples of such phony reforms abound in STEs even in the 1980s (East Germany, Czechoslovakia, Bulgaria, also the most recent Soviet reforms belong to that category - see the last section). Efficiency gains are going to be almost nonexistent¹⁴ but without extreme situations the fact will not generate attempts at further reaching reforms.

Second-best solution is to introduce quasi reforms, i.e. reforms that are so inconsistent internally that they are doomed to fail. They somewhat increase effort expended by party apparatchiks and economic bureaucracy in controlling economic activity but that increase is only temporary, since the reversal of reforms is assured by problems arising out of the inevitable contradictions of inconsistently modified system. At the same time the structure of property rights remains intact in any case. To this category belong, by and large, Polish reforms of 1956-1958 and 1973, and most of the East European reforms of the 1960s (excluding Hungarian ones - see below). With inconsistencies being often obvious from the start, beneficiaries of the traditional Soviet-type model needed only to wait until the first problems appeared to start the campaign for reform reversal. And they did not need to wait for long because STEs always entered reforms in the state of larger or smaller disequilibrium and reforms could be blamed for its continuing existence if nothing more precise was conveniently available (it usually did - for the same reasons). Small efficiency gains are registered but they are temporary and disappear over time under the impact of reform reversal process.

¹⁴ There are (even in the West) those who believe in the official East German figures but this author does not belong to the believers (see Winiecki (1986b)).

The worst for the parties concerned are those extreme situations like the Polish one in the 1981-1982 period. Under popular pressure for reforms combined with the disastrous economic situation the ruling group has to give in on economic reforms in order to deflect pressure for political ones. But pressure for political reforms did not abate and martial law had to be introduced to stave off fundamental change. This author explained, however, in section one that real economic reforms are impossible in the Soviet system without political reforms - at the very least without the shift from totalitarian to "ordinary" dictatorship. Real economic reforms radically alter property rights structure and thus sharply reduce the possibility to maximize rent by party apparatchiks and economic bureaucracy through the system-specific mode (nomenklatura would become extremely limited in the economic sphere and kickbacks would be eliminated altogether). They even limit the possibility to maximize it through the traditional mode: value of perks in the form of rationed underpriced consumer goods in short supply would fall to zero with national economy operating at equilibrium prices.

Consequently, economic reforms of 1982 became an emasculated version of measures envisaged in 1981. Threats to ability to extract rent by the parties concerned were either eliminated, or reduced, or frozen at the existing levels. What was left of it, however, increased effort expended to control economic activity by party apparatchiks and economic bureaucracy to the extent be regarded by them as unbearable. Taking advantage of various built-in inconsistencies of 1982 reforms under the guise of "further perfectioning". As a result, reforms look, at the time of writing, like the luckless fiancé of Aurelia (in the well known Mark Twain story) who, after each accident, was deserting his

beloved one piece by piece. The only difference is that Polish reforms of 1982 were lame already at the start.

Hungarian reforms of 1968, as well as later modifications, belong to a special category not because they were much further reaching than any other in the STEs. The difference was not great, nor were various adverse consequences of inconsistent reforms there significantly smaller.¹⁵ The degree of control over economic activity by party apparatchiks and economic bureaucracy did not change much, although effort expended increased substantially. But although nomenklatura survived intact, certain well paid jobs disappeared during reform's second phase in 1980 (industrial ministries were amalgamated into one and certain large enterprises were broken into smaller units) and the policy of increasing the pool of talents for management resulted in the increased share of non-party members in managerial positions.¹⁶ Also, with Hungarian prices being much nearer to equilibrium levels than elsewhere in East European STEs, the value of perks like, e.g., rationed cars decreased. In spite of these losses to the extracted rent there was but a partial reform reversal in 1972-1978 period and the second wave of reforms took place since 1979. The answer to this is as follows.

This author pointed elsewhere (Winiecki (1986c)) at the uniqueness of Hungarian communists' experience. They are the only ones in Eastern Europe that - after taking power - found themselves, albeit briefly, at

¹⁵ Cf. e.g., Bauer (1984) and Beksia (1982) describing post-1968 and post-1980 Hungarian economy and post-1972 Polish economy respectively in almost identical terms as "neither command nor market regulated economy". See also, e.g. Laky (1980), Antal (1978, 1982) and Soos (1985) about characteristics of Hungarian systemic modifications as substitutes for traditional system but not really a market regulated system.

¹⁶ At one discussion a 40% share was mentioned already in the late 1970s. For comparison that share was barely 10% in Poland at the time.

the receiving end of repression. Consequently they learned one thing, namely that in the case of another popular uprising the Soviets may come quickly enough to save the system but not necessarily to save each of them personally. It is this collective memory of the ruling stratum that results in policies that are often moderating rather than aggravating the adverse characteristics of the system. But in substance the system itself has changed surprisingly little.¹⁷

Thus, economic reforms in the STEs did not bring about systemic modifications that would seriously limit the ability of the party apparatchiks and economic bureaucrats to extract rent through existing property rights structure in the state sector of these economies. A (limited) exception to this state of affairs is Hungary for reasons that make its experience unique in East European STEs. Reforms at worst - for these two pillars of the system - limited somewhat the number of well paid jobs in the intermediate levels of the bureaucratic hierarchy and increased the effort expended to control economic activity. Both defects were, however corrected to a large extent in the inevitable process of reform reversal.

We stressed already that the timing of "counterreformation" is dependent on the circumstances: a degree to which economic performance deteriorated, the existence of popular pressure for reforms and a strength of that pressure, etc. Consequently, the most efficient timing cannot be selected by the interested parties. It depends on the dynamics of reforms themselves. "Counterreformers" have much greater latitude in the choice of measures that both allow them to retain control over economic activity and assure that reforms will not succeed. With each

¹⁷ The problem in question is elaborated in this author's paper entitled: "Poland and Hungary: Similar Systemic Modifications - Dissimilar Policies" (in preparation).

failed attempt at economic reforms they are more efficient in applying these measures due to the learning curve effects. Let us look briefly at the most successful measures.

Pseudo-reorganization. This classically Parkinsonian measure allows to maintain the institutional structure basically intact by shedding a few middle level institutions of the multilevel hierarchy (see Figure 1 shown earlier) and preferably adding some functional institutions at the same time (to keep the pool of well paid nomenklatura-covered job as large as possible). This has been a typical maneuver of counterreformers e.g. in Czechoslovak reforms of 1967, Hungarian reforms of 1968 and all Polish reforms of 1956-1958, 1973 and 1982.

Limiting the number of obligatory plan indicators for enterprises. This typical substitute for the abolishment of commands has been widely used in most economic reforms - phony, pseudo, as well as further reaching ones - under the banner of simplifying the management of enterprises. However, with the institutional structure intact and governmental campaigns aimed at assuring the implementation of various partial targets following one after another, many obligatory plan indicators were sooner or later reestablished and new ones added in the process. An example from one industry in Poland over the 1946-1981 period is illuminating in this respect (see Figure 2).

An additional "counterreformers" (upper case),gimmick is to shift some of the obligatory plan indicators to other classes of plan indicators instead of simply to reduce their numbers. E.g. in Czechoslovak reforms of 1967 the number of obligatory plan indicators in industry was reduced from 1120 in 1965 to 66 in 1966 but at the same time two new classes of "orientating" and "auxiliary" indicators were

established that between them added 510 indicators (see Planove Hospodazhstvi(1965) No. 7-8).

Abolishing commands but retaining the rationing of inputs. Even if all commands with respect to plan targets are formally abolished, which is very rare¹⁸, the fact that economic bureaucracy at above-enterprise levels still allocates most of the scarce inputs constrains the pursuit of a more profitable output mix by enterprise managers. They are given to understand that any other output mix than that "suggested" by their superiors will make prospects for obtaining scarce materials less certain because they will be shifted to other enterprises producing "priority" output, i.e. one desired by economic bureaucracy and/or party apparatchiks. This has been typical, e.g., for Polish reforms of 1982 where rationing was retained to a considerable extent and during the 1982-1986 reform reversal process the share of rationed material inputs increased to 90% (Zhytsie Varshavy (1986) June 16).

Abolishing commands and rationing but retaining the right to appoint and dismiss enterprise managers. This "revolutionary" change - or at least hailed as such - happened to date only in Hungary. However, as it was pointed out already, the command rationing system of central planning was not transformed into a decentralized, market-oriented system, since property rights structure in the state sector did not change. Even without plan targets and input rationing, enterprise managers continued to be dependent upon the evaluation of their superiors (given the maintenance of the nomenklatura) and this evaluation continued to be

¹⁸ Even with the abolishment of commands in Polish 1982 reforms they were retained in one form or another in the case of output for military purposes and a large part of output for planned deliveries to other STEs. The situation is not much different with respect to further reaching Hungarian 1968 reforms that - in theory - abolished not only commands but also rationing.

based upon loyalty first and foremost. That the strength of these suggestions was not much weaker than that of commands should be obvious to everyone.¹⁹ With their position, salary and bonuses dependent upon economic bureaucracy above them, managers in STE enterprises suffer from Dr. Jekyll and Mr. Hyde syndrome, analyzing in turn enterprise performance in terms of efficiency and the specific suggestions of their superiors, partial target-oriented programs (e.g. hard currency exports, energy savings, etc.), guiding principles outlined by the government and the like. Where they are in conflict, the latter prevail (see above, section one and also Laky (1980)).

Thus, since market did not substitute for central planning, the void was filled by "suggested" auxiliary or orientating indicators covering the whole range of enterprise activities and bargaining between managers and economic bureaucracy for change in the value of these indicators²⁰, by informal rationing and bargaining for inputs, by participation of economic bureaucracy and party apparatchiks in the preparation of enterprises' "autonomous" output plans, as well as by an amalgam of disguised or undisguised, formal or informal, persistent or ad hoc interferences in enterprise activities. Enterprises, although formally unconstrained in the pursuit of better performance, were in fact bound by the above maze of (mutually inconsistent) constraints on their actions that limited gains in efficiency to a very large extent. Consequently patterns of economic development and foreign trade did not

¹⁹ As Laszlo Antal (1982) wrote, suggestions (he used the term "expectations") are less than commands but more than preferences.

²⁰ Bargaining was as rampant under traditional central planning but it was usually more frequent during plan implementation period while since 1968 it became more frequent ex ante.

significantly differ from those of other STEs without Hungarian reform experience (see e.g. Bauer (1984)).²¹

The above enumerated measures of "counterreformers" that aim at maintaining by and large unchanged a degree of control over economic activities can be supplemented or reinforced by other measures, both related to systemic modifications and unrelated ones. The latter include various policy preferences and ad hoc regulations that contravene the thrust of reforms and - if implemented - slow down ability of enterprises to react to profitable opportunities, rise costs, lower quality, increase obsolescence of their products or otherwise make them less efficient. These adverse results can be taken advantage of by "counter-reformers" during the next campaign for reform reversal.

Propaganda against reforms belongs also to the latter category. It may include a whole variety of arguments ("reforms increase inflation", although reforms usually shift it only from hidden to open inflation category; "reforms increase inequality", although reforms usually, at least at the beginning, reward more efficient smaller enterprises and reduce existing unjustified wage and salary differentials in favor of the employees of large enterprises). Isolated critique by the general public or by employees in large enterprises is then overblown in the

²¹ This author empirically proved elsewhere (Winiecki (1984, 1986d) and Winiecki and Winiecki (1986)) that structural characteristics of Hungarian economy are not different from other STEs, either.

press and mass media strengthening reform reversal campaign by conferring upon it a quasi-legitimacy.²²

With the "whens" and hows", i.e. the operating mode of "counter-reformation", explained above (however sketchily), two caveats are necessary before concluding this section. First concerns the precise meaning of the phrase "control of economic activity" by the economic bureaucracy and party apparatus. It has little in common with the guidance toward efficient implementation of desired outcomes. It is process- rather than outcome-oriented. It is based on detailed prescriptions what, how, when, and with what means to produce certain outcomes. Proceeding according to prescriptions (obeying commands) is all important, since it gives superiors the feeling of control.²³ It is not real control because outcomes of following such detailed prescriptions are a far cry from expected ones: output exists partly on paper only, products are shoddy and obsolescent, deliveries are late, efficiency indicators are way off plan targets, etc.²⁴ - and the parties concerned are obviously unable to do anything about it. Controlling economic activity means simply that the parties concerned are able to issue commands ("suggestions" at the very least) affecting process or product

²² This author heard about a particularly funny attempt at generating support of the employees. During the breaking-up process of some large sized enterprises in Hungary (that threatened jobs of those paid on the basis of the size of an enterprise), communist party apparatchiks in Csepel Works in Budapest tried to sabotage the break-up by organizing a protest strike. However, the time when communists could organize successful strikes in countries that already experienced the communist rule had passed and they were not able to find more than a handful of followers. The attempt collapsed as a result. (Incidentally, Csepel Works had belonged to the longest fighting units in 1956 against the Soviet intervention.)

²³ On effect- and process-oriented systems in economics, see Beksiak (1982).

²⁴ See, e.g., Winiecki (1986a).

and these commands are - superficially, in form but not in substance - obeyed by enterprises.

Effort expended by economic bureaucracy and party apparatchiks operating in the background is obviously the lower, the simpler is the procedure. To give but one example, commands are preferred to suggestions since the latter require bargaining. Commands may be (and are) often changed but that later change needs less arguing, since the disparity between targets and reality became better visible in the meantime (the fact that it is also more costly does not bother them in the least). Thus, even if systemic modifications do not threaten their ability to maximize rent through the protracted interference in the wealth creation process, they adversely affect effort expended to maintain (superficial) control of economic activity and therefore the parties concerned have incentives to restore status quo ante.

Second caveat concern ruling group-ruling stratum relationship. The juxtaposition made by this author in the article should not be mistaken for "good czar, bad officials" approach to the problem in question. The ruling group is representative for the ruling stratum with all the moral, intellectual and professional consequences of decades of negative selection under totalitarianism. Thus, the czar is not better than his officials. But there is a great difference between the former and the latter nonetheless. The ruling group is the only one within the ruling stratum interested not only in seeing the commands implemented but in real effects of this implementation. There is nobody else to pass the buck to. Consequently, at the highest level real performance, as contrasted with reported one, counts as well as loyalty.

With declining performance, the ruling group feels another constraint pointed out by North (1979), i.e. transaction cost constraint.

Inefficient property rights do not generate increased wealth and that threatens the superpower status in the Soviet Union's case and internal dissatisfaction and unrest in the case of all Soviet-type states. The ruling group, conscious of the fact that dissatisfaction and unrest threaten its position, weighs the possible impact of competitive and transaction cost constraints upon that position and often is willing to go further with efficiency increasing (transaction cost decreasing) economic reforms than those segments of the ruling stratum drawing most benefits from the existing property rights structure. It is then and only then that "reformation-counterreformation" game sketched above begins.

4. Prospective Failures - Imaginable Solutions

Property rights-oriented analysis applied in this paper, with special emphasis upon the incentives' structure of the ruling stratum in the Soviet system, not only explains repeated failures of economic reforms in the STEs but also, given its easily applicable theoretical underpinnings, enables to predict outcomes of ongoing reforms. Three such reforms pertaining to the most important sector, i.e. industry, will be briefly analyzed below: Soviet, Polish and Chinese ones.

The first two cases do not raise any doubts. In the Soviet case property rights structure remains intact, with both modes of wealth distribution among the ruling stratum described in section one remaining firmly in place.²⁵ Exemplary punishments for "secondary corruption" (see Section 2) handed out to a few improperly constrained agents of the

²⁵ It is rumored in Moscow that the editors of "Pravda" got a thorough trashing for publishing a letter from the reader who inquired whether the present "truth campaign" should not include the question of privileged access to scarce goods as well.

ruler are irrelevant for the above assessment. Now, with respect to reforms themselves Soviet version shows almost all the gimmicks that assure that reforms turn out to be phony ones.

Of the most often used measures enumerated in the previous section it is pseudo-reorganization and limiting the number of obligatory plan indicators that are overrepresented in the set of measures promulgated so far. The change at the top from traditional industrial ministries to committees playing the role of superministries belongs to that category. It tries to decrease uncertainty and shortage by integrating certain suppliers and purchasers under the same bureaucratic umbrella but it never worked anywhere and the only thing it can do is to redistribute shortage across enterprises (with "own" purchasers relatively better supplied, while those under the aegis of another committee being in a relatively worse situation). A shift of emphasis within the multilevel hierarchy from ministries to unions of enterprises (a measure that failed many times elsewhere in STEs) is a similar non-starter. Both ministries and unions are bureaucratic bodies that are not interested in increasing efficiency but in showing improved average results from one year to another. In each case they redistribute scarce resources for both current production and capacity expansion in such a way as to improve these average results and therefore they shift resources from relatively more to relatively less efficient enterprises. Limiting of obligatory plan targets, given the way these targets tend to get reestablished (as in 1965 reforms) will bring only minimal effects.

The much touted brigade system, i.e. contracts with small teams ready to implement specific tasks for specified remuneration may improve the performance of Soviet enterprises but to a certain extent only and not for long anyway. The extent of improvement cannot be large because

enterprises in the STEs are constrained first of all by system-specific excess demand, shortage and uncertainty, i.e. by external environment of the enterprise; worker negligence is only secondary. Thus, even if workers are ready to exert themselves somewhat more, effects at the team level may not be translated into effects at the enterprise level. That will rise costs without visible adequate benefits and will bring conflict with higher levels of economic bureaucracy. Also, workers will have to be paid for readiness to fulfill contract when inputs fail to arrive. That, again, will increase costs. Consequently, various reservations will begin to be written into contracts or ad hoc interventions will reduce specified remuneration - decreasing incentives for workers to exert themselves²⁶ - until the whole thing becomes yet another useless institutional fixture. The gains will first decrease and later disappear altogether. By that time even cracking the whip (tightening labor discipline, more thorough checking-up of plan implementation reports, etc.) will cease to yield even paper gains.²⁷

By contrast, Polish reforms of 1982 cannot (and were not - see the preceding section) dismissed as phony. Although property rights structure did not change, abolishment of (most) commands, some limitation of rationing, some freeing of prices, etc. did take place. Even if the reform reversal process already took away from enterprises large chunks of their freedom of action that existed in 1982, a degree of decentral-

²⁶ The whole brigade system may even become a non-starter if - due to the reigning gigantomania - teams will count too many members, since in this case the classical "free rider" problem arises (on the definition of the problem, see Olson (1965)). This is e.g. what happened in Bulgaria.

²⁷ It is interesting to note that there is a strong correlation between improved aggregate growth indicators and intensified campaign against "imaginative reporting" on plan implementation. Incidentally, this author hypothesized elsewhere (Winiecki (1986b)) that the 1980s, a period of decline, would become another period of greater overstatements of economic performance.

ization is still higher than it was in the 1970s. Also, certain rights of elected self-management bodies in enterprises, however strongly circumscribed from the start of 1982 reforms, still remain in the hand of these bodies. However, not only the remnants but even the 1982 reforms in toto would be unable to assure the efficient performance of enterprises. Consequently, the failure of reforms is assured. Nonetheless reforms increased considerably the effort expended by party apparatchiks and economic bureaucracy in controlling economic activity.²⁸ Therefore, the interested parties continue reversing what has been left of the reforms.

But the Polish case is even more informative, as far as the probability of reforms in the Soviet-type state is concerned, given the very distinctive policy accompanying the introduction of economic reforms of 1982. It looks as if the ruling group tried to "buy" the acquiescence of the ruling stratum (and especially its most affected segments) to economic reforms they regarded as necessary due to the acute economic crisis. Thus, the share of consumer goods in short supply outside the regular trade channels increased sharply. In the case of cars, i.e. the most coveted durables, the part that was rationed through the asygnata system is said to have doubled from 20% in the late 1970s to 40% in the

²⁸ An excellent illustration of the fact is an officially published instruction of the personnel section of the communist party's central committee on the "consultative" procedure with respect to offers for competition for managerial positions in those enterprises where self-managing body has the right to select a candidate (who nonetheless has to be appointed later by a respective ministry). Although the interested parties can always prevent "undesirable" competent (and critical) candidates from being appointed and in most cases even from being selected, as well as force their own nomenklatura-selected alternatives on the (often unwilling) self-management body, a number of "consultations" between the selecting commission, enterprise, district and regional party committees and a ministry superior for a given enterprise is infinitely higher than under traditional nomenklatura procedure.

early 1980s.²⁹ Regional data for household consumer durables showed 45% share of privileged access sales.³⁰ The share officially quoted for 1983 was 38% for all nonfood manufactured goods, including cars.³¹ Even if we take into consideration the fact that the ruling group tried at the same time to "buy" members for new government-sponsored trade unions by distributing various goods through trade union organizations³², these shares are shockingly high (n.b. cars were not rationed that way!).

But this is only part of a story. at the same time a number of positions in the economic sphere and elsewhere covered by nomenklatura at all levels rose from about 100,000 in the 1970s to 250,000.³³ Thus, the access to better paid positions by the ruling strata improved considerably. If we compare the above with what Voslenski (1984) estimates for the Soviet Union (750,000 posts), the extent of communist party formal control over managerial posts seems to be now distinctly higher in Poland.

If such behavior were a norm in the Soviet system in the case of an acute crisis, it would have important implications for the ability of the Soviet-type states to extricate themselves from such crises. First, it seems that the ruling strata compensates an absolute fall in wealth by appropriating to itself a much larger share of that wealth. An important consequence of it is that there is much less wealth than before left to be distributed according to performance, thus reducing incen-

²⁹ Although the absolute terms it was less than before given the fall in output and larger exports.

³⁰ Zhycie Gospodarche, 1984, No. 40.

³¹ Ibid., 1986, No. 10 (quoted in the report of the Consultative Economic Council).

³² It has been referred to in various research reports (see Polityka Spolechna (1985) No. 4).

³³ The numbers for the 1970s from Smolar (1983), for the 1980s from Polityka (1986) No. 24.

tives for people to perform (assuming that reforms would restore such structure of incentives). Also, by extending the grip of nomenklatura over national economy such behavior reduces ex ante the possibility of enterprises to perform, given the impact of negative selection to managerial posts upon enterprise performance (again assuming that reforms would leave enough room for managers to choose among various options).³⁴

Consequently, even if reforms were really decentralizing, market-oriented ones - and the Polish reforms of 1982 definitely were not - such parasitic behaviours would preclude positive outcomes. In comparative terms acute economic crises can be more easily handled in representative government-type market economies than pre-representative government Soviet-type economies. Using Schumpeter's term of "creative destruction" for the former situations, where crisis generates innovative responses that cumulatively lead the economy out of crisis, one should - in parallel - use the term "destructive destruction" for the latter with the by now obvious consequences for the outcome.

The last case of the ongoing reforms is the one that rises nowadays most excitement in the West, i.e. the case of China. This author is afraid that both Western and Chinese reformers' optimism is based more on their own wishes than on any thorough analysis. Mr. Deng Xiaoping, the prime mover of Chinese reforms, may hope that "if the reforms in the countryside worked out very well in three years... it will take five years for the reforms in the city" (in an interview with Time (1985) November 4) but in the light of what was written in the first and second sections of this article, assumed relationship between rural-agricul-

³⁴ Interestingly enough even the official control organs in Poland (Supreme Chamber of Control) concluded that the same mediocrities are being selected for managers as before the reforms. See the interview with a regional director from Wroclaw (Zdechpospolita (1986) April 3).

tural and urban-industrial reforms has no foundations whatsoever. The amount and variety of benefits extractable by the two segments of the ruling strata most involved in controlling economic activity through the protracted interference in the process of wealth creation are infinitely greater in industry than in agriculture.

Thus, relative ease with which agricultural reforms became a relative success does not have any bearing upon the possibility of success of industrial reforms and Hungary is a case in point. Relative success of Hungarian agriculture, i.e. relative to other STEs, was not followed by successful reforms in industry. Almost two decades have passed since 1968 and Hungarian industry remains by and large unreformed while its marginally greater efficiency is the result not of a shift to decentralized, market-oriented system but a more cautious policy that alleviates some of the worst effects of the traditional Soviet system.

This author explained why - in his view - Hungarian ruling stratum behaves the way it does. In contrast, there was no popular revolution in communist China and no communist victims of it that could have such moderating influence upon the behavior of the ruling stratum. But, paradoxically, Maoist convulsions may have - temporarily - played similar role with respect to party apparatchiks and economic bureaucracy. Mao Zedong was a social reformer (however paranoid) and in the quest for his coercive utopia he also subjected many members of these two segments of the ruling stratum (but not those of the military or the police) to various often cruel and humiliating persecutions. Consequently, apparatchiks and bureaucrats - mindful of the not too distant past of the cultural revolution - may prefer, for the time being, the present stability and wealth increases proportional to those

of wealth increases of the country as a whole even if accompanied by falling relative position with respect to new entre-preneurs.

But as the memories of the cultural revolution fade and continuing reforms will require further limitations of benefits (in the end the abolishment of nomenklatura in industry) things may begin to change. In any case the situation in a pre-representative government type of state where important segments of the ruling stratum have the power to extract rent through existing property rights structure and for some reasons are prevented from doing so is inherently unstable. The transformation or liquidation of totalitarian party and of typical STE-type economic bureaucracy is one possible (although not necessarily probable) outcome, while reform reversal is another (unfortunately much more probable) one.

The above considerations, however, should not be construed to mean that failures of economic reforms in the Soviet-type states are eternal. They have been made much more difficult than elsewhere in predatory states, given the very specific interface between political and economic spheres, but under certain conditions like those of the long term economic decline that affect all East European STEs (see Bauer (1984); Winiecki (1984b and 1986b)) political changes may positively affect the chances of success of economic ones. This author outlined two scenarios of such positive change elsewhere (Winiecki (1986c)). The first involves the breakdown of consensus within the ruling stratum and the defeat of those interested not only in maintaining political power but also in maintaining the existing property rights structure in the economic sphere, i.e. party apparatchiks and economic bureaucracy. The other scenario assumes a gradual self-limitation by the communist party as the decline drags on and the costs of maintaining the existing system will become heavier over time in terms of falling absolute wealth and in-

creased effort expended at controlling economic and non-economic activities. Since the decline of the Soviet-type states is a multifaceted one, combining falling living standards, rapidly increasing pollution, increasing mortality, etc. many hard questions will be asked within the ruling groups and the ruling strata in these states. Accordingly the probability of occurrence of the scenarios pointed at above may increase in the next 5-10 years.

References

- Antal, L. (1978), "Development with Some Digression", Acta Oeconomica, Vol. 23, Nos. 3-4.
- Antal, L. (1982), "Thoughts on the Further Development of the Hungarian Economy", Acta Oeconomica, Vol. 29, Nos. 3-4.
- Barzel, Y. (1974), "A Theory of Rationing by Waiting", Journal of Law and Economics, April.
- Bauer, T. (1984), "The Second Economic Reform and Ownership Relations", East European Economics.
- Beksiak, J. (1982), "Change in the Economy", PWN Publishers, Warsaw, (in Polish).
- Cheung, S.N.S. (1974), "A Theory of Price Control", Journal of Law and Economics, April.
- Djilas, M. (1956), "The New Class", Praeger, New York.
- Kornai, J. (1979), "Resource-Constrained Versus Demand-Constrained Systems", Econometrica, Vo. 47, No. 4.
- Kornai, J. (1980), "Economies of Shortage", North-Holland, Amsterdam.
- Laky, T. (1989), "The Hidden Mechanisms of Recentralization in Hungary", Acta Oeconomica, Vol. 24, No. 1-2.

-
- North, D.C. (1971), "Institutional Change and Economic Growth", Journal of Economic History, Vol. 31, March.
- North, D.C. (1979), "A Framework for Analyzing the State in Economic History", Explorations in Economic History, Vol. 16.
- Olson, M. (1965), "The Logic of Collective Action", Harvard University Press, Cambridge, Mass.
- Olson, M. (1982), "The Rise and Decline of Nations", Yale University Press, New Haven.
- Olson, M. (1984a), "Microeconomic Incentives and Macroeconomic Decline", Weltwirtschaftlicher Archiv, Bd. 120, Heft 4.
-
- Olson, M. (1984b), "Beyond Keynesianism and Monetarism", Economic Inquiry, Vol. 22, No. 3.
- Soos, K.A. (1985), "Planification Imperative, Regulation Financiere, 'Grandes Orientations' et Campagnes", Revue d'Etudes Comparatives Est-Ouest, Vol. 16, No. 2.
- Thalheim, K.C. (1986), "Stagnation or Change in Communist Economies", Center for Research into Communist Economies, London.
- Jermakowicz, W. (1983), "Systemic Determinants of Organizational Structures", Parts I-II, Warsaw, Polish Economic Association mimeo - in Polish.
- Smolar, A. (1983), "The Rich and the Powerful", in: Poland: Genesis of a Revolution. Ed. by A. Brumberg, Random House, New York.
- Trotsky, L. (1937), "The Revolution Betrayed", Pathfinder, New York (1972 edition).
- Winiecki, J. (1982), "Investment Cycles and an Excess-Demand Inflation in Planned Economies: Sources and Processes", Acta Oeconomica, Vol. 28, Nos. 1-2.

-
- Winiecki, J. (1984a), "The Overgrown Industrial Sector in the STEs Evidence, Explanations, Consequences", Warsaw (mimeo), later published as Winiecki (1986d).
- Winiecki, J. (1984b), "Economic Trends and Prospects in Comparative Perspective: East", Warsaw, October (mimeo).
- Winiecki, J. (1986a), "Distorted Macroeconomics of Central Planning", Banca Nazionale del Lavoro Quarterly Review, No. 157, June.
- Winiecki, J. (1986b), "Are Soviet-Type Economies Entering an Era of Long-Term Decline?", Soviet Studies, Vol. 38, No. 4.
- Winiecki, J. (1986c), "Soviet-Type Economies: Considerations for the Future", Soviet Studies, Vol. 38, No. 4.
- Winiecki, J. (1986d), "The Overgrown Industrial Sector in the STEs Evidence, Explanations, Consequences", Comparative Economic Studies, Vol. 28.
- Winiecki, J. (in preparation), "Poland and Hungary: Similar Systemic Modifications - Dissimilar Policies".

Levels of Economic Bureaucracy

Levels of Communist Party Nomenklatura

^x Center includes also certain functional ministries
e.g. finance ministry, technology ministry,
labor and wages ministry and the like

^{xx} Trusts and combines belong to that
rather than to enterprise level

———— superior/subordinate relationship

----- control relationship assured first of all
through nomenklatura

Figure 1

The institutional structure displayed above shows the levels of bureaucracy rendered superfluous by real decentralizing, market-oriented reforms. Dotted lines show also which levels of party apparatchiks lose possibility to get themselves appointed to the well paid jobs covered by nomenklatura in industrial ministries and unions of enterprises.

Figure 2

Changes in the number of directive, i.e. obligatory, indicators in engineering industries in the 1946-1981 period related to imposition of central planning and later attempts at economic reforms and subsequent reform reversals in Poland

SEMINAR PAPER SERIES

The series was initiated in 1971. For a complete list of Seminar Papers see the Institute's annual brochure.

1983

233. **Kalyan K. Sanyal:**
Trade in Raw Materials in a Simple Ricardian Model. 17 pp.
234. **Charles P. Kindleberger:** Financial Institutions and Economic Development: A Comparison of Great Britain and France in the Eighteenth and Nineteenth Centuries. 42 pp. (Also as Reprint No. 258)
235. **Lennart Ohlsson:**
Structural Adaptability of Metropolitan Sweden to Changing Comparative Advantages During Periods of Growth and Stagnation. 43 pp.
236. **Parameswar Nandakumar:**
Government Policies in Mixed Open Economies. 31 pp.
237. **Torsten Persson:**
Real Transfers in Fixed Exchange Rate Systems and the International Adjustment Mechanism. 38 pp. (Also as Reprint No. 234)
238. **Lars Calafors and Henrik Horn:**
Employment Policies and Centralized Wage Setting. 48 pp. (Also as Reprint No. 323)
239. **John T. Cuddington:**
A Fix-Price Trade Model with Perfect Capital Mobility: Fixed versus Flexible Exchange Rates. 38 pp.
240. **Bruno S. Frey, Henrik Horn, Torsten Persson and Friedrich Schneider:**
A Formulation and Test of a Simple Model of World Bank Behavior. 17 pp. (Also as Reprint No. 288)
241. **Pekka Ahtiala:**
A Synthesis of the Macroeconomic Approaches to Exchange Rate Determination. 37 pp.
242. **Kalyan K. Sanyal:**
Tariffs, Tradable Intermediate Goods and the Balance of Payments. 12 pp.
243. **Kalyan K. Sanyal:**
Foreign Exchange Constraint, Sectoral Terms of Trade and Aggregate Expenditure in a Dual Economy. 19 pp.
244. **J. Peter Neary:**
The Heckscher-Ohlin Model as an Aggregate. 30 pp. (Also as Reprint No. 265)
245. **John T. Cuddington and Jeremy A. Gluck:**
Exchange Rate Forecasting and the International Diversification of Liquid Asset Holdings. 42 pp.
246. **Marian Radetzki and Carl Van Duyn:**
The Demand for Scrap and Primary Metal Ores after a Decline in Secular Growth. 37 pp. (Also as Reprint No. 275)
247. **Ephraim Kleiman:**
Fear of Confiscation and Redistribution. (Notes towards a theory of revolution and repression). 37 pp.

248. **Nancy Peregrin Marion and Lars E.O. Svensson:**
Structural Differences and Macroeconomic Adjustment to Oil-Price Changes: A Three-Country Approach. 51 pp.
249. **Anne O. Kreuger:**
Trade Policies in Developing Countries. 94 pp.
250. **Dennis J. Snower:**
Structural Uncertainty and Monetary Stabilization Policy. 16 pp.
251. **Gene M. Grossman:**
International Competition and the Unionized Sector. 31 pp. (Also as Reprint No. 247)
252. **Hans Tson Söderström and Peter Brundell:**
Macroeconomic Causes of Unbalanced Productivity Growth in Open Economies. 48 pp.
253. **Carl Hamilton:**
Voluntary Export Restraints, Trade Diversion and Retaliation. 27 pp.
254. **Gene M. Grossman and Assaf Razin:**
The Pattern of Trade in a Ricardian Model with Country-Specific Uncertainty. 16 pp. (Also as Reprint No. 270)
255. **Carl Hamilton:**
Australian Manufacturing Industry during the 1970s: An International Comparison and Implications for the ASEAN Countries. 48 pp.
256. **Gene M. Grossman:**
The Gains from International Factor Movements. 17 pp. (Also as Reprint No. 244)
257. **Lars E.O. Svensson:**
Walrasian and Marshallian Stability. 19 pp. (Also as Reprint No. 272)
258. **Thorvaldur Gylfason and Ole Rísager:**
Does Devaluation Improve the Current Account? 49 pp. (Also as Reprint No. 237)
259. **John T. Cuddington:**
Disequilibrium Analysis in Open Economies: A One-Sector Framework. 34 pp.
260. **Gene M. Grossman:**
International Trade, Foreign Investment, and the Formation of the Entrepreneurial Class. 22 pp. (Also as Reprint No. 250)
261. **Nils Gottfries:**
Price Dynamics of Exporting and Import Competing Firms. 22 pp. (Also as Reprint No. 321)
262. **Ole Rísager:**
Devaluation, Profitability and Investment. 64 pp.
263. **Dennis J. Snower:**
Imperfect Competition, Underemployment and Crowding-Out. 51 pp.
264. **W. M. Corden:**
Macroeconomic Policy Interaction Under Flexible Exchange Rates: A Two-Country Model. 28 pp.
265. **Alan S. Blinder:**
Credit, Working Capital, and Effective Supply Failures. 40 pp.
266. **John T. Cuddington and Per Olov Johansson:**
Optimum Tariffs, Revenue-Maximizing Tariffs and Unemployment: A General Disequilibrium Analysis. 19 pp.

267. Lars E.O. Svensson:	Money and Asset Prices in a Cash-in-Advance Economy. 74 pp. (Also as Reprint No. 295)	284. Chris Doyle and Sweder van Wijnbergen:	Taxation of Foreign Multinationals: A Sequential Bargaining Approach to Tax Holidays. 30 pp.
268. Thorvaldur Gylfason:	Credit Policy and Economic Activity in Developing Countries: An Evaluation of Stabilization Programs Supported by the IMF, 1977-79. 49 pp.	285. Ronald Findlay and John D. Wilson:	The Political Economy of Leviathan. 28 pp.
269. Lars E.O. Svensson:	Currency Prices, Terms of Trade, and Interest Rates: A General Equilibrium Asset-Pricing Cash-In-Advance Approach. 36 pp. (Also as Reprint No. 271)	286. Lars Calmfors:	The Roles of Stabilization Policy and Wage Setting for Macroeconomic Stability - The Experiences of Economies with Centralized Bargaining. 43 pp. (Also as Reprint No. 292)
1984		287. Ole Risager:	Devaluation, Profitability and Investment: A Model with Anticipated Future Wage Adjustment. 26 pp.
270. Lars Calmfors and Henrik Horn:	Classical Unemployment, Accommodation Policies and the Adjustment of Real Wages. 35 pp. (Also as Reprint No. 283)	288. James R. Markusen and Lars E.O. Svensson:	Factor Endowments and Trade with Increasing Returns Versus Constant Returns to Scale. 34 pp.
271. Henrik Horn:	Trade Union Determined Wages, Unemployment and the Size of the Public Sector. 34 pp.	289. Refik Erzan and Samuel Laird:	Intra-Industry Trade of Developing Countries and Some Policy Issues. 34 pp.
272. Lars Calmfors:	Job Sharing, Employment and Wages. 21 pp. (Also as Reprint No. 278)	290. Carl Hamilton:	Economic Aspects of "Voluntary" Export Restraints. 27 pp. (Also as Reprint No. 299)
273. Lars E.O. Svensson and Torsten Persson:	Time-Consistent Fiscal Policy and Government Cash-Flow: A note. 15 pp. (Also as Reprint No. 251)	291. Carl Hamilton:	The Upgrading Effect of Voluntary Export Restraints. 9 pp. (Also as Reprint No. 317)
274. Christopher Findlay:	Optimal Taxation of International income Flows. 14 pp.	292. Harry Flam:	Equal Pay for Unequal Work. 30 pp.
275. Carl Hamilton:	Voluntary Export Restraints. ASEAN systems for Allocation of Export Licences. 22 pp. (Also as Reprint No. 324)	293. Frank G. Barry:	An Optimizing Approach to Factor and Production Subsidies in a Small Open Economy with Classical Unemployment. 38 pp.
276. Carl Hamilton:	Voluntary Export Restraints on Asia: Tariff Equivalents, Rents and Barrier Formation. 30 pp.	294. Frank G. Barry:	Fiscal Policy in a small Open Economy: An Integration of the Short-Run, Heckscher-Ohlin and Capital Accumulation Models. 37 pp.
277. Torsten Persson and Lars E.O. Svensson:	Current Account Dynamics and the Terms of Trade: Harberger-Laursen-Metzler Two Generations Later. 37 pp. (Also as Reprint No. 268)	295. David Brownstone, Peter Englund and Mats Persson:	Effects of Tax Reform on the Demand for Owner-Occupied Housing: A Microsimulation Approach. 32 pp. (Also as Reprint No. 300)
278. Parameswar Nandakumar:	Oil Price Increases and the Structure of Small Open Economies. 52 pp.	296. Andrew J. Oswald:	On Union Preference and Labour Market Models: Neglected Corners. 37 pp.
279. Parameswar Nandakumar:	Supply Side Disturbances, International Competitiveness and Employment. 33 pp.	297. Henrik Horn and Lars E.O. Svensson:	Trade Unions and Optimal Labor Contracts. 32 pp. (Also as Reprint No. 314)
280. Ronald W. Jones:	Income Effects and Paradoxes in the Theory of International Trade. 31 pp.	1985	
281. Stanislaw Wellisz and Ronald Findlay:	Central Planning and the "Second Economy" in Soviet-Type Systems. 27 pp.	298. Assar Lindbeck:	Redistribution Policy and the Expansion of the Public Sector. 41 pp. (Also as Reprint No. 302)
282. Assar Lindbeck and Dennis Snower:	Involuntary Unemployment as an Insider-Outsider Dilemma. 47 pp.	299. Assar Lindbeck and Jörgen W. Weibull:	Intergenerational Aspects of Public Transfers, Borrowing and Debt. 49 pp. (Also as Reprint No. 310)
283. Torsten Persson and Lars E.O. Svensson:	International Borrowing and Time-Consistent Fiscal Policy. 32 pp.	300. Lars E.O. Svensson:	Sticky Goods Prices, Flexible Asset Prices, and Optimum Monetary Policy. 31 pp. (Also as Reprint No. 319)

301. **E.J. Driffill:**
Macroeconomic Stabilization Policy and Trade Union Behaviour as a Repeated Game. 33 pp.
(Also as Reprint No. 286)
302. **R. Jackman:**
Counter-Inflationary Policy in a Unionised Economy with Non-Synchronised Wage Setting. 36 pp.
303. **Torsten Persson:**
Deficits and Intergenerational Welfare in Open Economies. 27 pp. (Also as Reprint No. 279)
304. **Elhanan Helpman:**
Imperfect Competition and International Trade: Evidence from Fourteen Industrial Countries. 35 pp.
305. **John Fender:**
Monetary and Exchange Rate Policies in an Open Macroeconomic Model with Unemployment and Rational Expectations. 26 pp.
306. **John Pencavel:**
Wages and Employment under Trade Unionism: Microeconomic Models and Macroeconomic Applications. 44 pp.
307. **Tor Hersoug:**
Workers vs Government - Who Adjusts to Whom? 44 pp.
308. **Andrew J. Oswald:**
The Economic Theory of Trade Unions: An Introductory Survey. 49 pp. (Also as Reprint No. 285)
309. **Assar Lindbeck and Dennis Snower:**
Strikes, Lock-outs and Fiscal Policy. 52 pp.
310. **Assar Lindbeck and Dennis Snower:**
Labour Turnover, Insider Morale and Involuntary Unemployment. 41 pp.
311. **John McCallum:**
Wage Gaps, Factor Shares, and Real Wages. 34 pp.
312. **Christopher A. Pissarides:**
Dynamics of Unemployment, Vacancies and Real Wages with Trade Unions. 27 pp.
313. **John Fender and Parameswar Nandakumar:**
An Intertemporal Macroeconomic Model with Oil and Fiscal Policy. 39 pp.
314. **Thorvaldur Gylfason and Marian Radetzki:**
Does Devaluation Make Sense in the Least Developed Countries? 33 pp. (Also as Reprint No. 320)
315. **Edmund S. Phelps:**
The Significance of Customer Markets for the Effects of Budgetary Policy in Open Economies. 29 pp.
316. **Peter Englund, Lars Hörngren and Staffan Viotti:**
A Short-Term Model of the Swedish Money Market. 31 pp.
317. **Lars-Gunnar Svensson and Jörgen W. Weibull:**
Bounds on Optimal Linear Income Taxes. 22 pp.
318. **Mats Persson:**
Voting over the Size of Government. 27 pp.
319. **Alan C. Stockman and Lars E.O. Svensson:**
Capital Flows, Investment, and Exchange Rates. 48 pp.
320. **Hans Tson Söderström:**
Union Militancy, External Shocks, and the Accommodation Dilemma. 34 pp.
321. **Assar Lindbeck and Dennis D. Snower:**
Cooperation, Harassment, and Involuntary Unemployment. 52 pp.
322. **A. Sommariva and G. Tullio:**
Inflation and Currency Depreciation in Germany 1920-1923: A Disequilibrium Model of Prices and the Exchange Rate. 35 pp.
323. **Robert M. Solow:**
Insiders and Outsiders in Wage Determination. 28 pp.
324. **Lars Calmfors:**
Trade Unions, Wage Formation and Macroeconomic Stability. 32 pp. (Also as Reprint No. 282)
325. **Henrik Horn and Torsten Persson:**
Exchange Rate Policy, Wage Formation, and Credibility. 41 pp.
326. **David Brownstone, Peter Englund and Mats Persson:**
Tax Reform and Housing Demand: The Distribution of Welfare Gains and Losses. 48 pp.
327. **Wilfred J. Ethier and Lars E.O. Svensson:**
The Theorems of International Trade with Factor Mobility. 29 pp.
328. **Harry Flam:**
Reverse Dumping. 25 pp.
329. **Lars-Gunnar Svensson and Jörgen W. Weibull:**
Efficient Income Taxation in Steady State. 28 pp.
330. **Assar Lindbeck and Jörgen W. Weibull:**
Debt-Financed Transfers, Public Consumption and Public Investment in an Open Economy. 52 pp.
331. **Mats Persson, Torsten Persson and Lars E.O. Svensson:**
Time Consistency of Fiscal and Monetary Policy. 24 pp.
332. **Peter Englund and Lars E.O. Svensson:**
Money and Banking in a Cash-in-Advance Economy. 32 pp.
333. **Thorvaldur Gylfason:**
Rational Expectations, Rigid Wages, and the Real Effects of Monetary Policy. 17 pp.
334. **Ravi Kanbur:**
The Standard of Living: Uncertainty, Inequality and Opportunity. 17 pp.
335. **Jacob A. Frenkel and Assaf Razin:**
Aspects of Dual Exchange-Rate Regimes. 46 pp.
336. **Lars Calmfors and Michael Hoel:**
Work Sharing, Overtime and Shiftwork. 39 pp.
337. **Harry Flam and Elhanan Helpman:**
Industrial Policy under Monopolistic Competition. 35 pp.
338. **Jörgen W. Weibull:**
On the Continuity of Optimal Income-Tax Schedules. 8 pp.

339. Ravi Kanbur and Jan Olov Stråmberg: Income Transitions and Income Distribution Dominance. 16 pp.
340. Henrik Horn and Asher Wolinsky: Wages, Employment, and the Structure of Bargaining. 28 pp.
341. Assar Lindbeck and Jörgen W. Weibull: Balanced-Budget Redistribution as Political Equilibrium. 35 pp.
342. Avinash Dixit: The Cutting Edge of International Technological Competition. 24 pp.
343. C.A. Pissarides: Search, Wage Bargains and Cycles. 31 pp.
344. Assar Lindbeck and Dennis J. Snower: Wage Setting, Unemployment, and Insider-Outsider Relations. 10 pp. (Also as Reprint No. 313)
- 1986
345. Nils Gottfries: A Permanent Demand Theory of Pricing. 21 pp.
346. Lars E.O. Svensson: Fiscal Policy, Sticky Goods Prices and Resource Utilization. 26 pp.
347. Nils Gottfries and Henrik Horn: Wage Formation and the Persistence of Unemployment. 25 pp.
348. Assar Lindbeck: Public Finance for Market-Oriented Developing Countries. 47 pp.
349. Nils Gottfries and Torsten Persson: Empirical Examinations of the Information Sets of Economic Agents. 19 pp.
350. Peter Svedberg: Technology Randomness and Welfare in a High-Dimension Trade Model. 30 pp.
351. Aleksander Markowski and Marian Radetzki: State Ownership and the Price Sensitivity of Supply: The Case of the Copper Mining Industry. 37 pp.
352. Assar Lindbeck and Jörgen W. Weibull: Welfare Effects of Alternative Forms of Public Spending. 38 pp.
353. Ante Farm and Jörgen W. Weibull: Noncooperative Flexible Pricing in a Homogeneous Market. 13 pp.
354. Harry Flam and Ethan Helpman: Trade Dynamics. 49 pp.
355. Robert F. Owen and Stylianos Perrakis: Exchange Rate Uncertainty and Strategic Export Behavior: An International Model of Duopoly. 27 pp.
356. Slobodan Djajic: Effects of Budgetary Policies in Open Economies: The Role of Intertemporal Consumption Substitution. 19 pp.
357. Jeremy Greenwood and Zvi Hercowitz: Investment, Capacity Utilization and the Real Business Cycle. 24 pp.
358. John Driffill: The Consistency of Optimal Policy in Stochastic Rational Expectations Models. 33 pp.
359. Assar Lindbeck and Parameswar Nandakumar: Public Spending and Private Services - Macroeconomic Effects. 26 pp.
360. Assar Lindbeck and Dennis J. Snower: Efficiency Wages versus Insiders and Outsiders. 12 pp.
361. Assar Lindbeck and Dennis J. Snower: Union Activity and Wage-Employment Movements. 13 pp.
362. Lars E.O. Svensson and Sweder van Wijnbergen: International Transmission of Monetary Policy. 42 pp.
363. S.M. Ravi Kanbur: Budgetary Rules for Poverty Alleviation. 16 pp.
364. S.M. Ravi Kanbur: Inequality, Poverty and Development: With an Application to Fiji. 17 pp.
365. Allan Drazen and Zvi Eckstein: On the Organization of Rural Markets and the Process of Economic Development. 27 pp.
366. Allan Drazen: Involuntary Unemployment and Aggregate Demand Spillovers in an Optimal Search Model. 31 pp.
367. Carl Hamilton: Restrictiveness and International Transmission of the "New" Protectionism. 52 pp.
368. Slobodan Djajic: Migrants in a Guest-Worker System: A Utility-Maximizing Approach. 19 pp.
369. Victor Argy: Exchange Rate Policy for a Small Economy. 102 pp.
370. Thorvaldur Gylfason and Assar Lindbeck: Wages, Money, and Exchange Rates: With Endogenous Unions and Governments. 30 pp.
371. Harald Lang: Comparative Statics in Dynamic Programming Models of Economics. 9 pp.
372. Lars E.O. Svensson: International Fiscal Policy Transmission. 38 pp.
373. Jeremy Greenwood and Gregory W. Huffman: A Dynamic Equilibrium Model of Inflation and Unemployment. 38 pp.
374. Jan Winiecki: Why Economic Reforms Fail in the Soviet System - A Property Rights-Based Approach. 40 pp.

Levels of Economic Bureaucracy

Levels of Communist Party Nomenklatura

^x Center includes also certain functional ministries
e.g. finance ministry, technology ministry,
labor and wages ministry and the like

^{xx} Trusts and combines belong to that
rather than to enterprise level

———— superior/subordinate relationship
----- control relationship assured first of all
through nomenklatura

Figure 1

The institutional structure displayed above shows the levels of bureaucracy rendered superfluous by real decentralizing, market-oriented reforms. Dotted lines show also which levels of party apparatchiks lose possibility to get themselves appointed to the well paid jobs covered by nomenklatura in industrial ministries and unions of enterprises.

Figure 2

Changes in the number of directive, i.e. obligatory, indicators in engineering industries in the 1946-1981 period related to imposition of central planning and later attempts at economic reforms and subsequent reform reversals in Poland.