

# The Collapse of Soviet-Type Socialism in Europe and the Lessons for China

SAITO, Minoru / 斎藤, 稔

---

(出版者 / Publisher)

法政大学比較経済研究所 / Institute of Comparative Economic Studies, Hosei University

(雑誌名 / Journal or Publication Title)

Journal of International Economic Studies

(巻 / Volume)

5

(開始ページ / Start Page)

1

(終了ページ / End Page)

19

(発行年 / Year)

1991-03

(URL)

<https://doi.org/10.15002/00002085>

## THE COLLAPSE OF SOVIET-TYPE SOCIALISM IN EUROPE AND THE LESSONS FOR CHINA\*

Minoru SAITO

*Professor, Faculty of Economics, Hosei University*

Following the examples of the Soviet Union and East-European countries, China tried to introduce economic reforms after the disasters of the Cultural Revolution. It seems that China intends to continue experimenting with economic reforms even after the Tian-An-Men tragedy which suppressed mercilessly the appeal for political reform.

However, the recent situation in Eastern Europe showed that attempting economic reforms without political democratization cannot succeed and can lead to the collapse of socialist regimes. If China wishes to learn the lessons from that experience, it will be necessary for China to combine economic reform with political reform, or at least to allow a considerable degree of political relaxation. But after the Tian-An-Men tragedy it has become more difficult for the regime to obtain a popular consensus for reform measures.

### I. The Collapse of Soviet-Type Socialism

#### 1. The Recent Situation in Eastern Europe

Soviet-type socialism, characterized by one-party rule in politics and centralized planning in the economy, was primarily shaped in the Soviet Union in the 1930s under Joseph Stalin. This Soviet-type socialism — in fact far different from the notions of socialism in Marxian theory, which presupposed the advent of socialism as the result of highly developed capitalism — was introduced into Eastern Europe and Asian countries, including China, after the Second World War.

In Eastern Europe, Soviet-type socialism as defined above started, almost simultaneously, around 1948 when the communist parties absorbed the social-democratic parties and thus in a de facto fashion established one-party rule. Immediately after this, all Eastern European countries began their first Five-Year Plans similar to that of the Soviet Union in the 1930s. As a result, I call Soviet-type socialism in Eastern Europe the Regime of 1948. The drastic political changes in Eastern Europe from 1989 on are nothing but the collapse of this Regime of 1948.

I will venture to say that the introduction of this Regime of 1948 in Eastern Europe was in some sense necessary and useful, at least in the initial stage of its introduction. Almost all Eastern European countries (to say nothing of China)

\*) This is a revised version of the article written in Japanese which was originally published in K. Yamanouchi and K. Kikuchi eds. (1990). *Chugoku Keizai no Shin Kyokumen-Sono Kiseki to Tenbou*, Hosei Daigaku Shuppan Kyoku (New Aspects of the Chinese Economy: *The Process of Reform and its Prospects*. Tokyo. Hosei University Press). This book is one of the results of research on Modern Chinese Economy by a study group organized at Hosei University's Institute of Comparative Economic Studies.

were economically less developed than the West, and they were eager to overcome this comparative backwardness by the shortest route. Under the conditions of the Cold War, they had no choice but to adopt Soviet-type socialism, which was supposed to be the best way to attain the above-mentioned aim. Oskar Lange, the famous Polish economist who played a leading role in post-war economic policy-making in his country, admitted in 1957 that the Cold War had brought forth the situation which made all Eastern European countries (then called People's Democracies) imitate the Soviet model of socialist construction.<sup>1)</sup> This model, as pointed by Lange, was in fact the method of a "war economy". Emphasizing the historical necessity of this model, Lange also admitted that a war economy could not be a permanent way to manage the national economy, although in some periods of time it had been necessary and useful.<sup>2)</sup>

Silviu Brucan, diplomat and politician in Romania under the Ceausescu regime, confessed that he was shocked to see that the economic and technical disparity between the West and the East was much wider in 1985 and 1986 when he revisited the United States and Western Europe, than 30 years before when he had been the Romanian ambassador to Washington. As he stated:

by the well-known historical conditions that the socialist revolution started in less developed countries, post-revolutionary governments were forced to industrialize their countries in order to catch up with capitalist countries economically and technologically. As far as the competition concerned the degrees of industrialization, things went well according to the plans; namely, those countries could catch up slowly but steadily with the West attaining relatively higher growth rates. However, the failures in scientific and technological revolution offset everything. Just at the time when in the West new technologies were applied on a large scale and thus resulted in enormous expansion of productive forces, in the East there happened a drastic slowdown of growth rates. This showed nothing but the inadaptability of directive planning system inaugurated by Stalin to scientific and technological revolution.<sup>3)</sup>

This means that Soviet-type socialism, which had been "necessary and useful" in the early stages of industrialization, could not survive any longer. Just after the Second World War, in the short period before the establishment of the Regime of 1948, there were several attempts to create a more democratic and rational regime, called the "Third Way" (differing both from Soviet-type and from the Western-type). It is doubtful whether the Third Way was possible under the conditions of the Cold War, but after Stalin's death in 1953, when the Cold War was gradually beginning to melt away and the initial stage of industrialization in Eastern Europe was coming to an end, there were renewed attempts to improve the existing system to adapt to the changed situation.

Especially in the mid-sixties, when even in the Soviet Union there appeared Kosygin economic reform, various efforts were made to improve the existing socialist system. These experimental reforms were based on the recognition that there were different interests in society. In the Soviet-type of socialism, it was supposed that the state could represent the interest of the society as a whole. Enterprises (almost all of them owned by the state) as the fundamental units of

reproduction were supposed to be mere parts of "one single factory". Thus the interests of individuals as producers as well as consumers were supposed to be perfectly represented by the state. Under these suppositions it would be rational that the state dictate everything through centralized planning, and there would be no need for parliamentary democracy as there would be no conflict of interests.

However, it was evident even in the 1960s that the existing socialist state could not perfectly represent the interest of society as a whole, because it could neither manage the society as "one single factory", nor satisfy the needs of everyone through centralized planning. As Włodzimierz Brus emphasized in his decentralized model of economic management ("a model of a planned economy with a built-in market model")<sup>4)</sup>, at least three different kinds of interests should be defined and coordinated: namely, the interests of state, enterprises and individuals.

Between the state and various enterprises, instead of strictly centralized planning there should be guaranteed autonomy of management for enterprises, thus recognizing (even state-owned) enterprises as independent economic units, while the state should limit its role to maintaining a long-term macro-economic balance for the society as a whole. Roughly speaking, this is the main task of economic reform (reform of economic management and planning). Between each enterprise and its working collective (individuals organized as producers), the difference between interests should be coordinated through workers' participation, collective management or workers' self-management. This means there is a need for democratization in the workplace which has been absent in Soviet-type socialism. And last but not least, between the state and individuals (as citizens) civic rights should be fully guaranteed. This means there is a need for democratization of the society as a whole.

The reform of economic management and planning should be coincident with political reform (democratization), to overcome resistance from the side of the existing planning bureaucracy; and the pursuit for rational economic management should be complemented by elements of workers' self-management to guarantee cooperation from the side of the working force. Therefore, in my view, if the radical reform of the existing Soviet-type socialism is possible, there should be a comprehensive reform integrating those three aspects (economic reform, self-management and democratization), which might lead to an optimal combination of economic rationality and political democracy. However, until the drastic events of 1989, except in the unique and unsuccessful efforts of workers' self-management in Yugoslavia since 1950 and in the unfortunately short-lived Prague Spring for democratization, all other efforts to reform the existing Soviet-type socialism in Eastern Europe (including 1965 Kosygin reform in the Soviet Union) concentrated solely on the partial modification of the existing system of economic management and planning, without any serious step for workers' self-management or the democratization of political system.

Those partial reforms could only be justified temporarily. As far as they were successful in improving people's economic conditions, the political dissatisfaction with the existing system was economically compensated. Once this economic compensation ceases to work, the deficiency of these partial reforms will be seriously felt to the point of real danger for the existing system. Moreover, even those partial reforms implied a lot of theoretical problems hitherto unresolved;

such as the necessity of market institutions in a socialist economy (not only the existence of the mixed economy during the short period of transition but also a considerable long-time coexistence of plan and market), mixed (state, cooperative, individual and private) ownership of the means of production, as well as an acceptable limit for social inequality.

Those problems also implied practical questions; how can a socialist mixed economy work effectively, without damaging the accustomed social benefits and the quality of life hitherto enjoyed; how can the democratization of the work-place be introduced in harmony with economic efficiency, without leading to economic chaos as in the case of workers' self-management in Yugoslavia; and what kind of political reform can be introduced peacefully into the existing system? In addition, the most important question is, if the existing system, already suffering from economic inefficiency and political dissatisfaction, can not successfully reform itself, where is the *raison d'être* of the existing system?

As is well-known today, Soviet-type socialism in Eastern Europe could not reform itself quickly enough (the efforts and failures of individual reforms will be analyzed later). Will this also be the case for China?

## **2. Is There a Chinese Type of Socialism?**

During the 1960s, Chinese communist leaders under Mao Ze-dong in a fierce debate criticized Soviet leader Nikita Khrushchev, accusing that he was trying to turn socialism into capitalism. From 1966 on, the Chinese leadership initiated the so-called "Cultural Revolution". Can we say now that this created a unique Chinese type of socialism clearly distinguishable from the Soviet-type, or should we say that they only tried to maintain and reproduce the old Soviet-type socialism?

When the People's Republic of China started its First Five-Year Plan in 1953, it was under the slogan "Study exclusively the experiences of the Soviet Union". At that time the Chinese leadership tried with all their might to create the same Soviet-type economic and political system in China through centralized administrative-directive planning. The Great Leap Forward (1958-1960) and the Cultural Revolution (from 1966), both initiated and promoted by Mao, were, in my view, the efforts to overcome the inherent contradictions of the Soviet-type socialism through a non-Soviet, uniquely Chinese style, emphasizing self-conscious activity of Chinese people themselves.

After Mao's death in 1976 and the official denouncement of the Cultural Revolution, it seemed that China was once again following the path of Soviet-type socialism, adding to this prototype the experiences of the more recent partial reforms of the Soviet Union and Eastern Europe. After I visited China for the first time in 1979, I wrote my impressions of China as follows:

After the death of Mao Ze-dong, and after the arrest of the Gang of Four, China at last reached the stage where it could begin to criticize Mao as the Stalin of China. But in those twenty years since Mao blamed Liu Shao-qi as the Khrushchev of China, there have been considerable experimentation with partial

reform in the Soviet Union and in Eastern Europe. The necessity for reform objectively existed also in China, but its start was hampered by the Cultural Revolution. Therefore, present-day (1979) China is experiencing simultaneously the revision of economic policies, the criticism of Stalin (Mao), the debates on economic reform, the reappraisal of the Yugoslav workers' self-management, "Prague Spring" and its reversal, all in a highly compressed form.<sup>5)</sup>

Looking back on the time of the First Five-Year Plan, was there in China the urgent necessity to imitate the forced industrialization adopted in the Soviet Union in the 1930s? This question was indeed raised at that time, asking whether it was necessary for China to speed up industrialization. After all, China was then enjoying aid from the Soviet Union and East-European countries, and thus in a more favourable international situation than the Soviet Union was after the October Revolution. To this question replied Li Fu-chun (then the chief of the Chinese State Planning Commission), saying that China inherited backward economic conditions and was surrounded by vicious imperialism. Under these conditions, it was necessary for China to speed up industrialization. If not, there would be real danger not only to the construction of a socialist society in China but also of losing economic and political independence as a result of aggression by imperialist countries.<sup>6)</sup>

As is well-known, just at the end of the First Five-Year Plan, among the leadership of the Chinese Communist Party, there arose a struggle concerning the course of further economic construction. At the Eighth National Congress of the Party held in September 1956, a faction led by Liu Shao-qi temporarily won by criticizing the "rushed advance" promoted by Mao. Liu at that time proposed that the primary task should be to widen democracy and to struggle against bureaucratism, appealing to non-communist intellectuals to criticize the defects and errors of the communists. For that purpose, from May 1957 the Party initiated the so-called period of a "Hundred Flowers" (when it was said that one hundred flowers would flourish together and one hundred thoughts would be debated together). However, this revealed the fact that the antipathy against the Communist Party among those intellectuals was much stronger than expected, pointing that there was neither real socialist democracy nor quasi-democracy as in capitalist countries.

Facing this, another faction led by Mao demanded a counter-attack on those criticisms, blaming the intellectuals as "right wing elements". This time, the majority of the communist leadership including Liu's faction followed Mao in changing the course from the Hundred Flowers policy to the "Struggle Against the Rights". At this point a sense of crisis for the communists' rule united the Party. This was a favourable wind for Mao who used it to counter-attack the opposition group within the Party. An extraordinary second session of the Eighth Party Congress confirmed Mao's victory against Liu, which led later to the Great Leap Forward and the Cultural Revolution.

The Cultural Revolution was finally brought to an end in 1976, after the first Tian-An-Men Incident in April and Mao's death in October, followed by the arrest of the Gang of Four. The Cultural Revolution was then called in China "the Disaster of Ten Years", indicating the period from its start in 1966. But later there

was another expression, “the Disaster of Twenty Years”, which implies that the disaster had started from Mao’s victory over Liu.

However, it would be a mistake if Liu’s course is over-estimated. Between Liu and Mao there was no difference concerning the necessity of the rule of the Party, therefore they united in the struggle against the Right. The difference between them was, that Liu intended to adopt Khrushchev-type mini-revision of economic policy in order to maintain the existing regime, while Mao insisted on idealizing the war-time Yunan experiences.

Had the experiences of the Cultural Revolution left China anything different from the original Soviet-type socialism? Undoubtedly, it had brought to the Chinese economy extremely destructive results. If there were no favourable non-economic outcomes from the experiences of the Cultural Revolution, then it was clearly nothing but a grandiose waste of time and one could say there really are no original elements in Chinese socialism. This would suggest that China has no prospect other than to follow the example of Soviet socialism being several steps behind. However, it would be worth while to point out the fact that so many common Chinese people joined the Cultural Revolution, which we cannot explain solely from the personal authority of Mao. Many Chinese people showed then their dissatisfaction with protest against the growing social imbalances and bureaucratism under the leadership of Liu Shao-qi. If socialism should be based on the self-consciousness of the millions of people, the experiences of that time might add something to Chinese socialism.

## **II. The Failures of Intra-Regime Reforms in Eastern Europe**

As I stated before, if radical reforms of the existing Soviet-type socialism were possible, it should be a comprehensive reform integrating three aspects (the reform of economic management and planning, workers’ self-management, and the democratization of the political system), which might lead to an optimal combination of economic rationality and political democracy. However, there have been only partial reforms such as: (1) the unique and unsuccessful efforts of workers’ self-management in Yugoslavia since 1950; (2) the unfortunately short-lived Prague Spring for democratization of Czechoslovak society in 1968; (3) the New Economic Mechanism in Hungary as a forerunner of economic reforms which was not able to prevent the collapse of Soviet-type socialism; and (4) the recurrent failure of reforms in Poland (it seems that the Soviet Union under Gorbachev is following the Polish pattern). The main characteristics of each of these intra-regime reform experiments are shown briefly below.

### **1. Self-Management in Yugoslavia**

As is well-known, Yugoslavia under Tito, which had actually been the first to introduce Soviet-type socialism into Eastern Europe, was expelled by Stalin from

the Eastern bloc in 1949. After that the Yugoslav leadership earnestly tried to find their own identity as a socialist country, criticizing Soviet-type socialism as Stalinist bureaucratic state socialism. They claimed that they rediscovered Marx who had insisted that post-revolutionary state should gradually die away and that the workers should be the genuine masters of the future society instead of the bureaucrats. On 27 June 1950 the Fundamental Law on Workers' Self-Management was adopted by the Yugoslav parliament, and since then working collectives of "socially-owned" (not state-owned) enterprises could elect workers' councils, which had the right to manage all the affairs of their enterprises through managing committees elected by the workers' councils.

Decision-making was thus decentralized to the enterprise level, so central planning was to be abandoned. Later, since the beginning of the 1960s, various reform measures in the sphere of economic policy were introduced to conform to the system of workers' councils. This process led to the development of a form of "market socialism".

However, workers' self-management in Yugoslavia was introduced under the one-party rule of the Yugoslav League of Communists and, in this respect, was not far from the political system under Stalin. It is true that there existed an ideal of the transition from one-party rule to some kind of direct democracy, but the actual political process in Yugoslavia was always inclined to centralize political power, whenever political and economic difficulties arose. Dr. Ivan T. Berend (then Rector of Budapest University of Economics, later President of the Hungarian Academy of Sciences) once told me that he had thought in 1956 that the workers' councils system should be introduced also in Hungary, but after twenty years he found that behind the Yugoslav system there was a strong tendency for political centralization.

In the 1960s, when further measures to enhance "market socialism" were taken, such as the abolition of the control of wages and the liberalization of foreign trade, Yugoslav economic conditions worsened due to the lack of macro-economic balance, resulting in a galloping inflation. There were three possible counter-measures at that time, namely: (1) reviving the centralized control of economy, considerably restricting not only "market socialism" but also workers' self-management in order to restore macro-economic balance; (2) on the contrary, enhancing "market socialism", on the ground that the reason for economic difficulties was not the lack of central control but the malfunctioning of the market mechanism; (3) sticking to the principle of the workers' self-management, whatever the economic results would be.

The first countermeasure was rejected in principle, and Tito adopted the second and the third countermeasures combined. But after Tito died, things got worse and worse with an astronomic rate of inflation, leading Yugoslavia into economic chaos. As Milovan Djilas (once vice-president under Tito) said, "the only thing that functioned under Tito was Tito"<sup>7)</sup> The Yugoslav self-management system, which lacked a sufficiently rational system of economic management that could combine workers' self-management with macro-economic efficiency, and lacked a democratic political system which could have replaced one-party rule, was destined to failure. However, this failure is precious from the viewpoint of learning how to combine economic rationality with workers' fundamental rights at the workshop



level.

## 2. "Prague Spring" in Czechoslovakia

At the beginning of the 1960s, in relatively highly industrialized Czechoslovakia the administrative-directive system of economic planning resulted in an abrupt worsening of economic performance. This demanded a radical re-examination of the past economic policies since the introduction of Soviet-type socialism around 1948. This re-examination brought a fairly market-oriented economic reform in 1965, which in turn clarified the urgent need to eliminate the political obstacles to the success of the reform.

Just after the first tentative reform measures were interrupted by political opposition in 1961, the Czechoslovak economy experienced a sharp deterioration, and marked in 1963 a clear recession for the first time under the system of a planned economy. Many Czechoslovak economists (including Ota Sik, who was at that time the head of the Institute of Economics of the Czechoslovak Academy of Sciences) argued that these negative phenomena were the inevitable result of the administrative-directive planning. The Third Five-Year Plan (1961-1965) in progress was abandoned, and a radical economic reform was introduced which was intended to create "normal market conditions" in the sphere of external trade, domestic trade and investment. The reform affected favourably overall economic growth, but the introduction of a flexible price system as a key part of the reform enabled the monopolized large state enterprises to raise prices easily. This resulted in an inflationary price spiral in 1967-1968.

Meanwhile, the advance of economic reform measures sharply confronted the traditional administrative institutions and bureaucrats, and a radical political changes were clearly needed. Thus the Action Programme of the Communist Party of Czechoslovakia, adopted in April 1968, pointed that the previous economic policies based on the directive-administrative method had resulted in economic imbalances, inefficiency, and stagnation and deterioration of people's living standard. It further suggested that the deeper reason why the out-dated economic management system had survived was due to a distortion of the political system, a lack of a timely widening of socialist democracy, and a degeneration of revolutionary dictatorship into bureaucratism, which hampered progress in every sphere of Czechoslovak life. Therefore, the democratization of political life, above all the denial of one-party rule was the necessary and inevitable pre-condition for the success of economic reform.

The democratization of political life began with the abolition of censorship, which enabled open criticism of the Communist Party. On the other hand, the Soviet Union under Brezhnev accused this "Prague Spring" democratization as a movement of counter-revolution like that in Hungary in 1956. On the night of August 20, 1968, six hundred thousand armed forces of five Warsaw Pact countries led by Soviet military commanders invaded Czechoslovakia. After that, as early as the next month censorship was revived and the Communist Party of Czechoslovakia under Gustav Husak expelled from its rank about half a million reform-minded

communists, including the ex-First Secretary Alexander Dubcek.

The suppression of Prague Spring was a serious mistake not only for Czechoslovakia but for all countries with Soviet-type socialism. In the midst of Prague Spring the famous "Manifesto of 2000 Words" warned the Communist Party that it was the last chance for the Party to rehabilitate itself, which later proved correct. The accumulated dissatisfaction of the Czechoslovak people discredited the Communist Party which could not maintain voices of the reform under its own leadership. All over Eastern Europe, the democratization of the political system was strictly banned and any reform of the economic system which might extend into the political system was blocked. This in turn made even the economic reform measures inadequate.

Time had been too short for the Czechoslovak reform experiments to show their feasibility. In particular, during Prague Spring the reformers intentionally postponed measures to guarantee the active participation of workers in the management of their enterprises, to avoid over-burdening the newly-formed workers' councils. Due to that, the Czechoslovak reforms in 1968 are often characterized as "technocratic" reforms, which might have contributed to the passive attitude of the Czechoslovak workers in contrast to that of the intellectuals with respect to both the reforms and the Soviet invasion.

However, as Jiri Kosta who assisted Ota Sik in Prague Spring wrote,

Czechoslovakia was the first among those countries under the Soviet influence that tried to integrate the elements of self-management into the decentralized system of economic planning, at a relatively high degree of industrial development in addition to attempting to maintain non-capitalist forms of ownership. In comparison to Yugoslavia, there were considerable sufficient pre-conditions for success. But Czechoslovakia could not finish its experiments. That was because the Soviet leadership feared that the Czechoslovak experiments would spread to other countries such as East Germany, Hungary, Poland and even the Soviet Union itself. The long experience in Yugoslavia of self-management and the short-lived germ of democratization in Czechoslovakia in 1968 showed both the problems and the possibilities for the solution to the integration of planning and self-management under socialism.<sup>8)</sup>

Jiri Kosta wrote this in 1974, hoping that Czechoslovak "socialism with a human face" would revive someday. However, today it seems too late not only for Soviet-type socialism but also for any type of socialism to survive in Czechoslovakia after twenty years of resistance to real reforms.

### **3. Economic Reform in Hungary**

The original conception of Hungarian economic reform was born during the first Imre Nagy government of 1953-1955, but after 1956 the debate on economic mechanism would not regain momentum until 1963. The debate resulted in the actual introduction of the so-called "New Economic Mechanism" in 1968. At that

time Hungary was very cautious concentrating the debate on economic policy, avoiding any references on political reform. There might be two main reasons of this cautiousness: first, Hungary had already experienced Soviet military intervention in 1956, and so the Hungarian leaders had, after that, taken the greatest care not to irritate the Soviet leaders. Moreover, it was increasingly clear that the Czechoslovak political reforms at that time were under mounting pressures from the outsiders.

Second, after 1956, especially since the end of 1961 when the Hungarian party leader János Kádár declared that “those who are not against us are with us”, there were a considerable degree of political relaxation and a mood of reconciliation in Hungary. This was supposed to guarantee a favourable political climate with which it would be possible to introduce a radical economic reform without accompanying further political reform measures.

With respect to the issue of workers’ participation, a Yugoslav type of workers’ councils had been spontaneously organized in Budapest during 1956 but suppressed thereafter. In 1977 when I visited Budapest, Rezső Nyers (who was called the “Father of Hungarian Economic Reform”, for he was responsible for the introduction of 1968 economic reform as Secretary of the Party in charge of economic policy) answered clearly to my question that it was impossible in Hungary to introduce the system of workers’ councils because of objections from the Soviet Union.

Thus Hungary initiated its economic reform in 1968 with no radical democratization of political life, retaining one-party rule without any promise of political pluralism, nor any kind of workers’ self-management. This was possible because at that time there existed in Hungary a certain degree of social consensus, neither to retreat to the pre-1956 state of affairs nor to repeat the bloodshed of 1956. This consensus was in a way reflected in the editorial article of the official “New Hungarian Quarterly” in 1986, which pointed that “in these thirty years many of the demands of the autumn of 1956 have not only been fulfilled but overfulfilled by far”.<sup>9)</sup>

However, after the remarkable success of its initial stage, Hungarian economic reform confronted many difficulties, especially when the reform entered its second decade. Those difficulties might be partly due to the fact that the 1968 Hungarian reform was a half-way reform with respect to the utilization of market mechanism, and partly due to the fact that international competition in the world market was too severe for the over-protected Hungarian industry. Rezső Nyers warned in 1984 that the slow-down of the reform process on the plea of those difficulties might melt down the “capital” of political trust, but for further reform hitherto accepted social policy achievements (such as job security and price stability) would have to be questioned. As Nyers wrote,

The solution of the topical economic policy tasks involves three problems: first, management practice under changing circumstances requires broad political backing; second, transitional social tensions are to be expected in factories and enterprises; third, the task can only be solved with a wide social support..<sup>10)</sup>

Here arose again the need for political reform in Hungary. There seemed to be

several reasons for that. First, political trust for the post-1968 regime under János Kádár which had existed at the initial stage of economic reform was gradually melting away during those two decades, and it was necessary for any further reform to regain popular support by a radical political change. Second, as Nyers pointed, further pursuit for improving economic efficiency would endanger social achievements previously considered as guaranteed. János Kornai once stated that there were contradictions between the efficiency conditions on the one side, and the ethical principles of socialism such as solidarity and security on the other, and “one of the best qualities of Hungarian practice in recent years might be that it has not sought at all to create the illusion of having found a final solution, but assumes the task of experimenting and exploring ways and means”.<sup>11)</sup>

Third, as far as Hungarian economic performance had been favourable (as in the first five years since the introduction of the reform), a kind of “economic compensation” worked, in a sense that popular dissatisfaction caused by the lack of wider democratic rights might be compensated partly by relatively available consumer goods. But under the conditions of economic difficulties, the need for “political compensation” must emerge. In order to persuade people to cooperate with the regime even at the sacrifice of their own living standard, the regime needs to gain legitimacy as the genuine representative of people’s interests through democratizing the political life.

Fourth, any economic reform in a socialist system has to be accompanied by a radical political change, because the system in itself integrates economy with politics. A market-oriented socialist economy (if possible) cannot be compatible with a Stalinist-type political system, which was compatible only with an administrative-directive method of economic management. In that sense, the inherent deficiency of the Hungarian 1968 reform should have become obvious in due time, whatever the economic performance might have been.

It was too late also for Hungary to initiate political reform from above. Since 1988 under mounting criticism against the ruling Socialist Workers’ Party by the mushrooming independent political parties and organizations, the Party rapidly lost its influence. Finally, after the first free election since 1948 held in March, 1990, a conservative coalition government emerged in Hungary which rejected any sort of socialism.

#### **4. Recurrent Failure of Reform Trials of Poland**

In Poland, with much debate and several attempts to introduce economic reform since 1956, no effective reform measures had been found to work within the framework of the socialist system. According to Janusz Zielinski, in the 1950s and 1960s there were four basic periods to consider: 1956-1959 was the period of emerging conceptions of reform; 1959-1965 saw interim debate and partial attempt at reform; and after 1965 reform measures were gradually introduced. But the March event at Warsaw University in 1968 and the first Gdansk uprising in 1970 forced the regime under Gomulka (since 1956) to collapse together with the reform measures. The period after 1971 (which ended with the emerging of “Solidarity” movement in

1980) was defined by Zielinski as the period of promise of reform of the regime under Edward Gierek.<sup>12)</sup>

After the collapse of Gomulka regime, the Polish government renewed the attempt for reform by introducing a new economic and financial system in 1973. But this was also destined to fail facing with nationwide waves of protest in June 1976. P.G.Hare and P.T.Wanles compared the successful introduction of the 1968 reform in Hungary with the failure of Polish 1973-1975 reforms as follows. First, Poland intended to introduce economic reform without reducing the strain of high economic growth, which led to larger domestic and external imbalances, causing popular dissatisfaction. Meanwhile in Hungary, the Third Five-Year Plan (1966-1970) intended only to sustain steady economic growth, maintaining domestic and external balances, and so grave social tension was avoided in Hungary at the introduction of the 1968 reform. Second, the "guided-market model" was introduced at the beginning of 1968, completely abandoning the traditional administrative-directive planning. In contrast, in Poland the 1973-1975 reform was a mixture of traditional and new systems, and Polish policy-makers easily lost their self-confidence once faced with difficulties. This led eventually to sweeping retreat from the reform measures.<sup>13)</sup>

The recurrent failure of reforms brought a critical situation in 1980. In the summer of 1980 the newly-formed independent trade-union movement "Solidarity" sharply criticized the Polish government led by the Polish United Workers' Party for the failure of reforms, and demanded that the government resolve the accumulated grave problems immediately in one lump. At that time the Polish regime had to cope with insurmountable tasks: to introduce democratization of the political system similar to that of the Prague Spring, to duplicate the Hungarian model of economic reform, and to introduce the Yugoslav model of workers' self-management. Finally, all of these were to be accomplished during the existing economic crisis.

The Polish regime, since 1981 under General Wojciech Jaruzelski, in which the majority was reluctant to introduce radical political reform, gave priority to overcoming the impending economic crisis at any cost, and decided to declare martial law. This was, of course, also partly to avoid the possible Soviet military intervention. However, in order to overcome economic crisis the regime needed wider popular support for the inevitable austerity measures, which could not be obtained by force.

After the cancellation of martial law, in 1987, the Polish regime proposed a plebiscite for the second stage of economic reform (the first stage was said to have been introduced previously during the period of martial law) and for political democratization, but could not get the needed support from the voters. From the beginning of 1989, the Polish regime was forced to re-open the dialogue with Solidarity, and promised to carry out partial (only for the Polish Senate) free election. The result of the free election was the sweeping victory of Solidarity candidates (they gained 99 seats out of 100), which led to the forming of the Tadeusz Mazowiecki (one of the advisers of Solidarity) government in September 1989.

The old Polish United Workers' Party was seriously weakened and split into two factions both claiming social-democratic tendencies, while the Solidarity movement

also split into two. A worker-based populist tendency brought Lech Walesa (chairman and symbol of Solidarity) forward as a Presidential candidate, the intellectuals recommending Mazowiecki for the same post. The Presidential election showed the victory of Walesa, but the result also indicated the growing political instability in Poland.

### **III. Lessons for Economic and Political Reform in China**

#### **1. Economic Reform and Need for Democratization in China**

At the time of the Plenum of the Central Committee of the Communist Party of China held in December 1978, which implicitly denounced the Great Leap Forward and the Cultural Revolution, the editorial article of Chinese magazine "Jingji Yanjiu" ("Economic Studies") discussed the situation:

We cannot simply substitute philosophy for economic science...

To diffuse and advance economic science we must carry through the course of "Hundred Flowers" and encourage people's democracy...

Before the Cultural Revolution we had experienced lively debates around many theoretical problems concerned with socialist construction in China...

However, in the past Lin Biao and the Gang of Four enforced us an obscurantist policy on the pretext of maintaining secrecy against the enemy and informed our people of nothing about the real internal and external state of affairs... We must inform people of the real state of affairs of our national economy. This is not only necessary to develop economic science, but also, more importantly, it would be profitable for our people to exercise their fundamental rights as the genuine masters of society to govern the state and to manage the economy.<sup>14)</sup>

In the following reform debates, some tried to define three kinds of reform; namely, "small", "medium", and "big" reforms. "Small" reform was meant to indicate partial revision of previous policies and institutions, maintaining the core of Soviet-type socialism, such as had been done in Romania under Nicolae Ceausescu. "Medium" was the Hungarian type of reform, which radically changed the economic management system, while maintaining a one-party rule in politics. "Big" reform was the Yugoslav type of reform, combining workers' self-management with a radical economic reform.

Such a definition implied that "small" reform was insufficient and China had to start from the Hungarian type of economic reform, then to try to adopt the Yugoslav type, introducing workers' self-management of enterprises. Possibly in that sense, "Jingji Yanjiu" in its February 1984 issue (eight month before the adoption of the Resolution on the Reform of Economic System) published two articles on Hungarian reform; "Report of Inspection of the Hungarian Economic Reform" by a Chinese delegation of economists of the Academy of Social Sciences of China, and "Experiences of Hungarian Economic Reform" written by Rezső Nyers. Again in the next month "Jingji Yanjiu" included a report "Inspection on

the Financial System in Hungary” by a Chinese financial inspection team.

Comparing with the intra-regime reform experiments in Eastern Europe which I mentioned earlier, it is evident that in China at that time there was little reference to the necessity of political democratization (especially, the need to abolish one-party rule) similar to that proposed in the Prague Spring. In reality, especially in the latter half of the 1970s, also in China various demands for democratization were boiling out through the temporarily guaranteed freedom of expression, symbolized, for example, by the so-called “Democracy Wall” in Peking. When I first visited China in April 1979, wall posters in Peking and Shanghai were rich in contents with criticism against Mao, debate on economic policy, reproaches against the privileges of Party officials and military personnel, as well as dissatisfaction from the youth who had been sent to the frontier during the Cultural Revolution. However, soon after this brief period, wall posters were restricted and Democracy Wall was shut down.

The above-mentioned Resolution on the Reform of Economic System (adopted in October 1984 by the Central Committee of the Communist Party of China) stated, concerning urban reform, the following:

In the main we should finely resolve two kinds of relations; namely, to establish right relations between the state and the nationalized enterprises in order to enlarge the autonomous decision-making of the enterprises, and to establish right relations between the workers and enterprises in order to guarantee for the workers their status as masters.<sup>15)</sup>

As I stated before, in the existing socialist states there are at least three kinds of different interests to be coordinated; namely, the interests of state, enterprises and individuals. The above-mentioned Resolution proposed, bearing in mind similar needs, the introduction of economic reform centering on the guarantee of autonomous decision-making for the state-owned enterprises in relation to the state, and the introduction of workers’ self-management. However, there was still no mention of the need for political democratization in relation to the party-state.

This is not the place to examine minutely the process of Chinese economic reform since 1984. Here I quote the analysis of Professor Kazuyoshi Uehara of Kyoto University. He compared the Chinese reform with that of the Soviet Union and summarized that “the characteristics of the Chinese reform are, audacious but inconsistent economic reform on one side, and lagged political reform on the other”. Chinese economic reform started from only a partial sphere of the economy, which soon became incompatible with other branches, and the reform process gradually developed in other branches and spheres through trials and errors. So to say, Chinese reform began as an emergency evacuation from the economic and political disasters brought from the notorious Cultural Revolution, and so China was forced to navigate without a correct compass, searching gradually on the way for the right direction. As a result, in China today old and new mechanisms exist together. As to politics, Chinese reform has a rigid limit of “Four Basic Principles”, and so political reform is severely restricted and postponed in practice. The Four Basic Principles were first mentioned by Deng Xiaoping in March 1979, and they included the “Road to Socialism”, “People’s Democratic

Dictatorship”, “Leadership of the Communist Party” and “Marxism-Leninism and Mao Ze-dong’s Thought”. Those are ambiguous phrases, but one thing is clear: leadership of the Communist Party is unshakable.<sup>16)</sup>

Thus Chinese reform since 1984 under the leadership of Deng Xiao-ping became more and more inclined to a one-sided emphasis on the development of economic forces and to a severe restriction of demands for democratization. Professor Susumu Yabuki of Yokohama Municipal University, who had been a supporter of the ideas of the Cultural Revolution, criticized this situation as a “socialism limitlessly close to capitalism”. He wrote in 1986, that;

Deng Xiao-ping is advocating the construction of a socialism with Chinese characteristics, but its meaning is excessively inclined to the theory centering on productive forces... It seems that he intends to create a system which might manage its economy with capitalism, and govern with socialism. Here socialism means nothing but the leadership of the Communist Party. As a result, China is pursuing capitalism in its economic management but cannot become capitalism at all...<sup>17)</sup>

Since December 1986, Chinese students issued demands to democratize political life. This intensified the inner-Party conflict and resulted in the dismissal of Hu Yao-bang from the post of General Secretary of the Communist Party in 1987. After that, newly-appointed General Secretary Zhao Zhi-yang reaffirmed the limit of political reform.

With the development and the deepening of the reform of the economic system the reform of the political system is needed more and more keenly. The process of the development of a socialist commodity-economy must be at the same time the process of the construction of a socialist democratic political system. Without the reform of the political system, the reform of the economic system cannot be successful in the end...

The construction of a socialist democratic political system is, just like the development of a socialist commodity-economy, a gradual process piling up step by step. Our construction of a modern society needs a stabilized social and political environment, facing complicated social contradictions. So we absolutely deny “big democracy” which will destroy law and order and destabilize our society.

It is our merit and strength that we have the Congress of People’s Representatives, multi-party political consultation system under the leadership of the Communist Party and the administration on the principle of democratic centrism. It will be absolutely prohibited to abandon this merit and strength and to copy the Western-style separation of the three powers and the rotation of political powers between plural parties.<sup>18)</sup>

Two years later, at the occasion of Gorbachev’s visit to China, Chinese students once again organized mass demonstration demanding the democratization of political life which resulted in the Tian-An-Men tragedy in June 1989. As is well-known, immediately after that Zhao Zhi-yang was also dismissed from the post of



General Secretary. He was accused of putting the Party in the danger of split by hesitating to suppress the students' demonstration. Undoubtedly the Party had a sense of crisis that if the monolithic rule of the Party disappeared there would be a chaos in China, and so criticism against the Party was "absolutely prohibited". However, the absence of democratization also suggests the danger of a chaos to come.

## **2. "Some Lessons of the Hungarian Experience for Chinese Reformers" by János Kornai**

As mentioned above, it is clear that Chinese reformers bore in mind the Hungarian reform model when they promoted the Resolution on the Reform of the Economic System in 1984, because the Hungarian model seemed to pursue economic efficiency successfully, maintaining the previous political system of one-party rule. Professor Keiji Ide of Ritsumeikan University pointed out the characteristics of the 1984 Resolution as follows:

First, Chinese reform model intended to change government management on state enterprises gradually from direct control to indirect control as in Hungarian-type reform. In that sense it was the fourth trial of reform in the socialist states next to Yugoslavia, Hungary and Poland.

Second, in the Chinese reform model, the basic direction of reform (reduction of directive planning and expansion of guided planning) was clear, but ambiguous with respect to the actual relative weights between directive planning, guided planning and market regulation...

In that sense no real consensus existed for the reform model. So, the Resolution could imply both the Hungarian-type and a reform which substantially maintained directive planning.<sup>13)</sup>

On September 1985, the Chinese Academy of Social Sciences together with the World Bank invited János Kornai to China to participate in a conference on the reform of the economic system. Then Kornai prepared a typed report of 56 pages with a title "Some Lessons of the Hungarian Experience for the Chinese Reformers". Defining himself as a "convinced supporter of (Hungarian) reform ideas and at the same time a rather critical observer of the present (Hungarian) situation", and admitting the existence of very great differences between China and Hungary, Kornai emphasized the "meaningfulness" of comparative analysis.<sup>20)</sup>

Though Kornai made no direct comparative analysis, we must pay attention to the points he made concerning the Hungarian experience. Mentioning the existence of "mixed-combined forms of non-private and private ownership and activity", Kornai himself raised the question:

Does the application of the ways and forms described above lead to abandoning socialism and adopting capitalism? My answer is no. ...

Ownership is not the main criterion when determining whether a system deserves the name to be called "socialism". In the normative sense socialism should be a

system where production is efficient and the standard of living, the quality of life is improving. Justice prevails, equal chances are given to everyone. Society helps the disabled, the sick. Economic planning plays an important role in the rational allocation of resources. All these desiderata are fully compatible with some domain of private activity and private ownership.<sup>21)</sup>

As I stated before, the absence of democratization means the danger of a chaos to come, especially when the economic reform does not bring the expected results. This was also the Hungarian case. Kornai explains:

What is the relationship between the present (Hungarian) troubles and the reform? Opinions differ. I (Kornai) agree with those who believe that the troubles are not because of the reform but in spite of it...

To the regret of the adherents of the (Hungarian) reform, there is a wrong — but very convincing — thought at hand: since troubles and reform coincided in time, reform must be the cause of the trouble...

The present economic difficulties in Hungary do not help the reform process. There is an important lesson for other countries. Better to be cautious in goal-setting, striving only for modest growth of output and standard of living — and keep this pace persistently. An unsustainably fast increase at the beginning followed by a slowdown or decline undermines the popularity of the reform. The “moral capital” built up in the good years can be easily eroded in the bad years.<sup>22)</sup>

In the last paragraph of his report Kornai concluded as follows:

It is highly desirable to have a long-term plan for the institutional changes, i.e. an all-embracing strategy of the more important measures and a blueprint of the system which should be created at the end...

The Hungarian reform did not have and still does not have such a strategy and blueprint; the various individuals and groups have rather differing visions of the future...

This partly a matter of constructive discussions which could explore the alternative solutions and eventually lead to common understanding. This author (Kornai) is however not as naive as to believe, that all differences can be eliminated by argumentation appealing at nothing but rational considerations. There are conflicting social forces, different interest groups, there is political power struggle.

Still the outside observer who does not know the Chinese circumstances well cannot exclude the optimistic scenario of a wide national consensus supporting a common plan of reform.<sup>23)</sup>

This optimistic scenario could not be realized, neither in Hungary after 1988 nor in China particularly after the Tian-An-Men tragedy of June 1989. Even before the Tian-An-Men tragedy, Professor Uehara coolly analyzed the situation as follows:

The progress of Chinese reform would result in many conflicts and contradictions.

For example, the enlargement of enterprise autonomy and the emphasis on the responsibility of the managers are incompatible with the acquired privileges of cadres of the Party and the government. Moreover, there is a question whether the workers would bear the hardships of the negative incentives such as bankruptcy and unemployment. On the other hand, there are those intellectuals and students who intend to develop the reform from the economy to the politics and ideology. No doubt they were hated by the cadres. With this for a background, the dismissal of Hu Yao-bang (January 1987) occurred...

It may be possible to say at least two points from this process: first, Chinese reform has a definite limit in the sense that the reform is clearly centering on the economic efficiency, and the political reform is admitted as far as it is needed to stimulate efficiency...

Second, it is reaffirmed that the economic reform thus defined should be continued as before...

Today China has to pursue economic efficiency with very difficult tasks to harmonize economic efficiency with the ethics of socialism.<sup>24)</sup>

As we saw in the cases of Eastern Europe, economic reforms needed wider popular supports in order that the regime could persuade people to bear even temporary hardships. There is a serious danger also in China that economic reforms which maintain the previous political system of a rigid one-party rule cannot attain the expected success. Without any serious efforts of democratization, but with recurrent suppression of democratization movement, there would be accumulated the political dissatisfaction. This political dissatisfaction could be enhanced by disillusioned economic dissatisfaction of common people because of the failure of the economic reforms. Thus the needs for political reform, the needs for democratization, first of all the needs for radical change of the existing political system (the one-party rule of the Communist Party of China) are clear also in China.

#### Notes

- 1) Lange (1974), p.105.
- 2) Ibid., p.108.
- 3) Brucan (1989), p.3-4.
- 4) Brus (1972), Chapter 5.
- 5) Saito (1979), p.90.
- 6) cited in Uehara (1972), p.51.
- 7) *International Herald Tribune*, January 18, 1988.
- 8) Kosta (1974), concluding part of Chapter 5.
- 9) Saito (1989), p.259.
- 10) Nyers-Tardos (1984), pp.17-18.
- 11) Kornai (1986), p.136.
- 12) Zielinski (1973), pp.14-15.
- 13) Hare and Wanles (1981), pp.491-517.
- 14) *Jingji Yanjiu* (Economic Studies), December 1978, pp.6-7.

- 15) *Peking Weekly* (Japanese Edition), 30 October 1984, Appendix p.5.
- 16) Uehara (1989), pp.54-57.
- 17) Yabuki (1986), p.20.
- 18) *Peking Weekly*, 10 November 1987.
- 19) Ide (1988), p.218.
- 20) See Kornai (1985), pp.2-3.
- 21) *Ibid.*, p.37.
- 22) *Ibid.*, pp.43-44.
- 23) *Ibid.*, p.56.
- 24) Uehara (1987), pp.222-223.

### References

- Brucan, Silviu (1989), *World Socialism at the Crossroads* (translated into Japanese), Minerva Shobo, Kyoto.
- Brus, Włodzimierz (1972), *The Market in a Socialist Economy*, Routledge & Kegan Paul, London and Boston.
- Hare, P.G. and Wanles, P.T. (1981), "Polish and Hungarian Economic Reforms — a Comparison", *Soviet Studies*, Vol.33, No.4 (October 1981).
- Ide, Keiji (1988), *Chugoku Shakaishugi to Keizai Kaikaku (Chinese Socialism and the Economic Reform)*, Horitsu Bunka Sha, Kyoto.
- Kornai, János (1985), *Some Lessons of the Hungarian Experience for Chinese Reformers*, typed manuscript.
- (1988), *Contradictions and Dilemmas, Studies on the Socialist Economy and Society*, The MIT Press, Cambridge and London.
- Kosta, Jiri (1974), *Sozialistische Planwirtschaft, Theorie und Praxis*, Westdeutscher Verlag GmbH, Opladen.
- Lange, Oskar (1974), *O Socjalizmie i Gospodarce* (translated into Japanese), Nippon Hyoronsha, Tokyo.
- Nyers, Rezső and Tardos, Márton (1984), "The Necessity for Consolidation of Economy and the Possibility of Development in Hungary", *Acta Oeconomica*, Vol.23 (1984), No.1-2.
- Saito, Minoru (1979), "Is There a Chinese Type of Socialism?" (in Japanese), *Keizai Shirin (The Hosei University Economic Review)*, Vol.XLVII, No.3.
- (1989), "Economic Reform and Political Change in Hungary", *Keizai Shirin (The Hosei University Economic Review)*, Vol.LVII, No.1.
- Uehara, Kazuyoshi (1972), *Chugoku Shakaishugi no Kenkyu* (Studies on Chinese Socialism), Nicchu Shuppan, Tokyo.
- (1987), *Chugoku no keizai Kaikaku to Kaiho Seisaku (Economic Reform and Open Economy in China)*, Aoki Shoten, Tokyo.
- (1989), "Chugoku ni okeru Kaikaku Kaiho Seisaku to Ten-An-Mon Jiken" (Economic Reform, Open Economy in China and the Tian-An-Men Event), *Journal on Regional Studies* (Matsuyama University), Vol.1, No.1.
- Yabuki, Susumu (1986), *China Syndrome: Kagirinaku Shihonshugi ni chikai Shakaishugi (A Socialism Limitlessly Close to Capitalism)*, So-So-Sha, Tokyo.
- Zielinski, Janusz G., (1973), *Economic Reform in Polish Industry*, Oxford