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978-0-521-07407-0 - The Prediction of Communist Economic Performance

Edited by P. J. D. Wiles

Excerpt

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## I

## INTRODUCTION

(updated to 1970)

PETER WILES

(1) The general belief of the contributors to this symposium is that Sovietological economics has come of age, or that at least we can help it to do so. From the stage of craftsmanship and chronicling it must dare to become a science, i.e. to predict. There will of course be gross errors, but perhaps no grosser than in other social sciences; and it is better to make, and later to analyse, these errors than to do nothing. Such predictions will cover the manner in which the economy functions as well as the performance it attains. The essence of a good prophet is to recognize his own fallibility and to improve his own methods; for this reason our intention was to exercise *samokritika*, each on his own effort. This we have done here, though at a longer interval of time than we intended. Also the original articles are reprinted, and guest critics have contributed as well.

A hasty reader might complain of the inclusion of apparently obsolete pieces: this is 1970, yet here are pieces, written in 1967, incorrectly predicting 1970. Could they not have been updated, nay scrapped? The answer is that prediction is in its infancy: this volume is essentially methodological, and all other information is a mere by-product. To improve prediction we must study predictions, and that means ploughing through a lot of obsolete material. To permit one's past errors to be reprinted without change is an act of courage, for which the original contributors must be thanked. Everything dated '1967' is unchanged except for misprints and errors irrelevant to the predictions then made.

(2) In what follows, however, the editor speaks for himself alone. It has been my policy to 'let 100 schools of thought contend'. The most successful methods will emerge when the results are in; but the trend towards more sophisticated methods is probably inevitable, with whatever success they are attended.

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It shocks me that my own attempt should be the second most technically sophisticated, but it is reassuring that the attempt should be so thoroughly inconclusive.

I have, however, tried to extract predictions in a set of common minimum categories from each participant: this Procrustean table will be found at the end of the book. Meanwhile we concentrate on the Communist economies which make the most statistics available. Such economies present different and perhaps fewer problems of prediction than others. The Western econometric model has at least two advantages: it can assume constant institutions and base itself on a larger ration of crucial statistics, notably those of the balance of payments. But if the model is used at all for predictions they are essentially and inevitably based on an impossible *ceteris paribus* clause: this is what will happen if government policies and parameters remain as they are. Now of course this assumption is false. The mere publication of the prediction may well change the government's behaviour, but in any case it is subject to other, very unpredictable, influences. Will it be over- or under-sensitive to the next balance of payments crisis? will it dare to tax as much as it should? or 95% as much? History shows very few regularities indeed in this area, and still fewer in the wholly exogenous factors such as diplomatic crises and changes of the party in power.

It is therefore no reproach to the Western econometrician that his model cannot predict; its function is to enable the government to *falsify* its predictions in the most desirable and economical way. The essential missing element in Western prediction belongs to political economy, not econometrics: how will the Cabinet react to the predictions it receives, and to the crises, economic and non-economic, that will inevitably crop up? How indeed will the government itself change?

We too have to say what the Cabinet, or rather Politburo, will do. But in our case the government *is* the economy;<sup>1</sup> its behaviour must be definitively predicted; there is here no such thing as a self-generating, *ceteris paribus* model. However the

<sup>1</sup> Except in Yugoslavia, and possibly soon in Czechoslovakia. If the professions of some of its leaders are to be taken seriously (1967), Czechoslovakia will become a Yugoslavia without workers' councils, and we shall here too have to deal with a separate government presiding over enterprises whose autonomous interactions with each other can be described by a Western model.

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government itself is rather more stable, and so are its policies. This statement is of course to be understood *mutatis mutandis*; for 'general election' read 'fall of Khrushchev', etc. Moreover we have one precious new source of information: the *binding medium-range plan*.

(3) The medium-range plan is by far the most important basis of Sovietological prediction, since it is binding not merely on the enterprise but even largely on the government. But surprisingly often there is something wrong with it: it is unpublished (the DDR); it is published only on broad lines (Rumania); it is not officially confirmed (USSR); it has been thrown into doubt by subsequent events (Czechoslovakia); it probably doesn't exist (China). But granted its existence, availability and legal confirmation we still face two main questions: is it realistic, and will it be changed?

On the question of the plan's realism there is need of something approaching Western econometrical work. There is, to be sure, no multiplier or accelerator; adequate demand is more or less guaranteed, and inflation though often present has little effect on production.

Mr Niwa, who however is not engaged in testing the plan's realism, has no demand or monetary equations. At macro-level he is surely right. Increasing use of market research at micro-level does not affect this. Only in the very decentralized Hungarian economy can we begin to speak of uncontrolled movements in macro-demand, as Mr Portes shows. Much as in, say, Britain these are preponderantly of a curious character: enterprises speculate on what the government is about to do. East and West, this is an element deserving much more attention from econometricians.

But many of the same economic laws continue to govern supply. Returns diminish in agriculture and mining, the terms of trade behave in the normal way, the potential labour force is demographically determined, resources remain scarce and products have opportunity costs. Above all the harvest, and harvest-related manufacturing output, remain as great a cloud in the crystal ball as ever.

Much of the work here presented is, then, a check on the physical feasibility of medium-term plans. But will not these medium term plans be altered? I assume for a start that fifteen-year or

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perspective plans are hardly worth the paper they are written on. Or, as M. Fraisse puts it so delicately:<sup>1</sup> 'It is difficult to decide in what degree this first twenty-year plan was an effective framework for the five-year plans, if only because the credit it enjoyed with the Soviet government was so transitory.' Published in 1961, this particular long-term plan was intimately connected with Khrushchev's new Party Programme. Both documents fell with their patron. If five-year plans (FYPs) are said to be deduced from them this is a mere pretence; they are too vague and too often changed univocally to determine a FYP. It is upon the stability of the FYP itself that everything depends.

At the very worst the useful tautology holds that a FYP is binding until altered. Therefore if it is coherent and feasible it will be fulfilled if it is not altered; and if we find that it is not we automatically predict that it will be altered. However it may also be altered in any case, for some exogenous cause such as a new government or a diplomatic crisis.

These exogenous causes are of course no easier to predict than in any other case, and we are on a par with all other specialists in being forced explicitly to assume them away. But we should perhaps be willing to predict the government's reaction to 'endogenous' troubles: those due to excessive ambition in the plan, to adverse movements in the terms of trade brought about by the plan, etc. In the absence of speculation and hot money flows the mere size, if not the number, of such crises is much smaller than under capitalism, and the government's reaction has hitherto been fairly standardized: e.g. cut collective consumption expenditure, raise work norms and compulsory farm deliveries.

(4) As to the technique of checking a FYP's consistency, one is ideally building up an input/output table for the end year and seeing if it coheres. I had hoped to present, in 1968, such a table for USSR. But unfortunately its compiler continues to hit snags. It is an honour, instead, to present Mr Niwa's much more Western type of econometrics. Since, however, he mainly concerns himself with Cobb–Douglas functions and with labour flows, he may be said to be virtually constructing an input/output matrix, albeit with extremely few rows and columns, and rectangular not square.

<sup>1</sup> *Analyse et Prévision* 4/1968, p. 275.

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I present also my own perplexities on the appropriate values of Cobb–Douglas exponents in countries with a surplus agricultural labour force. But these are not the only perplexities in regard to these exponents.

For instance Mr Niwa tells me that during the evolution of his model he has switched in the course of time from a linear to a non-linear function for agricultural output (cf. p. 346), in view of the failure of agriculture to grow in the 'sixties. This switch is a most severe implicit self-criticism. Econometrics is nothing but more or less sophisticated extrapolation; it is helpless before the possibility that the future will not resemble the past. Mr Niwa had no other reason than this non-resemblance for making his switch. My own assumption merely appears to be more sophisticated: the Cobb–Douglas residual of past years in agriculture is a guide to the residual of future years. It is also regrettable that Mr Niwa has no separate series in his equation 19 for the vastly important current inputs of industry into agriculture, like petrol and mineral fertilizers. Too often in this type of work we either omit these inputs altogether – though they are of vast importance, reaching in many countries 50% of gross agricultural output – or assimilate them, falsely, to capital. It is incorrect, too, simply to subtract them from gross output to obtain a net figure, and relate such a net output to capital, land and labour. For these inputs have a marginal productivity of their own, which must be judged like any other, by the same statistical techniques.

Mr Niwa's industrial function, by the way, has extremely different exponents from those of the Soviet authors I quote (chap. 26): about 0.3 for capital instead of about 0.9. It will be observed that his industrial residual (equation 5) is negative; it would have been much more negative had he used Soviet weights. Although his weights differ extremely from mine, he also gets a negative agricultural residual, in his equation 6. (5) But setting ideal methodologies aside, it is much more important, in the present state of our knowledge, to know *the essential points at which the plan works badly in practice*. It seems, according to the experience of many but not all countries, that:

(i) The agricultural exodus is under-estimated. For the planners cannot screw themselves up to spending so much money on

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urban housing; and labour turnover is greater than it should be by Marxist criteria; and there is not enough capital to provide urban work for everyone who asks for it.

(ii) So the growth of agricultural productivity is underestimated, and that of urban, especially industrial, productivity over-estimated.

(iii) These two points do not only concern countries that ought to have agricultural exoduses. Such advanced countries as Czechoslovakia and the DDR continue to have, and to under-estimate, such exoduses; with consequent aging and labour shortage in agriculture. Hungary is entering this condition, though her current plan seems to have been correctly estimated (see Mr Portes's contribution below).

(iv) The actual completions of investment projects, especially in the domain of construction, are over-estimated in both number and punctuality. This is indeed an issue of enormous significance for Communism. 'Investment scatter' and 'funds frozen in half-finished projects' have indeed their parallels under capitalism, but are far less important.

(v) Exports, especially those to advanced capitalist countries, are over-estimated; so imports have to be cut.

(vi) On a somewhat different plane, Mr Kyril Fitzlyon<sup>1</sup> has shown that plans for large aggregates like the national income or industrial production are better fulfilled than plans for small aggregates like tractor output. This is one of those extremely valuable and practical propositions that turn out to be tautologies. But they are none the worse for that. The intuitively obvious can be rigorously demonstrated, even without algebra, as follows. We restate the proposition thus: *bad predictions are commoner among small categories than among the large ones of which they are parts, provided that the parts are exhaustively enumerated.* Then the error of the prediction of the large category is simply the weighted average of the errors of the predictions of its sub-categories. But for the first error to be equal to the largest of the other errors it would be necessary that all the other errors be of equal magnitude and sign. This is the limiting case: in all others at least one sub-category has a greater error than the total, and in most cases more than one. So bad predictions are commoner among sub-categories.<sup>2</sup>

<sup>1</sup> In *Soviet Studies*, October 1969. <sup>2</sup> See footnote opposite page.

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(vii) A plan can be changed once confirmed, and this may even happen secretly.<sup>1</sup> It is certainly part of our job to detect such changes, though we can hardly be expected to predict the plans themselves!

In all this discussion of non-fulfilment and unpredictability I have avoided the suggestion that any Soviet-type fluctuations are *cyclical*. Not all contributors are quite so hostile to this notion as this. I understand by cyclical something endogenous, arising directly from the interactions of the economy; and agree that under central planning the normal behaviour of the government must be included in the endogenous interactions. I am simply unable to observe any repetitive pattern in any Communist country at any time, that might have resulted from such interactions.

(6) It will be noted that some contributors have used official Communist statistics where they are most easily challenged: the gross or global<sup>2</sup> output indices of agriculture and industry. There can be little harm in this over short periods: in a settled Communist economy net and global growth do not greatly differ. But where net figures are available they are supplied in the summary table at the end. It is again unlikely that, in a settled Communist economy, differences in weighting will be important over five years. A much more serious problem is the absence of statistics in China, and their suspect nature in Rumania and Albania (qq.v.). If Mr Kaser's confidence in these figures is very moderate, mine is still more so. Rumania and Albania have never been checked as thoroughly as the other countries treated here.

Another problem has greatly exercised us: the valuation of sophisticated defence durables. Dr Klatt estimates China's nuclear effort at about 1% of the national income since research

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<sup>2</sup> It is therefore not surprising that the same pattern of errors shows itself in French planning. But it is surprising that the errors, over a five-year period, are the same in France and USSR (except for Soviet agriculture) – Wasserman and Wiles in *Economica*, 1970.

<sup>1</sup> Cases are even reported where a plan is announced as fulfilled by such-and-such percentages in such-and-such categories, so that one is tempted to infer the actual achievement from the original plan; but meanwhile there have been secret changes, and reference is being made to another set of targets.

<sup>2</sup> 'Global' is Mr Kaser's surely less misleading translation of Russian *valovoi* – not to mention Polish *globalni*!

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began, *at factor cost*. A market price valuation however would show a much larger sum, considering the value to China on the world stage of possessing even rudimentary nuclear weapons. One of the principal failures of economic measurement is the absence of a reasonable 'market price' for advanced weapons. Any country that develops them has a higher rate of growth than orthodox methods imply. This goes, of course, for France, USA and USSR as well. In addition the space-race has been valued at factor cost. Nay more, in a very general way all sorts of goods and services are valued at factor cost; so presumably undervalued; and this sets up an important bias against the most developed countries.

(7) The inspirer of this effort, Bertrand de Jouvenel, expressed the hope that contributors would give utterance on general social changes as well. Being an economist, and exacting contributions from other economists, I am bound to disappoint him. But at least we can speculate on the effects of general social changes on economic performance. Such change will be greatest where new models are most radically different: Czechoslovakia on the one hand and China on the other. (*The passage that follows, embodying as it does some predictions, has not been changed since 1967.*)

I lift one view of the effect of the new Czechoslovak model from Professor Pesek:<sup>1</sup>

whether the new model will succeed in bringing significantly more rational allocations is, I believe, one of the most fascinating economic issues of this decade. Much depends on the political leadership in Eastern Europe. Will it be able to override the resistance that is now forming among the high echelons of the civil service who see both their ideological orthodoxy and their jobs in danger? Will the leadership be able to withstand the heat generated by the enraged public which, at first, will face only the sacrifices but not the rewards? Much depends also on the economy itself: how fast will a price system be able to bear fruit? If the fruits come fast, the conservative element in the upper civil service will be discredited and popular resistance weaken and possibly be converted into support. Thus, absurdly enough, the only hope of the new economic model is that those Western economists who believe the price system to be a slow and ponderous machinery be proven wrong and those – like Milton Friedman – who believe that the

<sup>1</sup> In another piece, presented to a conference at Berkeley, 28–9 December 1966.



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price system is one of the most sensitive instruments ever devised by man be proven right. The West German upsurge following the monetary reform and restoration of the market economy in the middle of 1948 gave to the believers in inherent flexibility of the market-directed economy the first round; we shall all wait most anxiously, I am sure, to see who will win the no less important second round about to start in Eastern Europe.

This is also the view of the resident revisionist radicals. They – and Professor Pesek – add that managers with better commercial education must be installed, and that competition will improve performance at all levels. At present

highly educated people receive less than the average workers; the workers themselves face what is called ‘wage ceilings’ so that each worker makes sure that he does not exceed ‘permissible’ output and the management welcomes this ‘self-discipline’ of its labor force. The press speaks about the conspiracy of mediocrity. Equality of incomes – with departures in the wrong directions – and almost absolute job security is the order of the day. The new economic model is explicitly designed to change all this . . . Obviously, the reintroduction of the labor market, denivelization, the reintroduction of income inequalities, and the firing of some workers promise to be an infinitely painful process in a nation in which it became customary to pay irrespective of merit, importance, and quality of work but by the number of children and which became accustomed to almost absolute job security from enterprises viewed as social security institutions.

In a similar vein Dr Seton (in private correspondence) will not include the diminution of planner’s tension in USSR as an offset to the increased allocative efficiency of the new model there.

The alternative view must be the editor’s own. The claim of greater managerial efficiency must be conceded. Even if this greater efficiency is in part applied to monopolistic restriction (which is what lowered planner’s tension permits), surely it will promote both allocative rationality and technical progress. But I do not concede that workers will work more for an economically trained manager than for a terroristic state. Quite the contrary: bonuses out of 20% of profit work out at ludicrous sums per head, and the principal differences will be enhanced trade union activity and lowered labour discipline.

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Cost inflation, and an actually lowered will to work, are the order of the day. Balance of payments crises are thus more likely. But while the command economy had excellent means of isolating the effects of such crises, the new regulated market economy must operate through more general, and therefore more deflationary, counter-measures.

Will investment funds be wasted, and especially by spreading them around in small packets, more or less than in the past? It is difficult to be sure. The more rational and critical atmosphere makes it less likely; the relaxation of social discipline and central authority, more. The Yugoslav example is not encouraging either in this matter or in that of cost inflation.

In sum, the West German *Wirtschaftswunder*, to which Professor Pesek refers, came about through the substitution of a market economy and a stable currency for a non-economy and a cigarette currency. The case is therefore not parallel. It remains to be seen whether Friedman or Stalin was the better economist (outside agriculture).

Thus I am pessimistic about the new Czechoslovak model, whether or not it is successfully enforced, while Pesek is only pessimistic about its being enforced. On the new Chinese model, however, we are doubtless both at one with Dr Klatt. Rule by some state, even direct rule by a Communist Party as in China under Liu Shao-chih, is better than anarchy. Demonstrations cut into working time; managers *must* be 'Expert', whether or not they are 'Red'. Beyond doubt the new Maoist anarchy has accentuated the already very strong features of market socialism in China; for in the absence of bureaucrats the Chinese central command economy has always been mostly talk. But command features, irrational allocations and sheer prejudice against education and efficiency will increase along with the restoration of the market in minor matters. Maoism, which reduces Communism to a state of mind, is almost a wilful rejection of economic progress.