

Circling the square

Nora Beloff

With *perestroika* and Gorbachev's commitment to increasing incentives and introducing financial accountability, many West Europeans, are once again talking about a convergence between West European "mixed economies", part publicly and part privately owned, and those of the Soviet type, based on generalized collectivism and one party rule.

This "theory of convergence" has rarely been more effectively demolished than by a young Pole, Jan Winięcki, who has widely travelled, but lives, works and observes daily life in Warsaw¹. Winięcki likens the market system to a wheel: a simple and indispensable device for matching supply and demand, and the Soviet-type systems to a square. Referring to the various reforms currently being tried out in the latter, he claims that they amount merely "to smoothing the edges of the square, in order to make the movement less bumpy, while maintaining in all seriousness, (real or feigned), that wagons run further on squares than on wheels".

In Winięcki's view, the collectivised economies will not move forwards "until they tackle the fundamental task of reinventing the wheel", whereas in the West, "though the wheel may have cracks, or may creak every time it moves, it is still unmistakably a wheel". The progress of the wheel, as we have seen in the recent market turbulence, has been even bumpier than Winięcki may have foreseen. Nevertheless, we should not allow the very real troubles and distress in Western Europe to allow us to forget the fundamental advantage of the market economy in the process of creating wealth. Nor should we shun the evidence that the material gap between the two sides of what was once the Iron Curtain is constantly widening. For a long time, the fundamental differences between the economic systems symbolized by the wheel and the square were obscured, and there are still many West Europeans who see the differences rather as a matter of degree than of kind. Enforced urbanization in the communist countries provided industry with limitless supplies of cheap labour,

and the dictatorial system of government was well placed to mobilize and deploy all the human and physical resources required to service large-scale projects. These benefits withered when the new technologies transformed the world economy, and further development depended on far more smaller-scale operations, requiring specialization, flexibility, innovation and initiative.

In the USSR ten years ago, the economists were already aware of the need for a change-over from "extensive" to "intensive" development, that is, away from dependence on exploiting untapped resources, and towards fuller and more efficient use of existing supplies. It took more than a decade to get that principle on to the Soviet agenda, but there are still no signs that *perestroika* in the USSR, or the *mini-perestroikas* being tried out in a variety of ways in the other collectivized economies, have managed the transformation. Reformist programmes designed to modernize pitifully obsolete economies were the centre of discussion during my recent visit to Poland, Hungary and Czechoslovakia, and I found overwhelming testimony to confirm the Winiecki thesis. The cultural and physical differences between the three countries were immense, yet there was unremitting evidence in all three, that efforts to introduce the benefits of market mechanisms were foiled by a political system delegating unbridled power, at every level, to party chiefs and their clients, the *nomenklatura*, who were openly hostile or privately suspicious of the risk-taking entrepreneurs ...

Polish paradox

It was in Poland that the collapse, not just of the economy but of society itself, was most apparent. The temporary black-outs, the dilapidated state of the buildings, the unfinished repairs on the roads, and the pavements spotted with unmarked holes, alongside the all-pervading gloom, evoked a country at war. Even in the smarter parts of town, homes found themselves suddenly deprived of water, or unsure, if there was any, whether it would run brown or clear. It turned out that work was indeed in progress for replacing the city's water pipes, but that it was proceeding at a slower pace than the speed with which the pipes were actually eroding. This seemed typical: the rates of obsolescence and decay were worst in those installations and buildings which had been part of postwar reconstruction, carried out with the cheapest possible materials, and often with unskilled labour. Now, public employees paid miserably to repair the damage, defiantly matched poor wages with poor work, reserving their time and energy for more rewarding activities — unconnected with their jobs.

It was Polish sociologist Jacek Szimanderski to speak first of the two levels of conflict which I found was true in all three countries. The first level, articulate and visible, involved only a minority of people and set the communist leadership against its identified political opponents: in the Polish case, these were largely grouped round the Catholic Church and the Solidarity trade-unionists. Added to these now was a younger generation, of the group "Peace and Freedom" which, unlike the peace movements in the West, associated the struggle for peace with the defence of human rights and consequently opposed unilateral Western disarmament. These young people were agitating against compulsory military service and, more particularly, against the official oath, in which they are required to pledge themselves to defending "the Socialist Fatherland, side by side with our Soviet friends": a formula which the Polish authorities themselves privately admit needs revision.

The second level of conflict, affecting the whole population in its every day life, sets the system against society. Though apathy and idleness are equally prominent in the USSR, in the satellites, there is genuine collision: the regime is felt by ordinary people to be not only incompetent and corrupt but also imposed by a foreign power. The Polish government, under General Wojciech Jaruzelski, has been making frantic efforts to win over public support and overcome a degree of indolence and nonco-operation that in some cases amounts perhaps to passive resistance: an alternative to the general strikes, repressed at the point of the gun.

All the Polish economists concede that low productivity is at the heart of their crisis. It has been calculated that in the famous Gdansk shipyards, metal-welding per worker is less than one tenth of the world average. But harder work requires higher incentives, which is precisely what the government cannot deliver. On the contrary, the reforms proposed to enable Poland to service its debts, re-invest its capital in new equipment, and meet additional pressures from Moscow, go the other way: they include the phasing out of subsidies, and the closing down of huge loss making enterprises: in other words, higher prices and more unemployment.

The shipyards, however, will stay open: the Russians are providing the Poles with the necessary hard currency to buy modern instruments for new vessels: the ships themselves will then be delivered to the Russians.

Incapable of controlling their own currency, the Polish authorities have let the zloty slide and allowed Poles who have foreign connections (or speculative talent) to keep their bank accounts in dollars. Further, recognising that in order to make ends meet, virtually all Poles have to cheat, they have agreed to

turn a blind eye on black market currency dealings, in order to encourage people to put their ill-gotten dollars in State owned banks. It is characteristic of this sick society that illegality is openly condoned. Two types of dollar account are now permitted: one high interest account for clients who are willing to divulge the ways in which the dollars came into their possession and a lower interest account for those who prefer to keep quiet about the way the dollars were acquired.

In efforts towards conciliation, General Jaruzelski has set up an Advisory Council on reforms, which includes non-party members; he is reported to sit through meetings which last for over twelve hours and to be seen lavishly taking notes. He also tends to surround himself with military rather than party people. There is an unkind story that he sent one of his men to learn more about how Western economies work. Introduced to the senior executives of a big corporation, he asked how they took decisions on what and how much to produce. "Orders!" said the businessman. "That is interesting", said the General's man, "we rely on orders too ..."

In trying to mobilise opinion, the General had been needled into submitting his *miniperestroika* to a referendum, which was held on November 29. The event was unprecedented in the communist world and indeed, violates one of the basic tents of Marxist-Leninist ideology: that the Party, as *avant garde* of the



Un exilé polonais.

proletariat, understands workers' real needs better than the workers themselves. Voters were asked to say whether, as a way towards future prosperity, they agree to immediate and large-scale price rises. The question was based on an unwarranted assumption as previous price rises had not led to improved living conditions.

Campaigning was allowed only in favour of a positive vote, though the underground network let it be known that Solidarity leaders recommended abstention. And so, despite one-sided propaganda, accompanied by dire warnings that a negative result would compromise Poland's desperately needed foreign credits, the Poles said no. The negative vote, plus the abstentions, deprived Jaruzelski of the absolute majority on which he had said the reforms would depend. Prices have consequently been allowed to rise less fast than planned, causing a further tremor among Poland's foreign creditors. The reforms had been designed to persuade Western financial authorities to allow the regime a "breathing space": time to modernise their economy and thus improve their prospects of paying back their debts.

The World Bank and the IMF, untrained in communist realities, had already agreed. The World Bank's latest Annual Report on Poland, published before the referendum, praised Jaruzelski's attempts to meet the country's obligations (which, the last few years have been costing the country 36 per cent of its foreign earnings) and predicted that Poland would attain a favourable balance in its external accounts by 1991. Meanwhile, the ever credulous IMF has complimented the regime on the proposed reforms, complaining only of "insufficient attention to economic and financial criteria". The IMF "experts" commended a tougher incomes policy towards the wretched Polish farmers and made themselves ridiculous by suggesting that the Polish trade unions should model themselves on the Swedish example.

Several well-informed Western businessmen are inclined to agree with the Polish opposition that things will get worse rather than better. "Poland is heading for the rocks", said one French representative of a big international firm who had lived in Poland for three years, travelling widely to meet his customers. He claimed that Polish society, (in his view "bone idle") each year consumed more than it created: in other words, public and private expenditures plus the cost of depreciation and often total collapse of buildings and machinery, added up to more than the Polish output of goods and services. On the other hand, he disagreed with dissidents who insisted that all talk of reform was a fake. His own experience, he said, had shown that the decentralisation promised by the government had now become a reality and he found it

possible, as a consequence, to do business directly with the industrial and agricultural enterprises using his product. His conclusion was no less gloomy: he believed that the Polish leaders now realised that the economy was foundering and had decentralised the system in the hopes of preserving at least some part of the structure from impending collapse.

If he and Winiecki are right, then the whole complicated business of re-scheduling the Polish debt becomes an absurdity: at the end of "the breathing space" the country will be less than ever able to meet its obligations.

Hungarian trompe l'oeil

Outwardly, in the number of shining new hotels, overcrowded cafes and luxury boutiques of its capital, Hungary, unlike Poland, gives an air of affluence. Yet a closer look at the true state of Hungarian society suggests equally discouraging prospects. It is almost twenty years since the Hungarians began trying to introduce a competitive market within a collectivist one-party framework and the major reforms which have been tried out in Hungary, including the dismantlement of compulsory central planning and transference of more responsibility to the separate industrial and agricultural enterprises, which are now part of Gorbachev's own *perestroika*. But if the Soviet leader once looked on Hungary as his model, he should look at it again as a cautionary tale.

Already, the journey from Warsaw to Budapest in a Hungarian train revealed the dilapidation common to the Soviet bloc. I had taken a first class night sleeper: the stewards were too drunk to make up the bed, there were three glasses but no drinking water, a wash basin but no towels, bed lights over both bunks, but neither of them working, and one of the two curtains required to cover the outside window was missing — presumably stolen.

The helplessness of the authorities confronted with an unco-operative workforce was publicly admitted at the last meeting of what misleadingly calls itself the National Assembly: though, as its candidates require official approval, it hardly represents the nation. Janos Kadar, the Party Secretary, in office since the 1956 revolution, and appearing older than his 74 years justified, said out loud what everybody privately knew: "We have consumed and distributed more than we actually produce We promised welfare benefits without creating the financial means to pay for them". Conceding that in the West people lived better, Kadar attributed this prosperity to cruel methods "exploiting and depleting the developing world and even, to some extent, the Socialist countries".



Reception at the Kremlin

The Hungarian leader then made the astounding confession that the communist countries themselves have not yet discovered any alternative way of creating wealth: "If we want to see a secure future for society, and that is what we do want, we must build on firmer economic foundations. This is a historical problem we have failed to solve. Working together, we in the entire Socialist world are searching for ways of solving this problem". He ended appealing to national sentiment: "We (the Hungarians) are no longer alone in advocating the necessary reform Let us be able to say, calmly and proudly: "We are Hungarians".

The lukewarm applause lasted a mere fifteen seconds: even this handpicked audience may have felt that the man who owed his power to Soviet tanks was ill-equipped to preach patriotism. But there was another, more immediate cause for dismay: Kadar had taken the occasion to announce an early start for what, if it ever reaches completion, will be his lasting monument: the construction of the Bos Nagymaros hydro-electric project, first mooted in Stalin's time and satisfying the old craving for gigantism. The plan, judged by an American expert as economic nonsense, will divert a stretch of the Danube from its Hungarian bed, where it winds through some of the country's most beautiful valleys and most precious wild-life sanctuaries, and send it in cement ditches, into higher Czech territory. The dam will boost energy supplies, though these will not reach Hungary for the next twenty years as the Hungarians are paying in kind for the investment. This will be carried out by an Austrian conglomerate, on money borrowed from Switzerland.

Initially the Austrians intended to dam the Danube in their own country but the ecologists forced and won a referendum prohibiting it. Instead they arranged to carry the pollution and poison further down stream, to the fury of the Hungarians directly affected. The dissidents, defying the very serious risks of organised protest, went to work and collected no less than ten thousand signatures demanding a referendum for Hungary. The authorities not only ignored the petition, but also banned any mention of the protest on TV or in the press. This story should be better known among West Europeans, too easily inclined to accept the liberal image which the Hungarian communists so successfully project.

One man deeply engaged in the campaign was the Laszlo Rajk, the son of the famous, and now rehabilitated victim hanged after a Stalinist showtrial. I had met the young Rajk on a previous visit, when he had been the centre of the intellectual opposition, exploiting his famous name ("they" would never dare persecute another Rajk) to turn his home into a meeting place for dissidents and a distribution centre for often artistically produced *samizdat* literature. During the 1956 revolution, Rajk had been an infant and his widowed mother had taken him to join Imre Nagy and others involved in the uprising (in the present "liberal" epoque, the official designation "counterrevolution" has been replaced by "social tragedy") to the Yugoslav Embassy for asylum. They had all been turned over to the Russians and Rajk's early memories was of the school for prisoners' children in a Romanian jail. Later he had gone to Canada and qualified as an architect before returning to Hungary where he was soon caught up in the struggle for a freer society.

Last time we met, five years before, he had been working in his profession and was organizing an exhibition designs and drawings in which Hungarian architects were showing what, in a non-controlled society, they would have liked to build. Later, I read that after Kadar had promised free elections, Rajk had challenged the regime to let him run. Not only had his name been eliminated from the lists, but he had also been squeezed out of his job. Despite the admiration of his colleagues and boss, no-one had dared protest. He was now turning his talents to film-making and was currently engaged in a joint Canadian-Hungarian version of Little Red Riding Hood.

In arguing the case against the Danube Dam, Rajk said it would further spread pollution over the Hungarian countryside, in which half the villages had already been deprived of their drinking-water. Budapest itself was so polluted, he claimed, that blood-tests in one kindergarten had indicated a level of lead-poisoning among the children, which would qualify Western miners for invalid pensions.

Opponents of the system now seemed to be penetrating the Communist Party. No less than 10 party members (none of whom has been expelled) were among the one hundred well-known people who signed an open petition, circulated to every member of the Assembly before its last session, which called, among other things, for fully accountable government, a competitive market economy and genuinely free elections. Some dissidents hope that the Communists might agree to a gradual shedding of power. One group has privately published a long and complex blue print for power-sharing between the Party and elected representatives of the people. It is hoped that, while the Russians are busy with their own reforms, they will not intervene to prevent bolder experiments, provided that appearances of Party rule are respected. But the Hungarian leadership is still clinging to its political monopoly: as Kadar declared in his last speech "Too many people have given their lives working for our revolution for us to be indifferent to its fate".

Under the astutely presented image of a benevolent and reformist system, widely believed in Western Europe, lies the reality of harassed or exiled talent, an increasingly cynical and disgruntled workforce and an economy on the downward slide. The Russians themselves have evidently recognised Kadar's weakness: the Hungarians have been allowed to opt out of their share in the third phase of the giant Yamburg gas project: they had been scheduled to provide the capital and labour for a refinery on the Caspian Sea. Recently, the Hungarians have negotiated another half a billion dollar loan from the FRG to supplement several billions they have raised over recent years in Japan. Even so, the best informed Western experts do not believe they will be able to avoid asking for a re-scheduling of their debt (a euphemism for putting off payments) beyond next year.

Czech fog

In Czechoslovakia, unlike Hungary and Poland, there is no pretence of liberalism: though the regime is engaged in introducing "a new economic mechanism" it has yet to rid itself of the Stalinist stench. Earlier this year Gorbachev came on a formal visit, provoking a spate of rumours in the West — broadcast to the Czech public — that he would encourage *new thinking* and might even meet Alexander Dubcek, leader of the 1968 reforms, many of which now feature in Gorbachev's own programme.

Instead, Gorbachev laid a wreath on the grave of Clement Gottwald, Stalin's henchman responsible for the postwar bloodthirsty show trials, from which the victims have yet to be rehabilitated. Gorbachev informed the Czechs that he

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counted on Czech technology to help relieve the socialist countries of their dependency on the West. Industrially, indeed the country has always been more advanced than the Soviet Union, but the gap is narrowing, and new investment seems to have been one of the victims of the post 1968 priorities. Under "normalization" the first need was to satisfy the animal comforts of ordinary people in order to turn them away from political agitation, and five years ago, "goulash communism", as this was named, was considered a success.

Now the whole country was paying the price: a large number of people had indeed managed to acquire country cottages, cars, and sufficient incomes to eat tolerably well. But no resources had been directed to shifting from old industries into new ones, for re-allocating labour and for providing decent levels of public service and housing. Education was hit particularly hard: the famous Charles IV University, once on a level with Oxford and the Sorbonne, is now reduced to the level of a technical college.

Unexpectedly during my travels, I was subject to bureaucratic laziness and evasion which is part of Czech everyday life. Encouraging Western tourism had become official policy: yet in the main cities, there were hardly any new hotels where people could stay.

Ridicule is the Czechs' favourite weapon against their Kafkaesque apparatus and no one wields it better than internationally famous Czech playwright, Vaclav

Havel. In prison the last time I was in Prague, he is now free and surrounded by friends and admirers, though his work is still strictly prohibited, and he dares not accept invitations from the West, for fear he will be refused the right to come home.

The regime's attitude to those identified as enemies has been remarkably counter-productive. The incompetence of the administration and the lack of talent in the cultural hierarchy must be primarily attributed to the demotion of brains, talent and courage, in favour of docility, conformism and nepotism. Left-wing academics from Western Europe have been eager to preserve their memories of 1968, confirming their own belief in the possibility of more humane versions of communism, and most Western contacts with the opposition tend to be with 1968 survivors. Many of these are still alive and Dubcek himself sent congratulations to Gorbachev for the 70th Anniversary of the Russian revolution: a message carried on Western radios and from Warsaw and Budapest, but not on radio Prague. Dubcek and company soon received the Soviet tradition, giving local communists a good deal of latitude in managing their own territories, providing they do no damage to the Soviet Union itself. This time however Husak's dead hand represented a serious brake on Gorbachev's own *perestroika* plans, for which he needed a more dynamic Czech economy. But, far from conveying a message of hope to Czech reformers, Gorbachev replaced Husak by a man even closer to Moscow. The new party leader, Milos Jakes, installed two months after Gorbachev's visit, had been trained for three years at the highly exclusive Moscow college of cadres, which operates the auspices of the Soviet Party's Central Committee. His upward climb had been denounced as a collaborator. After the invasion, he was put in charge of the subsequent purge: he set up 2,000 local committees to eliminate undersirables and, within the next decade, half a million members were expelled from the Czech Communist Party. Among the new generations, however, the 1968 tradition is fading, and to many young people, the slogan "Communism with a human face" is itself a contradiction in terms.

Active amongst these are militant Catholics, fighting to preserve their links with the past. This is made as difficult as possible: for example, specialists are denied access to the ancient manuscripts locked up in closed monasteries and convents. Characteristically, the Church of St. Thomas in Old Prague is well-maintained and is a major tourist attraction. But behind it, the authorities have closed what were the monastic living quarters, where a ceiling is reported to have fallen in, leaving precious books lying amidst the plaster and debris. Volunteers have pleaded in vain to be allowed in to rescue these treasures.

It is perhaps Communist fear of Western penetration into what is, despite everything, still a very Western society, that has led the Czechs, (unlike the Poles and Hungarians) to minimize their contacts with the West. They have avoided accumulating debts towards the West, and their credit worthiness is thus excellent. Last autumn, representatives of leading American banks visited Prague, and told their hosts they would have no trouble raising billions of dollars on the international finance market. (But critics say privately that the regime's current debt is not towards foreign creditors, but towards their own people.)

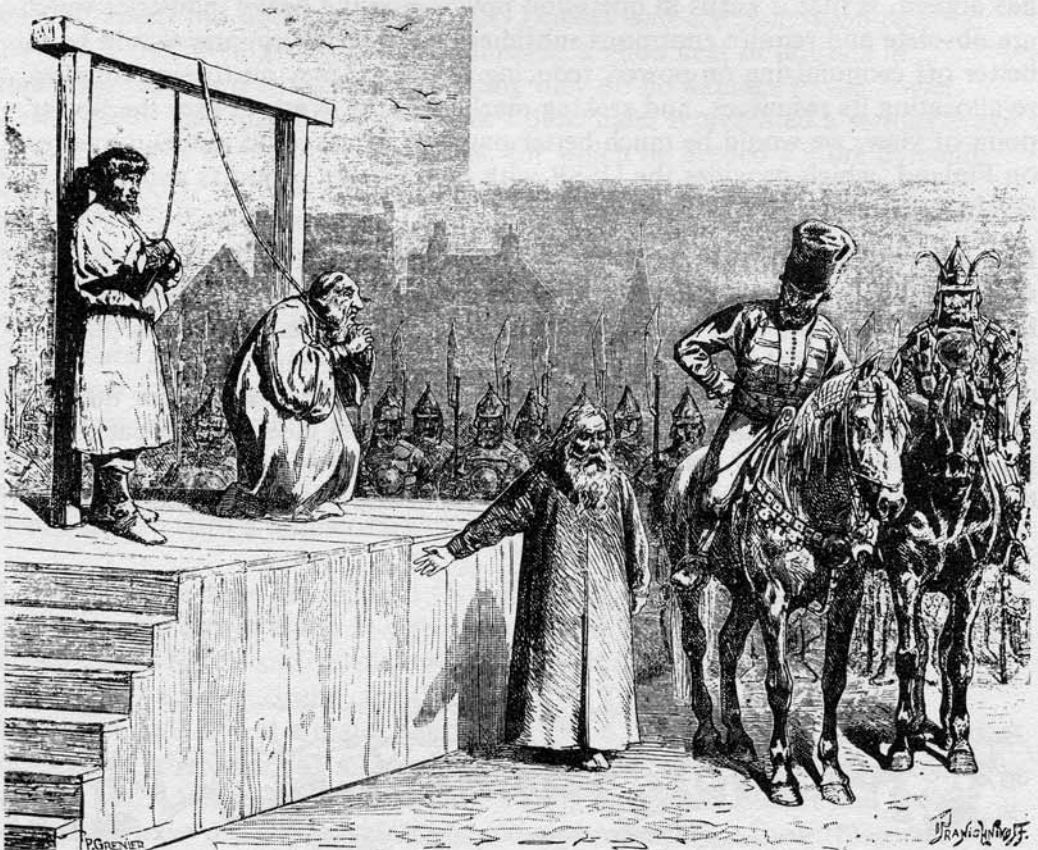
In economic terms, Czechoslovakia is now almost entirely dependent on the USSR, both for its supplies and for its markets. One of its major undertakings has been the manufacture of nuclear reactors primarily needed by the USSR, but also designed to supplement their own energy deficiency. The only reason why Czechoslovakia is short of energy, one of the government's own advisers has argued, is that it keeps in operation power-guzzling heavy industries which are obsolete and require enormous subsidies. Instead, the country would be far better off economizing on power, reducing its dependency on foreign supplies, re-allocating its resources, and seeking markets in the West. "From the Soviet point of view, we would be much better partners, if we could model ourselves on Finland, which provides the USSR with high quality products and invaluable investment".

But under the pressure of their own *perestroika* the Russians are impatient to receive more and better products, to make up for their own deficiencies. West European diplomats have been told by their East European colleagues that Gorbachev's negotiators are tougher than their predecessors, and are demanding the delivery of high-quality products formerly reserved for the hard currency markets. At the latest CMEA prime ministers meeting, Gorbachev insisted on his partners' also agreeing to take on a larger part in the upkeep of their far-flung fellow-members: Mongolia, Cuba and Vietnam. Theoretically,



the subsidies are intended to reduce differences between CMEA standards of living, but in practice, these are simply contributions for costly Cuban and Vietnamese military adventures.

At the same meeting, Gorbachev proposed that, in accordance with his *new thinking*, business should be transacted directly between enterprises rather than going through governments and state officials, as was the previous case. At present, CMEA members trade through bilateral clearing accounts, in which member states agree on how much, and of what, they will exchange. Though this is not direct barter, item by item, it is still a far cry from the potentially more profitable multilateral trade. Transactions are recorded in what are



Hanging of a Pope

misleadingly called "transferable roubles", though the Soviet Union is still free to give these different values according to the client partners and the deal. The USSR does 60% of its trade with its COMECON partners, and during the 1970s, delivered to them oil below world quotations. In today's harsher times, this benefit has been phased out, and according to Soviet trade figures, every year since 1980 has witnessed the Soviets charging more and more for the same values of exports towards Eastern Europe, with the corollary that the utilisers have been receiving less and less from their principal buyers.

Each COMECON country individually, and the CMEA collectively, are pledged to work towards a convertible currency, yet none of the Communist leaders has been willing to submit to the discipline and restraint of power that a solid currency would impose. None the less, Gorbachev's partners have been quick to expose the fallacy of attempting Western type multilateral trade, without a single yardstick to measure exchange values. The Hungarian Prime Minister expressed his disappointment that the proposed motion "contained nothing concrete" about the need for a convertible currency, and the Polish Premier predicted "growing difficulties" unless the prices of goods and services within the CMEA area were brought closer to world market levels. The Czech leader insisted on the need for the "legal certainty of existing contracts", and may well have been reflecting the indignation being privately expressed in Prague, by an engineering group which claimed never to have been paid for blue prints, designs and know-how delivered for the construction in Eastern Germany of a factory for small combine-harvesters, mainly for the Soviet Union.

In any case, all were up against the incompatibility between untouchable political leadership on the one hand, exercising arbitrary control over the CMEA economies, and with the Soviet Union lording it over the rest, and on the other hand, declared Soviet intentions of using *perestroika* and *mini-perestroikas* to become internationally competitive. As Winiiecki perceived, they are still stuck with the square, when what they need is the wheel.

Reference

1. Jan Winiiecki, *Economic prospects East and West, a view from the East*. Published by the Centre for Research into communist economies, London, 1987.