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“Rapprochement” of the Economic Systems in Eastern and Western Europe?

Interview with Professor Ota Šik, Prague

INTERECONOMICS: Professor Šik, in recent years it has been said increasingly that the economic systems of Eastern and Western Europe are moving closer together. This conclusion is reached because Eastern Europe has shifted somewhat from its ideological position which, for a long time, was a very strictly defined one, and the West is moving further from its ideal of free competition and a pure market economy. For instance, we have established that the influence of the State is growing in the West and State policy—for example, central banking policy—is being employed to influence the market and prevent excessive cyclical fluctuations. The State is constantly influencing economic developments, including the distribution of property, by tax measures. Nowadays business decisions can also be inhibited by anti-trust legislation. The development of certain modern production techniques has obliged the businessman to con-

duct his affairs as a “planner”. Furthermore, our educational policy enables everybody, irrespective of income, to reach a certain level of education, allowing each individual to exert an influence on the overall economy. In addition, there are strong tendencies to influence market trends through State planning. Thus, in Belgium, Turkey, Norway and elsewhere, long-term plans are already in being. Even in the USA influential circles are beginning to favour the introduction of planning methods. The EEC has decided to plan, but the extent of this plan has not yet been agreed upon. Within the various nations regional and structural planning has long been in existence; this serves to promote certain regions or economic sectors. Moreover, for some time the West has used certain forms of wage and price controls, for instance, the regulation of agricultural prices in EEC.

On the other hand, we can see that in Eastern Europe a certain type of “entrepreneur” or “industrial manager” is also emerging. Wage incentives are given to promote productivity. Calculation techniques have been introduced to assess profitability. The Eastern European economies have been forced to consider interest rates, when balancing accounts: these were long neglected as a factor affecting costs. Because of all this, Professor Tinbergen, in an article in the “Hamburger Jahrbuch”^{*} propounds the theory that the economic systems in Eastern and Western Europe are converging and that this process will continue until ultimately a mixed system will emerge in which differences between the two systems can no longer be recognised. What do you think of this theory?

ŠIK: I would start by saying that everything you have said about the economic problems is perfectly correct. I believe that all economists are well aware of economic trends in Western countries. Even where private enterprise has the upper hand, the necessity for State planning, or at least some State influence upon economic development, is slowly being realised. In this respect, there is undoubtedly a tendency to take on the characteristics of a socialist economy. The changes which are now slowly emerging in the socialist economies are of more recent development. I would put it this way—and this is what always creates problems—: we do not, so to say, consider these developments in the socialist economy to be retrograde ones. Sometimes they are so interpreted and this makes for unnecessary “bad blood”; it is looked upon as a retrogression to capitalism.

^{*} See Jan Tinbergen: “Kommt es zu einer Annäherung zwischen den kommunistischen und den freiheitlichen Wirtschaftsordnungen?": *Hamburger Jahrbuch für Wirtschafts- und Gesellschaftspolitik*, 8th year (1963), page 11 ff.

OTA ŠIK

is today one of Eastern Europe's leading economists. He was born in Pilsen in 1919 and whilst he was a member of the Czech Communist Youth organisation, he was already interested in economics. Since he was a political internee during the war, he was able to start studying political economy at the Prague College of Politics only in 1945. Even before graduating (in 1949), he held the post of lecturer from 1948-1950 and then occupied the chair of Political Economy at the same College. In 1953 he was granted the title of professor; in 1958 he became Pro-Rector of the newly founded Prague Institute of Social Sciences. He progressed to the Directorship of the Economic Institute at the Academy of Sciences in 1961 and took his Doctorate of Economics. Since 1962 Prof. Dr. Ota Šik has been Chairman of the KPC (Czech Communist Party) and the Committee for the planning and administration of the Economy in Czechoslovakia, was set up by the Czech Government. In this capacity he established the basis of the new Czech economic system, the implementation of which has since become the function of his committee. Among Šik's more important publications is the authoritative work “The Problem of Commodity Relations in Socialism”, which appeared in Prague in 1962 and is now being translated into English.

INTERECONOMICS: Yes, some go so far as to talk of a return to the period of the "New Economic Policy".

ŠIK: I believe that there is a rather serious misunderstanding here. Under "NEP" market conditions, the market relationship between state-owned enterprise and the private economy, particularly between privately-owned agriculture and private craftsmen, were to be exploited. This is common knowledge. During this period it was necessary so as to stimulate the interest of private producers. But now the problem is different. There is no question, naturally, of returning to private enterprise—we don't think of this nor, as far as I know, does any socialist country. It is more a question of realising that even in the case of socialistically-owned property, market conditions are unavoidable. I would put it like this: there is a deeper understanding of the essence of the socialist economy than previously. Formerly the concept of a socialist economy was grossly over-simplified.

INTERECONOMICS: You mean socialist economies not as seen from capitalist countries, but from the socialist "bloc"?

ŠIK: Yes, I am now talking only of socialist countries and the notions about economics within socialist States. Earlier people were really under the impression—quite apart from NEP; the NEP was recognised as a transitional stage—that as soon as collectivisation had been completed and private enterprise had disappeared, the causes of unhealthy development in market conditions would have been rooted out. That was the impression given earlier, and it stems directly from that period of socialist development in the Soviet Union known as the "Stalin Period". It was allowed that even between State-owned enterprise and the communal farms something similar to market relationship had to exist, but only, so-to-say, as a necessary evil. It was regarded as being due to communal socialism being an inferior form of socialism.

INTERECONOMICS: Were even the "communes" considered to be a transitional phenomenon?

ŠIK: Even the "communes" were regarded as something to be transformed as soon as possible into a

State organisation of some kind or other, i.e. something to be modified quickly. Such out-dated impressions must be eradicated now. But in this process—let us not misunderstand each other—socialism becomes far more realistic; it simply becomes much sounder! It will be able to develop more satisfactorily as a socialist economy! Moreover, this will demonstrate that the essence of socialism is not so vastly different from the capitalist system as was previously supposed.

INTERECONOMICS: Professor, can you tell us what actual economic factors—and possibly what technical factors, too—have led to such a reversal of ideas in the concept of socialism?

ŠIK: Yes. It is important to understand why certain things were previously disputed. Formerly, it was thought to be very simple to plan a socialist economy. It was assumed that the whole economy could be managed from one central point by directives and quantitative indices and that everything could be administered from above so that nothing was left for the market economy to do. This was possible for a time. Naturally, if it had not worked at all then, people would have asked: why did you not know this before? This kind of planning went right just as long as extensive growth factors were present. Provided new factories could be built, production increased and new labour employed, it was sufficient to set essentially expansive and quantitative growth targets—and these were met, more or less. But qualitative development lagged behind. This led to an extremely uneconomic and one-sided development, and it became increasingly difficult to satisfy needs. Certain contradictions arose simply because of these conditions, demonstrating that things could not continue in this way.

INTERECONOMICS: You said that this first phase in the concept of a socialist economy was feasible. Would you go so far as to say that, in the first period—the extensive phase—it was also necessary? Or could the first phase—the creation of socialism—have been completed in a different way?

ŠIK: This is a difficult question to answer because, in a certain

sense, a slightly different form of guidance, making more use of market relationships, prices and so on, would have helped towards a more effective development. On the other hand, it must, of course, not be overlooked that—as long as a country has a large labour surplus—it is, in a certain sense, possible to help such a country by the fastest possible quantitative development. If we had aimed immediately at maximum effectiveness, we should not, for instance, have been able to extend the industrial production capacity so rapidly. But, for a time, our labour force would also not have been fully employed. In today's highly-developed industrial countries this is no longer of importance. But in partially-developed countries or, in general, where there is a labour surplus this is really a serious factor. Therefore I cannot simply ignore it. In undeveloped countries, as in certain socialist countries—even today, for instance, the position is somewhat different in Poland as compared with Czechoslovakia—extensive plans can still be of assistance by setting progressively higher growth targets which are met simply by building an increasing number of new industries, employing more and more new labour. But you must understand that this is only one side of the matter, which is not to say that, on the other side, this form of development could not be more effective than is allowed for by this somewhat simplified and over-centralised planning by directive.

INTERECONOMICS: In this case, had it not been possible in Czechoslovakia, as in other Eastern European countries, for certain distortions to arise in meeting demand—compare, for instance, the fulfilment of public and private demand; even we in the West suffer from this?

ŠIK: No, it is quite different from what you would expect. I believe that if we had a somewhat different form of planning, giving somewhat more freedom to private enterprise and a more logical exploitation of market conditions, our development might have been more rational. It may sound odd, but it is a fact that although, after Stalin, the talk in Czechoslovakia was always of the law of planned proportional development, in fact, due to the out-moded method of planning a very distorted develop-

ment resulted. Indeed, it was a decidedly lopsided development. This form of planning, which can be called "directive" or "administrative" planning, we call "preference" planning so as to emphasise its special characteristics; preference is given to a particular sector of production and—as you know—this sector is industry, especially heavy industries. In my view this can lead to over-industrialisation; there is much to be said about this, but we have no time here. To sum up, we can say that "directive" planning, which is intended to overcome lack of proportion in the economy, has, in fact, been the cause of very serious distortions.

INTERECONOMICS: Can it not also be said that today's distortions are the result of the circumstance that in a comparatively undeveloped economy it is possible to plan for a very long time, whereas when the standard of living is rising planning becomes so difficult that it has to be abandoned and elements of market economy have increasingly to be introduced into a centralised economy?

ŠIK: I should like to be a little more precise. We should not talk of "deviating" from planning. This is not for ideological reasons but simply because of our knowledge of economics. I do not believe it is a question of deviating from planning, but of a completely different concept of planning. When we talk of planning in general terms, we cannot simply equate this with the form of planning which hitherto has been accepted in socialist countries as the only valid and possible one. It is a question of changing a form of planning which emerged in a certain period and even, at that time, offered certain advantages. To begin with, it helped—in the USSR, for example—to create a not yet existing industry, and secondly, it was possible for a time to run this newly-created industry from a central point, because, at the start, it was not on a wide scale. At a certain point, it was seen that this type of planning was no longer possible. So I must put it in this way: We still need "planning" as a tool and—as you yourself said earlier—this is being realised in capitalist countries too. This means that we are not abandoning planning; quite the contrary: the necessity for planning is becoming

more widely recognised. But it will be an utterly different type of planning from the one we have known hitherto. The idea that the central authority can give a definite answer about what and how much is to be produced must be scrapped. You know that: the whole scale of indices, extent and diversity of production, productivity, costs, size of labour force, wages—all used to be established by directive and this proved utterly unworkable. This precipitated the following situation: first, using that type of planning it was impossible to calculate what the most effective action would be, and secondly, it was established that the setting of targets had been oversimplified. In fact, it was believed that if we had steel, iron, coal and power, we would have everything else automatically. But this is not true at all. On the contrary, although we now lead the world in per capita steel production, we do not have all the other things we really do need.

INTERECONOMICS: Professor, returning to the question of factors, your remarks lead us to conclude that one of the factors which led to a change of policy on the type of planning needed in socialist countries was the following: certain distortions allowed at the outset in the interests of rapid industrialisation and development have now become so acute as to be intolerable.

ŠIK: Yes, there is something in that. On the one hand, people really believed that industry had to be expanded as quickly as possible, particularly in countries, which had practically no industry at all. But at the start it was not foreseen that after a certain period distortions would be created. In brief: these distortions were not seen as such immediately; this only happened later. The more industrially developed a country is, the sooner such distortions appear. For example, Czechoslovakia is a highly-developed industrial country; distortions appeared there much sooner and more violently than in countries with a lesser degree of industrial development. In under-developed countries the populations are primarily concerned with the quantity of consumer goods produced. They have a comparatively sufficient agricultural production and industry provides new goods which were previously

in short supply (e.g. textiles, shoes, etc.). Initially, it is sufficient for these things just to be available. But when the standard of living reaches a certain level, they are no longer concerned purely with quantity. They do not want just "shoes" or "textiles", but certain kinds of shoes and certain kinds of textiles; quality and the available selection suddenly become the dominant factors. If transport has been neglected during this expansion, this also will act as a brake upon industrial development. The same applies to other services.

INTERECONOMICS: The second reason for modifying your economic system is, therefore, the rising standard of living?

ŠIK: Yes, but in addition there are the technical developments made in production. The position is similar here. For a time, certain production-lines are sufficient for the purely quantitative development of production. Do you follow? For a time it was sufficient merely to produce quantities of machines, quantities of steel, iron and coal. But at a certain point, this becomes insufficient to develop the productivity necessary for a rounded economy—and there is no progress without development of productivity! All of a sudden the resources necessary for expansion disappear. There is no longer any surplus labour. At this stage, the necessity manifests itself for production development on a much more intensive technical level and suddenly the former level of production is no longer sufficient. For the same applies here: we have only produced quantities of machines and have not made sufficient progress in technically-advanced, modern production skills in engineering. It is no longer sufficient only to possess steel—we suddenly need refined steel, refined metals and so on.

INTERECONOMICS: So both from the point of view of the consumer and from that of the manufacturer, planning must be made more efficient. Now we should like to know how this more efficient planning differs from the central planning used previously.

ŠIK: We feel that central planning must necessarily be macro-economic planning — macro-economic

nomic in the sense that by planning the directions of investments the basic structure of production is being created—that, moreover, it influences the basic proportions of the distribution of the national income, but no longer attempts definitely to determine the actual quantities of specified products each sector must produce. So we must change our earlier ideas of “planning by directive”. Plans must take on more the character of “planning by orientation”. Thirdly, such plans can be only long-term plans. Consider that centralised plans are one-year plans. The minimum run must be five years, if possible with even longer-term prognoses, covering perhaps ten to fifteen years. Work-programmes for terms of one year or less should be left to the individual businesses. Naturally, it will still be necessary for short-term plans to be brought to the attention of the central planners in order to establish if, and to what extent, they coincide with the long-term plan.

INTERECONOMICS: What happens if the plans of individual enterprises do not fit in with the central plan?

ŠIK: If they do not fit in, the enterprise cannot be compelled to alter its plan, as used to be the case. In future, long-term plans are not meant to be binding plans for action—as formerly—but a basis for continuity in work planning. This means that creative work must be done on the plan and attempts must be made to modify it and keep it up-to-date by considering new factors which arise. Previously, the Five Year Plan collapsed after one or—at the most—two years, by which time it had become a conglomeration of out-of-date figures.

INTERECONOMICS: You talk of gingering up the plan? How is this actually achieved? How far are the wishes of certain business groups, individual managements and consumers considered?

ŠIK: This brings us to the question of what the contents of macro-economic plans are to be and how they will be compiled. Insofar as there are any indications, almost everything which was previously stated can be retained: production targets, priority types of production, productivity, cost-develop-

ment, labour force, etc. On the basis of scientific research, an impression will be evolved of how certain macro-economic factors are likely to develop. However, these macro-economic plans are to be considered binding only to a limited extent; only the basic directions and the efficiency coefficient of investments should be binding because investments influence the basic structure.

A word here on how these plans are constructed; otherwise—I fear—the old idea will stick that someone at the centre will think something up! The central authorities should set up only a first hypothesis based on an appreciation of future developments of the market, both at home and abroad—i.e. macro-economic business research as carried out also in capitalist countries.

INTERECONOMICS: Who supplies the data for the guidance of the central authorities?

ŠIK: One starts with an impression of the possible growth; this hypothesis is gained by assuming development will continue as hitherto but naturally inhibiting factors have to be taken into account. This also means taking into account the labour potential, the raw material outlook, etc. This gives an initial idea of production potential. Based on this, they calculate the secondary hypothesis of the approximate volume of investment required. By deducting this investment from the quantity of production, one can calculate consumption. On the basis of specific calculations along the lines of developments up to date, consumption is allocated according to individual social consumption. This leads to the question of what structural changes are likely to occur in the calculated level of consumption if wages are raised and so on. Where will things develop more rapidly or more slowly? This is how a first impression of the optimum future structure is gained. This is where a further question must be put: should we produce all this ourselves? And: can we produce all this satisfactorily? Previously such questions were not posed. Effective potential must, however, be calculated and it is no longer possible for the central authorities to do this. This needs to be done starting from the bottom. That is

to say: business enterprises can only have this basic macro-economic perspective, so they can say: “Aha, demand may—or will approximately—develop in such a way for us; we can count on approximately this amount of investment.” However, they have to set up variants for themselves at a later stage. And now the possible technical developments in individual businesses have to be considered: which investments should be made, what kind of products manufactured, what substitutes be introduced? We want to reach a stage where each business develops its own variants—but variants set up by a method common to all. I do not need to detail the method to you here. Basically, it depends what result can be achieved at what overall cost.—At this stage it will become clear to you why we wish to retain planning. In our view, it is difficult for a business to make up its own mind in favour of this or that variant. It realises, of course, that in its opinion one variant is more effective than another. But this is not necessarily also the most efficacious from the point of view of society. It may turn out that this variant is too demanding in relation to earlier work carried out at certain other branches, about which the individual enterprises are insufficiently informed. You appreciate, of course, why these alternatives should be submitted to the central authorities? It is only in this way that they can be balanced—all together—by modern methods. By using up-to-date input-output methods we can then compile a table, which is already statistically calculated, involving 93×93 items, while now and during the next years a much more complicated one is being prepared involving 400×400 items. Only then can we say: we shall select certain variants in particular branches of the economy because they guarantee the most effective development from a general economic point of view too; other variants we do not wish to have implemented, we would prefer to import. On the other hand, it may also be decided that products which could be highly competitive in overseas trade shall not be produced for domestic consumption alone; this involves types of products and branches where it would be expedient to produce for export too. Thus, a macro-plan

is established based on recommendations from business. There may be two or three phases before it is finally completed. We are speaking, in this connection, of the method of approximation: the central authority selects something, sends it back to the business sector for detailed formulation; they, in their turn, put it up to the central authority once again in the form of a concrete proposal and, in the end, a solution emerges which approaches the optimum.

INTERECONOMICS: What about the time-factor? Does it not sometimes take a very long time for plans to be finalised by this method?

ŠIK: Yes, and thus, it is our opinion too that this method should only be used for five-year plans. But let me sum up: The plan will contain three sets of investments: first, the so-called "central investments". These make up about 20-25% of total investment. These are investments outside the scope of the business-sector, such as large dams or atomic power plants.

INTERECONOMICS: You mean the infra-structure?

ŠIK: Yes, under the plan such investments will continue to be guided by directive and there will be no great change. The second group of investments are the so-called "branch investments". These are investments which are accepted on the basis of recommendations from the business-sector. The size of these will no longer be forced upon businesses—but it is essential they be effective. The third type of investment is "business investment", probably 20-30% of the total. This is no longer included in the five-year plan. These are short-term investments by individual businesses—i.e. substitute investment—and also investment for rationalisation. This investment planning is based on the view that if we have a grasp of investment policy and the investments are really adhered to, we can also control the basic structure and development, the growth-rate and the efficiency of the economy. Compared with the past, the difference is that we no longer consider it necessary to tell each sector how much it must produce. This should be left to market forces. In a word: an individual business still has its ca-

capacity controlled, but it must decide for itself—just as in your country—exactly what use it should make of this capacity on the basis of its knowledge of the market.

INTERECONOMICS: Now we are leaving the production side for the consumption side.

ŠIK: Yes.

INTERECONOMICS: If we have understood aright, in your system the consumer has his say via the demand recommendations voiced by business.

ŠIK: Quite right. But I would like to point out that we are talking now of target-models. In the transition period we cannot completely avoid certain directive indices for some products. But this is only a transitional problem. We have bottle-necks, we have distortions. In this year of transition, for example, we cannot yet afford for certain types of production not to be controlled centrally. This is not a problem of the total extent of production of business. This is important because earlier the extent had misled business. Also this only affects certain important products. Only about 70 items are involved. In a range of products of about one and a half million items, 70 items are almost nothing. These include, for example, power, steel, etc.

INTERECONOMICS: Professor, what are the incentives for individual businesses to plan in this way? Are there certain incentive schemes—as we have in the West—profits, for example?

ŠIK: Yes. Now we are coming to the second facet—the new one. We anticipate that the interests of the business-sector will develop in a quite different way than they have done hitherto under socialism. Up to now, the interest of the business-sector was simply to complete its quota.

INTERECONOMICS: ... cost what it may ...

ŠIK: ... cost what it may! When the quota was completed, sometimes goods were produced which were not sold, they even remained in stock! It went as far as that. I could tell you some stories! And certain types of goods were produced which were sold, but at a heavy loss, because there was no

other way of disposing of them. All this happened because the manager had to shoulder the responsibility for the fulfilment or non-fulfilment of the plan. As well as this moral-cum-political check, there were material incentives too: wages were tied to the fulfilment of the plan, so that these plans became the main interest both of management and the labour force. For the future, each business will sell its goods on the market in the normal way. As happens elsewhere, it will submit its range and contract with buyers in the normal way. Everything it needs for reproduction will have to be covered by profits. If the cost of materials and depreciation is deducted from these profits, the balance is what we call "basic earnings". Out of this, certain payments have to be made to the State. In fact, there will be two types of payment. I shall not call them "taxes" because, unlike ordinary taxes, these payments are a planning tool. They are, in fact, a contribution to the State budget, but at the same time—and this is most important—they are a planning tool.

INTERECONOMICS: Are they also contributions towards investment funds?

ŠIK: Yes, in a certain way. The initial payment is first of all a percentage of the "basic earnings". This percentage must be fixed by the State in advance—that means before a business begins planning at all. Thus, businesses know in advance what is required by the State. Equally, these payments may not be adjusted afterwards. This should prevent deductions being made subsequently if a business earns more than was anticipated. If this were done, the interest of business would disappear again. In future, we should like to see uniform payments from each branch and each enterprise, because, if these are not kept standard, the progressive firms would be penalised and the inefficient ones—the bad managers—would be at an advantage. Unfortunately—in this period of transition—we are not yet able to set standard payments because price differentials are too great. We still have the old prices and only now are we preparing the price reforms.

INTERECONOMICS: Will the standard payment work on a percentage basis?

ŠIK: Yes, in future we envisage a percentage of the "basic earnings", I cannot tell you yet whether this will rise progressively, or not. This will have to be taught by experience and research. At present, we think that, with intensive development, it need not be progressive.

The second type of payment is from the so-called "production fund", or what you call "fixed capital". It is a payment which, whilst made from "basic earnings", is calculated as a percentage of "fixed capital". This is intended to stimulate interest in the most effective exploitation of the means of production. Hitherto, businesses have fought amongst themselves for the maximum investment; at the same time, they did not care whether these were exploited or not or whether they were exploited efficiently or not. Thirdly, firms have, of course, to repay credit advances and pay interest out of "basic earnings".

INTERECONOMICS: How are incentives for staff and the firm itself scaled?

ŠIK: After deduction of the two types of payment and the repayment of credit advances, the balance belongs to the firm. What is left to the firm is thus not planned, but remains as a residual item. How does the business use it? I would say just the same as any ordinary capitalist business. First, it has to set up a certain reserve fund and secondly, a fund for technical development; the remainder is available for distribution. These resources fall into two sections: the so-called "basic wages" and "bonuses" as a special form of recompense. The better a business is run, the larger the wherewithal for bonuses. Such bonuses are intended to stimulate the interest of the whole staff in the growth of the business. Everybody in the firm shares in these bonuses, but on a differential scale, i. e. it is for the firm itself to decide whether key-personnel—such as engineers, technicians and other responsible persons—should receive a relatively higher rate of bonus.

INTERECONOMICS: What part do the unions play in this distributive process?

ŠIK: As regards basic wages, again we want to have a general State schedule, in which, you under-

stand, basic principles are established, simply to avoid confusion. Surely this is done everywhere, in a similar form in your country too? So initially, the State will negotiate with the unions over the entire State wage schedule (rates, basic rates, etc.). But as regards actual wages, the management of each business will consult with its union. The union will have a considerable say in this.

INTERECONOMICS: Can you say a brief word about the part played by prices in your new system?

ŠIK: This system just needs genuine, economic prices: market prices, in fact. This involves an important problem which looms large, even in capitalist countries: namely, if we have a completely free price system, how do we prevent it from running amok? We want to safeguard ourselves against this, at least at the outset. We are attempting to achieve this by using three forms of prices: first, the so-called "fixed prices" for the most important raw materials, for power, staple foods and other important consumer goods. Although these prices are variable, they are fixed and controlled by the central authorities.

The second form is "restricted prices" (from ... to ...); this introduces a certain flexibility. The third form of prices is those which are completely uncontrolled.

INTERECONOMICS: Is this a permanent set-up or only an interim solution?

ŠIK: This has not yet been decided. In my opinion, a free price mechanism will gradually gain the upper hand. We must attempt to make greater use of counter-inflationary tools, attempting, on the one hand, to control price-levels and, on the other hand, to allow free economic price developments to assert themselves.

INTERECONOMICS: Can we get back to profits? You said that profits offer an incentive for expanding production. But what happens if this causes bottle-necks—in the distribution of goods, for example, or if a product proves unsaleable? In case of necessity, can a firm obtain goods abroad? Can it sell its output abroad or manipulate its prices? And what happens if a business is so inefficiently run that

—as happens with us, for instance—it has to go into bankruptcy?

ŠIK: If a business is badly run, if it cannot sell its output, or sells at a loss, then its "basic earnings" fall. As I have said already, the payments to the State are obligatory. So first of all the "reserve fund" disappears and, if the business continues to do badly, the bonuses will also disappear. Naturally there will be an outcry, but things should go no further. In theory, it is possible for income to fall to 92% of basic wages—since 92% of basic wages are guaranteed by the State, it being impossible, in the last analysis, to hold the workers responsible for bad management. But further than this, things cannot go. As I said: they should not even go thus far. As soon as the bonuses have dwindled away, the central authority should launch an investigation, and if it should transpire that faulty management is the cause, the people responsible must be replaced; the business might even be put into liquidation. But this would be a political decision: either society needs the business, in which case it must be re-organised—not by pumping in money but by credit advances. If society does not need the business, then it must go into liquidation.

INTERECONOMICS: Say there is a structural crisis, a coal mine, for instance, which for structural reasons is not flourishing as e.g. in West Germany. What then?

ŠIK: Then, logically, the business will have to be closed. That is precisely what we are aiming at. We have many businesses which are quite unprofitable but which were allowed to carry on under the old system. Nobody had the opportunity to close down such businesses. In future, if such a business does not cover its wage bill, it will not be able to survive, and that is a good thing because the workers will move away from there to where we need them. This way an "economic" redistribution of labour will be achieved and under our conditions unemployment cannot happen.

INTERECONOMICS: Do you not think it possible that you may have to contend with difficulties such as we experience—that you will have to finance concerns which have got into structural difficulties solely because they are backed by

certain interests—say, the coal-owners or even the unions which, in the Ruhr, represent 400,000 workers? One compromise after another is made and a branch of the economy is subsidised which is no longer justified by current requirements?

ŠIK: I would put it in this way: in that case the problem would be the same as yours or as that in other countries. It would not be easy to change. Since you mention coal—in our country this is also a highly inefficient investment which is becoming increasingly expensive for us. We are going deeper and deeper and we must therefore be converting increasingly to oil-heating and other uses of oil.

INTERECONOMICS: So here too, by taking the example of a branch of the economy which is threatened by a structural crisis, we can see that you have problems similar to the ones we experience.

ŠIK: Yes, that is quite right. Now, if I may say some more about it: this is just where planning should help us somewhat, since it should be possible to predict these things earlier and try to find a solution in good time.

INTERECONOMICS: This is just the reason why we are also intro-

ducing a certain form of planning. This should solve structural crises, growth crises and other crises which may occur. To this extent, there is really a certain "rapprochement" of our problems and of the methods used to solve these problems—talking from an economic and technical standpoint.

ŠIK: I agree completely. If one is better acquainted with the essentials of a socialist economy, it can be seen that the differences vis-à-vis a highly-developed, modern, capitalist economy are by no means so great as people used to think—or wished to think. But I repeat—and please understand—this must not be interpreted as a retrograde step back to capitalistic ownership. There is no question of that.

INTERECONOMICS: At this point, we should really explode a myth which—it may be—a few economists in Eastern Europe have helped to create; we, in the West, are always adding fuel to the fire—namely, that we in the West are still the arch-capitalists we used to be. All the examples quoted at the beginning of this talk and especially those cited towards the end, indicate that in that sense we are

no longer genuine capitalists, but that fundamentally and with a good dash of pragmatism, we are trying to make the best of the market economy in order to achieve certain pre-set targets, but—we must recognise this as the essential difference between our systems—in our system these targets are set more by individuals or by particular groups than is the case in your system (and this will hold even when your new ideas have been implemented).

ŠIK: Quite so; I agree entirely. Nor do I view the question of property so much from its legalistic aspect; it is more a matter of who controls the property, of a social type of production and product distribution, i.e. the way of enforcing certain interests. But as soon as private interests or the interests of small groups are subordinated to the general interest, the economically important essentials of progressive development will actually assert themselves.

INTERECONOMICS: Professor, we ought to end our discussion here. We have heard a wealth of views from you and have arrived at a conclusion which we think will be of great interest to the public.

Effects on Development of the Population Explosion in Latin America

By Dr. Jürgen Westphalen, Hamburg

The present population problem in Latin America is not dependent upon too large a number of inhabitants in relation to habitable area and the potential area available for growing foodstuffs—as in the case of some developing countries in the Far East—but rather upon the far too rapid population increase compared with the growth of the economy, i.e.—to quote R. F. Behrendt¹ upon a marked "disparity between population rates of growth and comparative economic stagnation". There is no inhabited area of comparable size whose population increases as rapidly as that of Latin America. From 1920 to 1950 the population of Latin America increased by 79%; over the same period the population increase in North America was

44%, in Asia 43%, in Africa 42% but in Europe (including USSR) only 18%. It can be estimated that in the second half of the century, i.e. between 1950 and 2000, the population of Latin America will increase by 263% (!), whereas in Asia the increase will be only 180%, in Africa 159%, in North America 86% and in Europe (including USSR) 65%.

The following brief remarks cannot be more than a rough outline of population developments on the Latin-American sub-continent. Some important causes of this development are indicated and their most important economic and social effects described. Finally—but again only in brief—possible population trends will be estimated and indications will be given of some of the requirements in Latin America relating to general development policy in relation to the population problem.

¹ R. F. Behrendt: *Soziale Strategie für Entwicklungsländer. Entwurf einer Entwicklungssoziologie.* Frankfurt am Main 1965, p. 24.