

X/9-P - THE ROLE FOR "COMPETITION" IN THE SOCIALIST ECONOMY

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Munich, 19 April 1966 (East Europe Research and Analysis Department/Harry Trend) -- The "market" and a "new type of competition" are the only forces left for a socialist economy to use as a counter to the chronic lethargy of East European enterprises, according to the Polish economist, E. Lipinski. Writing in Zycie Gospodarcze of 3 April 1966(1), Lipinski argues that no amount of planning nor the use of the latest mathematical procedures and electronic computing gadgetry can be of much help for anticipating the effects of ever-changing technology or detecting the direction of market change, regardless of whether the change results from the initiative of the consumer or the producer.

The plan cannot provide "localized" incentives, according to the Polish economist. The enterprise profit and non-profit motives can serve to stimulate enterprises to react to, participate in and influence market developments. It is the market which will provide the necessary outside pressures needed to transform enterprises into dynamic economic units. For this, market rivalry between firms is necessary and this need not take the form of "perfect competition." Although specialization can provide cost-cutting conditions, it brings with it a kind of monopoly "which must inevitably lead to high prices, technically antiquated products and a limited selection of products" -- the ills uniformly experienced by all East European economies.

In order for the "market" and the "new type of competition" to operate successfully, the enterprise must be provided with a "certain margin of freedom of action." Without assuring enterprises a measure of "freedom of action" and "incentives" to provide the motive force, according to Lipinski, one can only expect lethargic enterprises.

He observed that a reliance on the market as the ultimate guide to production for sale "increases the elements of uncertainty and risks in the economy, creating so-called disproportions." But, according to Lipinski:

If we should add that an essential condition of economic progress is as rapid as possible a reaction of the enterprise to changing techniques and demand; in order that planned economy not be a stagnating economy to a greater extent than a "free" economy, it must ensure a fairly large leeway for competition and even for "spontaneity," meaning that technological progress, new techniques and new product lines and novelties are accomplished most frequently unexpectedly and outside of the plan.

Thus, as planning eliminates uncertainties and risks it also encourages economic stagnation, particularly in view of the increasingly rapid rate of technological change experienced throughout the world.

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(1) "'Competition,' in the Socialist Economy," Polish Press Survey, No. 1985, 16 April 1966.

Under the forces of the second industrial revolution, the rapid rate of technological change also challenges the bloc-wide assumption that the leading industrial branches largely include the raw material sector. According to Lipinski, new technology has transformed branches previously believed to be unproductive "suddenly" into productive types. The new technology "brings forward industrial branches based on scientific research and working above all to satisfy consumer demands directly or indirectly." This increased need to be preoccupied with the consumer sector means that the consumer in the market must become the object of all economic activity. No longer can a full employment economy be assured by merely paying attention to the producer-goods sector with its centrally guaranteed markets.

Anticipating criticism from those in East Europe who may say that all that is being advocated is a Western-type of consumer-gadgetry economy, Lipinski is quick to assure his potential critics that he foresees the need for the "socialist" society to develop in man a longing for higher-type yearnings. According to Lipinski:

If we establish that the aim of socialism is the liberation of man, ensuring him the "optimal" conditions for the development of his personality -- both at work and in his free time -- it will not be impossible to create a hierarchy of needs whose fulfillment will protect man from poverty, uncertainty, dependence, emptiness.

However, all of these desires need to be expressed through the market. For the satisfaction of consumer wants, no matter how they develop, rivalry or the "new type of competition" is a prerequisite and for this to work effectively, the enterprise must be ensured a measure of "freedom of action." This new freedom of enterprise must be provided in order for an enterprise not only to respond to consumer choices but also in order for it to be able to affect the market. Monopoly through specialization is certainly not the answer, according to Lipinski. The increased measure of "uncertainty and risks" is worth the gains to be won under the "new economic model" visualized by this Polish economist.

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