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THE SOVIET ECONOMIC MODEL, ITS IMPACT ON NON-SOCIALIST COUNTRIES 1947-1991, AND RELEVANCE TODAY

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ABSTRACT

The paper probes into the relevance of the Soviet model for non-socialist economies. After World War II the Soviets had a tremendous impact on economic policies in the non-socialist world. This paper begins with a restatement of the 'core' of the Soviet economic system, emphasising elements that could be incorporated in a non-socialist country. The Marshall Plan was designed by the Americans to revitalise West European economies as a counter-weight to the USSR, and they made far-reaching concessions to the allies, departing radically from the pre-war practices in international trade. Instead of extracting war reparations from defeated Germany and Japan, the USA provided economic aid. West Europe was even encouraged to discriminate against US exports, as was Japan. The latter, in particular, carried out successive development plans with a state-centred economy heavily influenced by the Soviet model. Outside the American sphere of influence, India embarked on industrialisation with direct assistance from the Soviets and at a later stage from the West as well; without imitating blindly, India, too, borrowed many ideas from the USSR. The concluding section explores the contemporary relevance of the Soviet model.]

Introduction

Well before the Second World War the USSR became a pole of attraction for a broad spectrum of socialists in West Europe [(1)] and Japan, and even wider circles in colonial countries with a powerful national liberation movement such as China, India, Egypt, etc. Their admiration grew manifold after the Soviets successfully withstood the main brunt of Nazi attack during the war. There were several reasons behind this popular perception: a) rapid industrialisation in the USSR [(2)] based on domestic resources *sans* foreign capital; b) achievement of full employment during a decade when the West had plunged into the Great Depression with massive unemployment; c) spectacular progress in education and health; and d) highly egalitarian (compared to the rest of the world) distribution of income and wealth.

The dark side of the story, namely forced collectivisation, the famine of 1932-33, and the Gulag, was known to some extent, but was pushed under the carpet.

The Soviet impact during 1947-91 was felt at three different levels. First, the USA as the First Superpower altered radically its own policies towards its allies to foster their economic development and make these nations less susceptible to Soviet influence. Secondly, major countries in W. Europe and East Asia borrowed some key economic ideas and instruments from the USSR to hasten their rates of economic growth. Finally, the Soviets offered direct economic aid to several non-aligned countries keen on industrialisation.[3]

This paper is in five parts. In section I is outlined the core of the Soviet economic system, and the scope for emulating at least parts of the Soviet system, by countries with ruling ideologies very different from that of the USSR. Next, the Marshall Plan for European recovery is taken up at some length because it led to a dramatic break with the pre-war ideas on international economic relations and there are voices over the past two decades for a new Marshall Plan catering to developing countries. The after-effects of the Marshall Plan lasted as long as the Soviet Union survived. Some key aspects of West German social market economy are underlined to challenge recent neoliberal attempts to look at the Marshall Plan through the prism of the contemporary structural adjustment program of the IMF and the World Bank imposed on debt-trapped developing countries. In section III is taken up the case of Japan that consciously copied many elements from the Soviet practice. South Korea in turn patterned herself on Japan, but there is little to add from the present perspective. Section IV is on India with an accent on her economic relations with the USSR. The contemporary relevance of the Soviet model is brought out in the concluding part.

I. The Soviet Economic System

The ‘core’ of the Soviet economic system consisted of:

i) state ownership or control of most productive enterprises;

ii) central planning of production and allocation of goods and services at state determined prices; iii) a subsidiary role for money, banking and public finance with the primacy assigned to production targets in physical units;

iv) price control and supply restrictions on domestic trade, except for foods produced on the collective farmers’ private plots; v) freedom (not unfettered) of workers to choose their jobs;

and v) state monopoly over foreign trade and transactions. Whether these elements are seamlessly woven together or not is debatable, but China under Deng showed that a transition from over-centralised planning to a 'socialist market economy' was feasible.

By definition, a non-socialist country (with most industries in private hands) cannot replicate all the core features just described, but can still incorporate some. Above all, it could target production and investment in critical industries like steel, energy, machinery, chemicals, fertilisers, etc. To attain the targets: 1) the financial institutions must release funds according to government priorities; 2) foreign trade and transactions have to be planned to a considerable extent; and 3) domestic prices must conform to planners' preferences so that the newly created industries remain viable. In short, the domestic market must be guided by the state that must also provide a cushion against the global market forces. Such a course was taken over varying lengths of time by several major countries.

At this point it is worth looking at Stalin's views towards the end of his life on the main tasks and constraints of Soviet planning. These are expressed with unusual clarity in Pollock's (2001?) essay, based on several rounds of Stalin's conversation with Soviet economists in the late 1940s and early 1950s that remain unpublished but preserved in the Russian archives. The points noted below are taken from Pollock, but some are also mentioned in Stalin's *Economic*

Problems of Socialism in the USSR (1952).

(a) The 'main task' of planning is to 'ensure the independence of the socialist economy from the capitalist encirclement'.

(b) 'The second task of the planned economy consists of consolidation of complete ownership of the socialist economic system and closing off of the forces which give rise to capitalism.' [By implication, non-socialist forms would at best be tolerated for a limited period.]

(c) 'The third task of planning is not to allow disproportions'. Because the economy is so large, it is necessary to have large reserves.

As for the means, Stalin singled out 'piecework for workers, bonuses for engineering technical personnel, prizes for the *kolkhozniki* - these are levers for the development of industry and agriculture…At one time we boasted that technical workers and engineers will receive no more than qualified workers…If we went along that path everything would have fallen apart. You [the economists who prepared an earlier draft – NKC] want to skip directly over to communism. Marx and Engels wrote with total communism in mind. The transition from socialism to communism is a difficult trick. We have yet to get socialism in the flesh and blood and we still need to put socialism right, still need to distribute according to labour as is necessary.'

Regarding profits, Stalin observed that 'if we were to develop branches of the economy depending on their profitability, we would have been able to develop only flour milling, production of toys… and textiles, but we would not have had heavy industry. Heavy industry requires great investment and is unprofitable in the beginning…. [Nevertheless,] we need profits. Without profits we cannot raise reserves and accumulation, address problems of defence, or satisfy social needs… [W]ithout profit it is impossible to develop our economy. For our enterprises a minimal profit is sufficient and sometimes enterprises can even work without profit at the expense of other enterprises'.

Stalin rejected the widely held view that 'the law of value has been overcome'. He clarified: 'It is not true that we are in control of prices…[To do that] you need tremendous reserves, an abundance of goods…But as of now there still is an illegal market, a *kolkhoz* market, and there still exist market prices. If there is no concept of value, there is nothing with which to measure income, and income is not measured in terms of labour. When we shall begin to distribute according to need, it will be a different matter, but as yet the law of value has not been overcome. We want to use it deliberately. We need to fix prices within the framework of the law [of value].' Stalin admitted: 'For us, the law of value determines a lot, and indirectly influences production and directly influences circulation. But the sphere of its effect is limited. The law of value does not bring impoverishment [of the masses.] The most difficult thing for capitalists is the sale of market output and the conversion of goods to money…. With us, sale happens easily, it goes smoothly.'

Although Stalin favoured the 'law of value' over purely arbitrary pricing of consumer goods, there is still no mention of trade through contracts between socialist enterprises in lieu of centralised allocation of producer goods. Nor is there any notion of competition among these enterprises to prevent, as Bukharin (1924, p 108) warned long ago, and Soviet economic reformers of the 1960s repeated (see Lewin 1974, chapters 6 and 7), their degeneration into parasitic state monopolies. Thus Stalin's recipe was far from adequate to 'resolve' the economic problems of post-war USSR; it was nevertheless a step forward as Lange (1963, pp.84-85) observed.

What has just been said does not contradict any of the 'core' elements of the Soviet system described earlier. The list, however, leaves out two features widely stressed in Western literature. The first is 'autarky'. For instance, Bergson (1964, pp.318-19, 337-38) asserted that the Soviets pursued such a policy, and hence the ratio of export to national income since 1928 averaged a lowly 1-2 percent. By contrast, during the early phase of industrialisation in the USA the ratio was much higher at 6-7 percent in 1869-1913. But I do not find Bergson convincing on the factual side. [(4)]

It is doubtful that the Soviets *aimed* at autarky. The First Five Year Plan projected an increase in export from 755 to 1706 million roubles (126 percent) and in import from 910 to 2048 million (125 percent) between 1928-29 and 1932-33 (Zaleski 1962, Table XLIX p.247). This was faster than the expected rise in national income. For a variety of reasons the actual trade figures were much lower and the Soviets were forced to rely on their own resources far more than they wanted to. They had no hesitation about importing Western technology and capital goods from the 1920s onwards.

In the post-war era they tried to join the GATT but were frustrated by the USA and its allies on the plea that Soviets would resort to massive dumping of manufactures in Western markets. Was this a reasonable assessment? According to Nove (1986, pp. 294-98), one Western school of thought was arguing that 'anything that strengthens the USSR is to be deplored… trade strengthens the USSR… and … therefore East-West trade is inherently suspect. To the objection that trade usually benefits both parties… they reply that the USSR gains more either because of the advantages of state monopoly in dealing with competitive Western traders, or because technology confers a special advantage on its purchaser. My own view is somewhat different, but this is not the place to debate the *politics* of East-West trade'. Nove rejected the argument about potential dumping of manufactures in Western markets by the USSR on the ground that the country had very little of excess capacity to be able to flood foreign markets. Holzman (1974, p.217), too, went at length into the question of US granting MFN (most favourable nation) status to the USSR and wrote: 'I am basically in favour of virtually ending the state of economic warfare that has existed between the US and the communist nations since 1945. It is a negative policy that, in my opinion, has not added to the security of this [USA] nation. We have little to lose and, possibly, much to gain from adopting positive policies'.

While I am in sympathy with the underlying political thesis of Nove and Holzman, I think that they took a 'static' view of the Soviet economy and assumed that the characteristic shortages and bottlenecks would persist indefinitely. If in the 1960s or 1970s the West permitted 'normal' trade relations, there is no doubt that Soviet export of some 'simple' manufactures would have gone up. Presumably, they would use the additional dollars to import more of Western technology and machinery to remove the production bottlenecks, especially in the export sectors, and thus accelerate the growth of Soviet exports over the years. Indeed, China took that course after 1980; her export, mainly to the West, jumped in $ billion from 21 in 1982 to 250 in 2000 (SYC, various years). True, as Nove and Holzman had argued, the West also gained enormously. China's imports increased almost to the same extent, and certain reports indicate that as many as 200,000 high technology jobs in the USA alone depend on orders from China. Who gained more from the exchange -- China or the West? I have not come across any trustworthy calculation on this score. But a story narrated by Professor Robert Reich, former US Labour Secretary, hit the nail on its head. He once asked his students if they would approve a new policy, enhancing the annual GDP growth rates from 4 to 6 percent in Japan, and from 2 to 3 percent in the USA; the entire class rejected it. Professor Reich was distressed, but neither politicians nor businessmen feel comfortable when rivals, domestic or foreign, grow at a faster pace. Even in the Gorbachev years the US position had not changed. As Costick (1987, pp.85-88), a consultant to the National Security Council, Washington, put it: 'The economic relationship [between the USSR and the West] is not normal commerce, but a form of systemic struggle'. Economically and militarily, China even today is at most a thorn on the side, but is not really a rival to the US in the way that the USSR was. Not that Nove or Holzman was unaware of this Cold War logic, but they did not subscribe to it, and chose to ignore it.

Returning to the question of autarky, in the post-war years Holzman's (1974, p 60 and tables 2.2 and 2.3) figures showed that the 'extreme' autarky of the mid-1930s 'was now abandoned'. One may still ask if, relative to their income, planned economies engaged in trade to a lesser extent than market economies. A number of studies came to divergent conclusions. A very useful one is that of Biessen (1991). In the model the export level depends on income, population and distance (a surrogate for transport costs) between the countries, and the data set pertained to the year 1980 for 21 Western countries and 7 European planned economies, including the USSR. From the Western data the 'fitted' or normative trade ratio (along with the standard deviation) for countries with different levels of per capita income were estimated. It was found that the actual ratios for the planned economies fell within the normative range, and that the Eastern ratios were not significantly lower than comparable Western ratios. Indeed, the Soviet efforts to promote trade among socialist countries through the Council of Mutual Economic Assistance (CMEA), and bilateral trade with many non-aligned developing countries like India, Egypt, Algeria, etc. make little sense if autarky was a major policy objective.

Last but not the least, Marx was a free trader with qualification. In a speech at Brussels, Marx (1848, pp. 463-65) declared that free trade 'under the present conditions…[is] Freedom of Capital.' The workers would be neither better nor worse off. But 'Free Trade hastens the Social Revolution. In this revolutionary sense alone, gentlemen, I am in favour of Free Trade.' On the other hand, regarding Germany with a nascent bourgeoisie, he observed, 'the Protective system helps to develop free competition within a nation.' The protective duties there served as weapons against feudalism and absolute monarchy. Indeed Marx's position is surprisingly modern. As shown later, both Japan and India restricted imports and foreign investments to foster domestic competition in the post-war era. Marx's view was also vindicated by the GATT (1969), when it incorporated in 1958 Article XVIII-B, allowing only developing countries to protect domestic manufacturing for an indefinite period.

The second lacuna in my list of 'core' elements of the Soviet system is what Kornai (1992) called the shortage economy, a characteristic of the classical socialist model, namely the USSR from 1928 onwards. Shortages plagued the entire economy -- producer goods, consumer goods and services, labour and foreign exchange, and were chronic rather than spasmodic, and affected the behaviour of all economic agents. Why did it matter?

Shortages, Kornai argued, results in a serious loss of consumer welfare. *Faute de mieux* the consumers were forced to buy goods that were available, but not those they would like. Is it a phenomenon confined to Soviet-type economies? Apart from the question of long queues to be taken up shortly, Soviet consumers had two other woes. From time to time a number of goods simply disappeared from the shops. This was a case of temporary disturbance in the supply system. More serious was the introduction of 'superior' new products fetching higher profits for the producers, and replacing altogether the older, cheaper substitutes that the consumers might prefer. Often, the new product was qualitatively no different, and Nove (1986, p.256) called it a case of 'concealed inflation' that became very widespread since the 1960s. Whether the new good was really better or not, it constituted an abuse of monopoly power as consumer choice was restricted. But the same practice prevails in market economies. Let me give an example. Till the early 1990s, the Indian family firm of Malhotras, which manufactured the entire range from the cheapest to the most expensive shaving blades, controlled 90 percent of the market. Global giants like Unilever, Union Carbide, Wilkinson and Gillette made forays into it, but by carefully calibrating the prices, the Malhotras pushed them all into a small corner. After India went for neoliberal reforms in 1991, and foreigners were allowed to take over local firms without considering the probable impact on monopoly power, Gillette bought over the Malhotras. In the next few years Gillette greatly reduced the supply of cheaper brands, and focused on the 'state-of-the-art' product range. Nevertheless, the same brands marketed in India cost a fraction of their retail prices in industrial countries. Similar is the situation for a wide range of manufactured consumer goods in personal health care, garments, shoes, and so on. The loss of consumer welfare on this score in industrial countries should be colossal, though no one has estimated it, and few economists broach the subject. To a limited extent, the European Commission has been enquiring into the highly differentiated prices of identical products across the member countries. In addition, the Western consumers have to put up with non-tariff barriers to cheaper or more desirable imports. Until recently, a Japanese consumer who preferred Scotch to local whiskey had to fork out much more, and could not easily locate a retail store selling Scotch. Such was the tight grip that Japan Inc. had over the distribution network. It is not at all certain that non-tariff barriers are falling across the industrial countries. Imports of textiles, garments and so on from developing countries are curbed everywhere in industrial countries to protect domestic products. It is by no means certain that the welfare loss for Soviet consumer owing to queues, supply disruption, concealed inflation and so on, was greater than that in industrial countries caused by tariff barriers, differential pricing (as between the countries) by transnational corporations, the network of distribution, etc. These issues are further probed in section III.

More tangible is the welfare loss from queuing. There is no doubt that for most of the period from the late 1920s to the end of 1980s, the Soviet consumer faced long, if not lengthening, queues for a wide array of goods and services like housing, meat, potatoes, cars and so on. Yet there were several periods when such queues were absent. One simple measure of shortage is the ratio between official and collective farm market (CFM) prices for foods. From Chapman's (1963, table 12, p.105) data on sales to households at both CFM and official prices, I calculated the ratios at 1.00 in 1937, 1.60 in 1940, 15.65 in 1944, 1.12 in 1948, 1.11 in 1954, and 1.35 in 1954. Since the quality of CFM products were reckoned to be superior, one may infer that the excess demand for foods was negligible in 1937, 1948 and 1952. In Poland where I lived in 1959-61 as a young scholar, I spent little time in queuing. In China, before or after Deng Xioping, queues were never discussed as a major problem.

Novozhilov (1926), the future Nobel laureate, wrote about the shortage of industrial goods and blamed it on incorrect (in relation to both Marxist principles and the ground reality) pricing policy; by lowering prices across the board while excess demand persisted, scarcities were aggravated, throwing to the wind the basic principle of balanced development of different sectors in the economy. Bukharin (1928, pp 408-11) gave a memorable formulation: Factories cannot be built with imaginary bricks that do not exist. He complained that there were 'interruptions in supply, "queues" and "tails" have become a way of life, greatly disorganising our productive activities.' Consequently, as Zaleski (1962, Table LVII) showed, the First Five Year Plan targets for many industries, finished construction, etc. were not met despite official claims to the contrary. But such disproportions were removed in the Second Plan. In Khanin's estimate (see note 2) national income fell in 1928-32, but rose substantially in 1932-40.

From the late 1950s disproportions went on rising after the XXI Congress of the CPSU declared that 'full satisfaction of the needs of the whole Soviet people in food, housing, clothing -- necessary and within rational limits, is possible in the not-too-distant future… [In future] state outlays [on these heads] will increase.' (Cited in Strumilin 1959, p.261). Under Khrushchev bread became virtually free leading to wastes. Over the years state subsidies on housing, foods, public transportation, etc. reached staggering proportions as consumer prices remained frozen, while wages in these labour-intensive sectors went up manifold. Stalin, as seen earlier, warned against a hasty introduction in the USSR of norms taken from the stage of advanced Communism. Much earlier, Engels (1872, p.521) rejected Proudhon's demand that workers should enjoy rent-free housing under capitalism, and argued that even during the first phase of socialism, house rent must cover interest on the building capital, including the builder's profit, costs of regular repairs and maintenance, annual depreciation and ground rent.

The big Soviet discussion on the law of value and economic reforms in the 1950s and 1960s focused on the pricing question. In practice, only piecemeal changes took place. The disproportions in the economy grew and the system eventually collapsed. However, China from 1978 managed to introduce many-sided but gradual reforms within the framework of a one-Party state, with central planning and market forces co-existing. Hence I am not inclined to accept Kornai's thesis that state ownership combined with central planning will necessarily create a shortage economy. It is interesting that Bergson (1964) did not mention perennial shortages as a defining characteristic of Soviet planning.

Further, it is worth pointing out that for all his anti-capitalism, Lenin admired Taylorism as a management tool and tried to introduce it in Soviet factories. More than three decades later, Galbraith (1967) drew parallels between the co-ordinating role of the Gosplan and the operations of giant manufacturing conglomerates in the West engaged in a large spectrum of industries. Galbraith predicted a convergence, driven by the imperatives of technical change and production organisation, in the functioning of capitalist and socialist economies that might facilitate a détente. Was he wrong? Of course, the USSR has disintegrated. On the other hand, is there not a certain convergence between China and the West?

But the convergence thesis poses another problem. Granting that more sensible pricing of foods, housing, etc. could prevent the growing imbalances in the Soviet economy from the 1960s, the country might still hit roadblocks. Now, China's rapid growth in the Deng era was greatly aided by a remarkably free access to Western markets that enabled China to modernise large segments of her economy through trade and technology transfer. The groundwork was laid by Nixon's visit to Beijing in 1972 when Mao, if Kissinger is to be trusted, apparently stated that he regarded the USSR as the main enemy. It follows that so long as the USSR remained a Superpower rivalling the USA, the latter could not allow 'normal' trade relations between the two countries. Lastly, China's growth after 1978 has been characterised by a sharp rise in the inequality of income and wealth. Nothing in economic theory suggests that a rise in inequality is a necessary condition for rapid growth. Would the USA be as supportive of China if the country remained as egalitarian as in the Maoist period? I have no conclusive answer. However, inequality beyond a threshold is hardly compatible with socialism as is commonly understood. Convergence might then mean a slow transition to capitalism.

II. The Marshall Plan

The Marshall Plan, or the US-sponsored European Recovery Program (1948-51), was a major turning point in post-war economic history. American aid of about $13 billion over those years amounted to an annual inflow of 2.5 percent of the West European national income. Was it crucial for the recipient countries to attain quickly their pre-war levels of income, and move on to a higher growth trajectory in the long run?

In the first two post-war years the US provided aid worth $8 billion towards relief and rehabilitation, but West Europe made little economic progress, and the US Congress was getting into an 'aid fatigue' (as at present). If the drift continued, the Communists might take over power through the ballot box in France and Italy. As A. J. P. Taylor, a leading British historian, said in late 1945: 'nobody in Europe believes in the American way of life -- that is, private enterprise'. (Cited by de Long and Eichengreen 1993, note 7, p.224). The Marshall Plan was the American response after protracted debates within the US administration. While one section insisted on the primacy of the market, the planners took a pragmatic view with emphasis on a correct sequencing of policy. The latter view prevailed. 'In the short run, the United States should insist on a supranational planning authority with the power to allocate resources, set production targets and foster integration [in W. Europe]. It should also provide basic grants for essential commodities and capital equipment that would bring immediate gains in production. And as production increased, it should encourage European leaders to permit normal mechanism to eliminate uneconomic forms of production and apportion resources on a rational basis' (Hogan 1987, p.57). Kindleberger (1987, p.61, fn.3), who was closely associated with US policy, explained that more of planning, and hence rationing, price controls, and allocation of scarce materials and fuel, were needed in the early stages of recovery, but subsequently, there should be a shift to greater freedom in pricing with a stress on monetary, fiscal and exchange rate adjustments as the main tools of economic policy.

The Marshall Plan served two inter-related objectives. First, to contain the USSR America needed the democratically elected governments in West Europe as political allies. To that end, standards of living in the old continent had to be raised quickly so that communism lost its appeal. These crucial features are ignored by de Long and Eichengreen (1993) who characterised the Marshall Plan as ‘history’s most successful structural adjustment program’ (SAP). From its inception in the early 1980s, the SAP was conceived in Washington and thrust mechanically -- ‘one size fits all’ –upon all debt-trapped developing and transition economies by the IMF and the World Bank (henceforth Fund-Bank), as Stiglitz (2000) put it. After the Fund-Bank duo began overseeing the entire gamut of economic policies in these countries, the overall economic situation today has remained as bad as, if not worse than, before. As a way out of the dark tunnel, influential circles in many countries from Russia to Latin America and Africa have been calling for a new Marshall Plan in lieu of the SAP. Cairncross (1996, ch.9) who had a favourable view of the Marshall Plan, found the demand for its ‘revival’ in the present conjuncture unrealistic. For, the political prerequisite for the Marshall Plan, namely, containing Communism, does not exist today. [(5)]

Was the Marshall Plan a success? It had a number of critics, including very distinguished ones like F. D. Graham, G. Haberler, R. Harrod and F. A. Lutz, who doubted the efficacy of American aid (Cairncross 1996, fn.6, p.111). The critics argued that by 1947, the European economies were already recovering, and in any case, an of aid less than 2.5 percent of national income could not make much of a difference.

Let me take the latter argument first. Is it meaningful to look just at the ratio of aid to national income, overlooking other aspects? One can draw an analogy with the Soviet aid to China in setting up a whole range of modern industrial plants, by supplying designs and blueprints, training manpower, etc. Financially, Soviet aid to China was even smaller than what Europe received under the Marshall Plan. Yet it is difficult to imagine that China on her own could have such a large array of modern industries in the absence of initial assistance from the Soviets.[(6)]

In 1947 West Europe was facing both large trade deficits with the dollar area and fiscal imbalance. Without American aid they could be forced to reduce the deficits by severely deflating their economies; as a consequence, the modest growth achieved till 1947 would be jeopardised. They might also resort to competitive devaluation of the national currencies in a vain bid to boost exports. As Joan Robinson (1947) wrote, competitive devaluation in the 1930s was nothing other than a ‘beggar my neighbour’ policy hurting one and all. The

Marshall Plan forestalled such a calamity. Indeed, ‘seed capital’ in the form of American aid lubricated the European Payments Union so that individual members traded freely without having to balance the flows in the short run. Greater regional trade speeded up European recovery, as envisaged by the forward-looking US officials. (7)

By the end of the Marshall Plan Europe wanted, in the words of the British Chancellor of the Exchequer, Reginald Butler, not aid but more of trade, implying freer access to the US market. The Americans obliged. While US overall imports increased from $8.86 to $21.37 billion during 1950-65 or by a factor of 2.4, imports from the UK, France and W. Germany rose 4.2, 4.7 and 12.9 times respectively over the same period. Consequently, US trade surplus as a percentage of American exports to these three countries was sharply reduced from 56 to 15 in 1950-65 (US 1966, pp 868-69). W. Germany, in particular, made spectacular progress. By 1960 she had an overall trade surplus of DM 5.2 billion but had a deficit of DM 2.2 billion against the USA; in 1969 she had an overall surplus of DM 15.5 billion, including DM 0.4 billion against the USA (Mitchell 1975, Table F)

An innovative component of the Marshall Plan was the promotion of large-scale interaction between entrepreneurs, managers, engineers and trade unionists on both sides of the Atlantic that was not seen before. The amount spent on this score was minuscule, but the economic effects were far ranging. In the course of World War II the USA had emerged as the foremost economic power with a marked superiority in technology and management practices over the rest of the world. Much of West European industry in subsequent years leaned heavily on American technology. On the other hand, West Europe, not just Gaullist France, erected roadblocks against the unhindered entry of American transnational corporations.(8)

How did the Marshall Plan affect Germany? Under the Potsdam Agreement (1945) between the allied powers, German post-war production was to be pegged at 50-55 percent of the 1938 level, and all excess equipment were to be removed from the country (Kindleberger 1987, p.15). According to Bischof (1989, pp.xvi-xxiii), many plants were actually taken away by the French and the Soviets from their respective occupation zones. This was in tune with the Morgenthau Plan of 1943-44 (mooted within the US administration but was never officially adopted) to turn Germany into a rural or pastoral, rather than an industrial, country, so that Germany ceased to be a threat to European peace in the future. This perspective was radically altered under the Marshall Plan, if not earlier.

As for aid, Stern (1997) noted that before the Plan, Germany received US goods under the earlier relief programmes GARIOA (Government and Relief in Occupied Areas) worth $ 1.7 billion, or more than what she got under the Marshall Plan ($ 1.4 billion). According to Hardach (1993, p. 483), aid received by West Germany during 1948-52 amounted to 11.6 percent of her net capital formation, which is not insignificant. In an earlier article, Hardach (1987, pp.446-59) pointed out that initially, food predominated in aid imports due to the extremely low food intake (under 800 calories/day) in certain regions of the Ruhr. But during the whole period, 1948-52, the percentage shares in aid imports were: food and agricultural inputs 44, raw materials 39, freight and fuel 12, and machinery including vehicles just 2. This was a reflection of German policy: investment goods, especially mining equipment, and vehicles could be imported to remove bottlenecks in production, but in rebuilding industry the country must rely on her own 'qualified labour force with millions of people eager to find gainful employment'. The Americans concurred. In July 1948, the Americans demanded that Germany set long-term targets for 1952-53 on production, foreign trade, investment etc. The German forecast of a $500 million trade deficit in 1952-53 was rejected by the US Military Governors for failing to reflect their (US) goal of turning Germany into a major industrial power and a competitor in the world market. Further, in its eagerness to promote German export to the USA, the European Cooperation Administration (ECA) not only prepared a report on the subject in August 1949, but also created in 1950 the Society for the Promotion of German-American Trade (Hardach 1993, p.481). Milward (1993, pp.642, 650) observed that discrimination against US exports was not proscribed, and was in fact widely practised in West Europe with the knowledge of the foreign policy establishment in Washington; the worst sufferer from the West German export of manufactured goods was, not the UK, but the USA.

Liberalisation of external transactions took place more slowly in W. Germany than in neighbouring countries. The government wanted import barriers to be used 'as a means to pry foreign markets open'. In the wake of a foreign exchange crisis, it suspended for a while the issue of fresh import licenses in February 1951. As the balance of payments turned favourable after the Korean War, the OEEC (Organisation for European Economic Co-operation) and the GATT repeatedly asked the country to liberalise trade unilaterally, and went so far as to threaten retaliation; still, W. Germany held forth and obliged only in 1959 along with other West European countries (Giersch *et al*. 1993, pp 15-18). Hardach (1987, p.481) further reminds us that West German government criticised trade barriers wherever they stood in the way of German exports, but maintained its own trade barriers to protect the textile industry.

Thus for Germany, Marshall aid was neither very large nor negligible in relation to her investment or national income. Of far greater significance was America's concern for her economic progress in the context of the Cold War. The main economic benefits for Germany were: the reversal of the Potsdam agreement, access to the US market for exports, and America's quiet acquiescence in Germany's restrictive policies in regard to both trade and foreign investment.

While America stood for 'free enterprise', her European allies were free to take other paths.

The German left was initially apprehensive that the Marshall plan would foreclose the welfare reforms. Nevertheless, in the 'Economic Council' of the Anglo-American Bi-zone only the Communists opposed, and a large majority approved the Plan. Curiously, a member of the US House of Representatives accused on the floor of the House on May 6, 1948 that the ECA, entrusted with the implementation of the Marshall plan, was trying to 'administer socialism on a global scale with American tax payers' money' (Hardach 1993, pp. 468-71). The Webb couple in Britain whose admiration for the USSR was noted earlier, also helped design a large part of the post-war Labour's welfare economy. Parallel ideas took hold of France, Germany, etc. The electorate everywhere welcomed the sea change.

In W. Germany the centre-right government was committed to the market economy, but it was tempered with the adjective, 'social', in the official discourse. Thus the market-oriented reforms of 1948 left scope for price control over many years on basic foods, raw materials, house rent and public services (Giersch *et al.* 1993, p.23). France and Britain nationalised big swathes of their industries without incurring American displeasure.

But American aid was not a 'free lunch'. Adler-Karlsson (1968) and Lacroix-Riz (1993) have gone at some length into how the Marshall Plan was leveraged by the USA, and West Europe had to put an embargo on trade with the Soviet Union. Despite initial American pressure, East-West trade had a resurgence in 1948. In 1949 the USA threatened suspension of aid unless the recipient country agreed to stop shipment of 'strategic materials' featuring on its 'banned list'. A Franco-Soviet trade agreement worth 5-6 billion francs, signed before the embargo was announced, could not be implemented because it provided for the export of

French oil tankers and whale-boats. By 1950 a *generalised embargo* had taken shape, even though political leaders and the major media in Britain, France and West Germany protested strongly. So intense was the American pressure that it reminded a Danish diplomat of his country's relation with Germany during the occupation years, 1940-43; this was noted in the official dispatch to Paris of the French Ambassador in Copenhagen (Lacroix-Riz 1993, pp 651,653 662,674).

Yet the evidence presented so far do not indicate that political leaders in West Europe seriously contemplated an alternative reconstruction strategy, foregoing American aid and maintaining normal trade relations with both the Superpowers. They probably thought that the social and economic costs of such a course would be too high. To probe whether this assumption was correct or not, would require a separate study.

The same Cold War logic explains America's refusal to include the USSR under the Marshall Plan umbrella. Prodded by Britain and France, which were keen to avoid an open confrontation with the USSR, the Americans initiated discussions on the Marshall Plan with the Soviets. The latter were hesitant, but initially took a favourable position, believing that it would be like the wartime Lend-Lease agreement with no conditions attached to it. According to Mikoyan's (1944) secret report, the USSR received Lend-Lease shipments from the USA during the period, October 1, 1941 to May 1, 1944, worth $5.38 billion, including arms, equipment and food. American aid, they reckoned, would speed up recovery. Varga, a leading economist, argued that since the post-war US would face an acute demand recession, additional exports financed by aid was the only way to avert an economic crisis. The assumption proved wrong. While offering assistance the Americans insisted that the Soviet Five Year Plan as a whole needed a scrutiny by the European agencies, including American experts. It is no wonder that Stalin scornfully rejected it. Archival materials in Moscow and Western capitals confirm the view of several scholars that the French and British foreign ministers were confident that the Soviets would walk out of the talks held in summer, 1947 at Paris (Narinsky, n.d.; Parrish, n.d.)

In short, the Marshall Plan heralded a new era in international economic relations. The US would impede, as far as possible, the development of the USSR and its partners. For her own 'strategic allies' on the fringe of the Soviet Union, the USA was most generous with its assistance, overlooking the finer points of ideological differences. As for the Marshall Plan contribution to European recovery, let me quote Milward (1993, pp.642-43): 'In the last resort it is not possible to disentangle the consequences of the political arrangement of the Marshall Plan from those of the very high levels of investment in European economies and the exceptional rates of growth of output, which characterised the period, 1945-1968. There will always be scope for historical argument about the scale of effects of the Marshall Plan on the growth of Europe's foreign trade.'

One cannot overlook the 'reverse flow' of ideas or policies. The success of the Marshall Plan led the Soviets to rethink their policies towards strategic partners. Stalin had not only taken plants from East Germany but also obtained many raw materials and minerals from different parts of East Europe at low prices. Nor did he offer much by of assistance sought by China and North Korea. Under Khrushchev the Asian allies got significant aid, and the East Europeans were compensated. When trade expanded under the CMEA, Western scholars found that trade during the 1970s brought more gains for East Europe than for the USSR. Cuba, too, benefited immensely.

III. The Japanese Economic System

If in the late 1950s and early 1960s the West German 'miracle' was hailed all over the world, in the next decade it was the turn of Japan. The phenomenal growth in Japanese national income, and even more, her spectacular success in exporting high quality manufactures mesmerised everyone.

As with W. Germany, U.S. occupational policy underwent a sea change during the years 1945-48.

In late 1945 the report of the Paley Commission declared that the Allies 'should take no action to assist Japan in maintaining a standard of living higher than that of neighbouring Asian countries injured by Japanese aggression'. It also called for 'an interim programme of removal of various categories of plant and equipment', e.g. half of the capacity in machine tool manufacturing, all equipment in Army and Navy arsenals, all plants producing aircraft engines, one-half of the capacity in thermal power generation, etc. The value (at million yen of 1939) of plants to be removed was fixed at 2466 by the Paley report, but was subsequently scaled down to 1648 in March 1948 (under the Strike proposal) and 662 in May 1948 (under the Draper-Johnson proposal). Actual removal, until it was stopped in spring 1949, amounted to 160 only. The Truman Doctrine calling for the containment of the USSR, was reinforced by the victory march of the Chinese Communists in 1948. The USA was now determined to make Japan a 'bulwark against communism', and restore Japan's pre-war position as the 'workshop of Asia' (Tsuru 1993, pp.11-13, 37-39). America's commitment to Japan's future prosperity was a *sine qua non*. Morishima (1982) also emphasised this part of the story. The American market was opened up for the Japanese to cash in. Although regular voices were heard protesting the invasion of Japanese goods, and restrictions were imposed on a number of items, Japan's trade surplus with the USA remained very high all through. In short, America acted almost like a Santa Claus toward Japan – the very opposite of her attitude to post-Soviet Russia. But US benevolence was not sufficient by itself to explain Japan's success. No less important were the high quality of Japanese manpower, and an appropriate set of social, political and economic institutions that propelled the nation forward.

In a provocative report, 'How Did It Get into this Mess? Japan Inc. Heads for Chapter 11', *The Economist* (20 April.2002, A Survey of Japan, pp.5ff.) captured many crucial features of contemporary Japan from a neoliberal perspective, and deserves to be quoted at some length.

> Japan's banks are not notably inefficient by global standard. But, as the yen appreciated after 1985, there was a huge expansion in bank credit. Land was used as a collateral in almost all bank loans. Share prices doubled in 1987-89…And because Japanese banks and businesses have long had holdings in each other, the popping of the speculative bubble brought both of them crushing down together. The banks had also been lending at the behest of bureaucrats…. to companies they happened to like. This followed a 'long-standing social practice'...whereby the banks were treated as quasi-public-sector organisations to be used to get Japan's post-war business back on its feet. Next came the country's spectacular macroeconomic growth, fostered to some degree by the system of cross-shareholdings. But as the economy grew more complex the collaborative relations between banks and businesses turned in the early 1980s to collusion and even conspiracy. As interest rates fell the banks began to lend to poorly managed land developers and even gangsters. Then it all went wrong…. The politicians were desperate to avoid unemployment. They therefore used some industries, notably construction, to soak up labour laid off by other sectors. Construction was also used as an instrument of regional aid. By building roads,

bridges, airports, tunnels, no matter how unnecessary, they could direct money and jobs to the many parts of the country with no efficient companies…. Construction-related spending has comfortably exceeded the budget of the American Defence Department in recent years and about 10% of Japan's workforce, some 6m people, still derive their jobs from it, far more than in other rich countries. Unsupported, about half the industry might collapse, throwing millions out of work.

> Not all of Japan's industry is inefficient though...But practically all of industry has, by tradition, been to some degree influenced or controlled by non-commercial actors, if not politicians, then bureaucrats…In a heavily regulated state, the bureaucrats could and did allow the keiretsu -- the bank-centred conglomerates that dominate the economy -- to make arrangements to their own advantage.

> For years it worked well. With their flows of capital assured, Japanese companies were able to take the long view. With the help of lifetime employment, pliant enterprises unions and a seniority system whereby labour came cheap at the outset in return for guaranteed rewards at the end, companies could invest in research and development. Productivity and profits soared, and everyone grew rich. But the bureaucrats guiding this venture were not infallible…The Japanese had a high rate of saving and the households preferred for reasons of safety to keep their deposits in the post office; including postal life insurance, the post office had 373 billion yen. [These two sources] plus the social security contributions…feed the Fiscal Investment and Loan Programme…Through this programme, the Ministry of finance lends money at subsidised rates to a variety of institutions and projects. In other words, money is distributed according to grand plan worked out in the ministries and financed by the banks and the postal system: *no wonder aspects of Japan are so often likened to the Soviet Union*. [Emphasis added.]

For at least two decades now Japan has apparently been discarding its traditional framework in favour of a neoliberal system. The passages just quoted clearly show that the country has not yet adopted the price mechanism or curbed drastically bureaucratic interference in investment allocation – the two hallmarks of textbook neoliberalism. *The Economist* (21 September 2002, p.65ff.) highlighted the sudden transformation of the central bank, the Bank of Japan, from 'lender of last resort' into 'shareholder of last resort', flouting all conventions of central banking.

Under political pressure, presumably transmitted through the Ministry of Finance, the Bank agreed to buy (at market prices) equity shares worth about $58 billion held by the commercial banks, killing two birds with the same stone. The major banks would fulfil the capital adequacy norm, and at the same time the flagging capital market would get a shot in the arm. Japan, it seemed, was getting deeper into the mire. Surprisingly, in less than two years *The Economist* (14 February 2004) came out with a lead editorial, 'Japan Is Flying Again'. The weekly does not believe in Communist-style self-criticism and never bothered to explain why its previous forecast had gone awry.

Indeed, state domination over the economy is not a recent phenomenon, and goes back to the Meiji restoration without a break. 'Initially', as Lockwood (1954, pp. 506-08) put it, 'the State itself spearheaded the industrialisation process by pioneering and financing new industrial undertakings over a broad front. In the decade after 1868 it built and operated railways and telegraph lines. It opened new coal mines and agricultural experiment stations. It established iron foundries, shipyards and machine shops. It imported foreign equipment and experts to mechanise silk reeling and cotton spinning. It set up model factories to manufacture cement, paper and glass… this phase of direct entrepreneurship passed rather quickly, however… After 1882 it relinquished its lead… Most of the State's industrial properties… were soon disposed of at a price low enough to attract ready buyers. They went mainly to certain big capitalists enjoying official favour and capable of financing and operating them. The result was to endow the nascent *zaibatsu* with fresh opportunities to extend their activities. It consolidated still further the pattern of business oligarchy in close association with the government, which characterised large-scale industry and finance from the earliest days. Thereafter State capitalism in the sense of public ownership played a declining role in pre-war Japan until its revival in the war economy of the late thirties. It was continued only on a much more selective basis.' Allen (1981, pp. 34, 81, 99-109) narrated a similar story. Soon, the *zaibatsu* became an 'instrument' in the hands of the government 'for carrying out its policy'. The government also encouraged visits by a large number of engineers and other skilled persons to West Europe and the USA to acquire first-hand experience of the industrial system. Before the century ended, 'a new banking system' was created that strengthened the grip of the government on the economy. In the inter-war years the government relied heavily on its financial institutions for 'controlling and directing the private sector of the economy… In the post-war years the importance of this instrument was enhanced'. In the early 1930s the government fostered associations of manufacturers to combat depression; later in the decade these were used 'as instruments of official control over production, prices and raw material supplies.' Once Japan acquired colonies in neighbouring Asia, she not only procured raw materials and minerals in the classic European pattern, but the government also modernised or created (for its military needs) a number of big resource-based industries, including heavy industries, in Korea, Manchuria etc. (Lockwood 1954, pp. 535-39; Schumpeter 1940.)

During World War II the economic planners compelled the firms to raise wages, slapped controls on dividend pay out to improve income distribution, and reduced shareholders' influence over companies. The government changed 'the purpose of business from making profits to fulfilling their role in economic plans, …[and] established a system of responsibility over production to give them greater incentive' (Hisatake 1997,p.59). As Hayami (1998, p. 16) noted, war-time planning was consciously modelled on the USSR. [(9)]

Post-war Japan under American occupation had to change track and work through the market. In essence, however, the State continued with its *dirigisme*, though in a new garb. But many economists disagreed with this interpretation. They looked at the ratio of government expenditure or tax to the GDP across countries, and used it as a proxy for the extent of government intervention in the economy. *Ceteris paribus*, this would be a valid procedure, but at times this condition is not met. Thus in 1967 the percentage of government expenditure in national income was one of the lowest among industrial countries in Japan at 20.0, while it was 31.4 in the USA, and about 40.0 in France, W. Germany and the UK. And yet over the half-century, 1889-1939, when Japan's investment rate was as high as 14.7 percent of the national income, the government accounted for more than one-half of the total, mainly on capital-intensive projects (Allen 1980, pp. 97, 107). As for the tax-GDP percentage, in 1972 it was only 21 for Japan as against 35-36 for W. Germany, France and the UK, and 28 for the USA. Thanks to numerous tax incentives for the corporate sector that vary across the countries, the gap between the nominal and the effective tax rates can diverge greatly. Thus in the USA the nominal tax rate was 51 percent as against 48 in Japan, but the effective rates were 27 and 20 percent respectively (Tsuru 1993, pp.104-06). Actually, the Japanese firms had a much higher debt equity ratio, resulting in a significantly lower ratio of net profits to sales. Since the government decided on tax concessions, one cannot infer from the low tax-

GDP ratio in Japan that the government was a minor actor in the economy. Further, revenues from income taxes are also rather low in Japan. These taxes as a percentage of the national income increased rather slowly from 3.5 in 1965 to 5.6 in 1981; the US figures for the same years were much higher at 8.6 and 14.0 respectively (Pepper *et al*. 1985, table 3.1, p. 90). One major reason for the lower tax yields in Japan is that the distribution of income is more egalitarian. The bottom one-fifth of households there enjoys a share in total income that is 50 percent greater than that of the corresponding American households (Wood 1988, p. 88).

It was common for Japanese industrialists in the post-war era to claim that they were free from government influence. In rebuttal Allen (1980, p 116) referred to the plethora of government 'regulations of foreign trade and exchange, the discriminatory lending policies of official banks, and the constant exercise of persuasion by officials and Ministers.' Lockwood (1965, p.503) put it more dramatically: 'The hand of the government is everywhere in evidence, despite its limited statutory powers. The industrial bureaux of the Ministry of International Trade and Industry proliferate sectoral targets and plans; they confer, they tinker, they exhort….Business makes few major decisions without consulting the appropriate governmental authority; the same is true in reverse. The Ministries list three hundred consulting committees for this purpose.'

What was the perspective of post-war Japanese policy makers? According to Okita (1980, p.205), one of the architects of post-war planning, Japan got about $2 billion in economic aid in five years following her defeat. Next, came a windfall gain thanks to the Korean War. US Army procurement in Japan in 1953 was $800 million, or nearly one-half of her import bill of $1.6 billion. 'Under these circumstances, the idea gradually developed that the Japanese economy could not, and should not, be dependent upon windfall sources or on foreign aid for its exchange needs, but should stand on a "self-supporting basis."' In effect, this is no different from Butler's plea, mentioned earlier, for more trade rather than aid.

But trade was not left at the mercy of the global market. (1) Barely 30 years ago a Japanese minister wrote: 'Compared to the economies of Western countries, the conditions for the complete functioning of the price mechanism have not yet been matured' (Ojima 1972 p. 17). According to Tsuruta (1988, pp. 81-82), in the era of high-speed growth from the late 1950s to the late 1970s, 'neither the government nor the public ... had the faith in the ability of price mechanism to facilitate adjustments that they have in the 1980s'. (2) In its own publications the

Ministry of International Trade and Industry (MITI), Johnson (1982, pp. 9-10) informs us, introduced the concept of a 'plan-oriented market economy system'. (3) In his Marshall Lectures at Cambridge, Morishima (1982, p. 197) described the country as 'a kind of democratic "planned" economy ... [where] individualism, liberalism and internationalism' could not prosper. (4) Komiya (1988, pp. 6-7), a leading economist of liberal persuasion, stated in his 'Overview' of post-war industrial policy in Japan: 'The influence of the Soviet Gosplan model on pre-war and wartime "progressive" bureaucrats and scholars seems to have been carried over into [the immediate post-war period. In the next era of high-speed growth] a "vision" was drawn up that proposed actively fostering industries. It is exactly this type of thinking that typified the prehistoric era I characterized above, ... in general industrial policies in Japan aimed to develop industries that government officials -- with the backing of public opinion -- felt Japan should have; criteria for what comprised an appropriate industrial structure were *ex post facto* rationalisations.' (5) At the micro level the post-war wage system in Japan with life-time employment and wage levels depending far more on seniority than on the productivity of an employee, is very different from the Western practice, and is closer to the Soviet model (Hisatake 1997,p.63).

Krugman (1994) initiated a major debate among neoclassical economists by underlining the similarity in the post-war growth processes of the USSR and East Asia, especially Japan and S. Korea. In the model, GDP growth is decomposed into three components of labour, capital and technical progress, and the contribution of each is estimated from long-term time series. He found that while for West European countries and the USA technical progress accounted for a major part of overall growth, it was much smaller in the USSR and East Asia. In these latter countries high rates of accumulation and employment expansion explained most of the rise in output. In the absence of significant technical progress, the productivity of capital tends to stagnate or decline, and once surplus labour from agriculture, etc. has been mopped up, growth of an 'extensive' kind hits a road block and eventually tapers off. In fact, growth slackened not only in the Soviet Union, but also in East Asia. Hayami (1998, pp 5-8) made fresh calculations and confirmed Krugman's findings. But other economists disagreed on both theoretical and empirical grounds.

Nevertheless, there are no two opinions about the prolonged stagnation that has gripped Japan since 1991. According to Porter *et al.* (2000 pp3-15), while the country had robust GDP growth till the early 1970s, it came down to 3-5 percent in the next decade, and there has been virtual stagnation in the 1990s. Capital productivity has been coming down over the years from over 90 percent of the US level in 1970, to 60 percent in 1993. And profit rates all through have been much lower than in the USA. To my mind, the parallels with the Soviet experience of the previous decade are very striking. No one seems to know how Japan will get out of the woods. A similar deceleration took place in South Korea as well as Taiwan. Korea went through a trauma in 1997, but Taiwan escaped it. Clearly, *The East Asian Miracle*, the title of a widely discussed World Bank publication of 1993, as a model for developing countries is *passé* in this post-*Soviet* world. I have emphasised the word, Soviet, because the Soviet impact, both on the economic policies of these East Asian countries, and on the USA for its benevolence towards them, received scant attention either in the World Bank publication or in the writings of radical critics like Amsden, Lance Taylor, etc. Curiously, Amsden *et al*. (1994), all astute observers, advocated that post-Soviet Russia, rather than relying blindly on market forces, should follow the East Asian path to industrialisation!

In his 'Introduction' to a conference volume Krugman (1991, p.8) concluded that: (a) Japan functions quite differently from other rich economies like the USA and West Europe; (b) the relationships between the Japanese government and business, and between Japanese firms themselves, are such that foreigners cannot easily break in; (c) there are real efficiency gains arising out of the Japanese style of business with their long-term relationships; and (d) Japan itself is changing.

Why is Japan different? Japan imports too little. A contributing factor, Krugman (1991, p 4) thought, is the negligible share of foreign direct investment (FDI) in Japan. By contrast, in the US the net output of foreign firms account for 4 percent of the GNP and 10 percent of the value-added in manufacturing; the percentages in West Europe are still higher. Hayami (1998, p.18) made an interesting point. Unlike in Latin America where import-substitution policies predominated, in Japan export-promotion policies were super-imposed upon those for import-substitution. From the World Bank's *World Development Report 2000-2001*, I calculated for several countries the percentage of manufactured imports to the aggregate domestic value-added in the manufacturing sector for 1990 and 1998; these were 13 and 15 for Japan, 37 and 48 for China, 22 and 32 for India, 11 and 26 for Brazil, 53 and 69 for Germany, and 36 and 49 for the USA. The Japanese officials have claimed that the low import ratio merely reflects the fact that the country is poorly endowed with raw materials and minerals. Granted that Japan needs an export surplus in manufactures to pay for the import of resources, it cannot explain why a huge *overall* trade surplus, now running into more than a decade, is needed for this purpose. One has to seek other explanations for Japan being the world's most restrictive country in the import of manufactures.

In view of the trade deficit, many in America suggested that the US should compel Japan to import from the USA a minimum 'quota' (in aggregate value) of manufactures, and that the quota should rise by 10 percent a year. An important business association in the US even demanded separate quotas for different American products. For one scholar, it was irrelevant whether the American exports came from domestic or from Japanese firms. But to Lawrence (1991, pp.20-22), the distinction is important. He showed that 95 percent of US exports to Japan takes place through wholesale traders, consisting in the main of Japanese trading companies. These firms played a key role during the early days of Japan's import substitution. Even later, they obtained from the government highly lucrative import licences for beer, whiskey, banana, sugar etc. on condition that they met export targets in ships, rolling stock and machine tools. They also helped in the relocation of Japanese manufacturing plants abroad in labour intensive sectors as Japan became uncompetitive due to rising labour costs.

Indeed, the distribution network in Japan virtually seals off the local market to outsiders, and consequently, consumer prices in Japan are far higher than elsewhere. With US =100, the dollar price level of private final consumer expenditure in the aggregate stood at 141 for Japan in 1987. For individual product groups the indices were: 185 for food, beverage and tobacco, 158 for household equipment and appliances, 188 for transport and communications. Other studies for many products, some conducted jointly by Japanese and US official agencies, confirmed the story. Was the gap due to higher distribution margins? Actually, the margins as a percentage of retail sales were roughly similar in the two countries. Yet branded goods imported into Japan were dearer by 30-60 percent than in the USA or West Europe. Lawrence concluded that 'the Japanese distribution system acts like a privately administered set of tariffs.' (Lawrence 1991, pp. 26-30.)

Lawrence's findings were corroborated later by Porter *et al*. (2000, table 1-1, p.6), who cited an OECD study comparing for selected commodities and services the average dollar prices at the retail level in 1993. With the OECD average as 100, the respective indices for

Japan and USA were: food 205 and 78, restaurants, cafés, etc. 178 and 68, household equipment etc. 171 and 81, clothing and footwear 165 and 77, rent, fuel and power 156 and 84, transport and communication 141 and 81, and medicine and health care 87 and 136. Except for the last, in all other cases the Japanese consumer paid almost twice as much as the American. In a free trade regime this should have led to an avalanche of US exports to Japan, which did not happen. Since nominal tariffs are low, this can only be explained by the existence of visible or invisible barriers to import.

Here one may recall that one main criticism of Soviet planning was that planned prices were totally out of alignment with world prices. Can one not make a similar charge against Japan? One can further ask if the distribution networks are really open in the USA and Western Europe. If a Western visitor to Japan finds that prices of goods and services are exorbitant, so did Taylor (2002) who observed British retail prices to be around 60 percent higher than in USA. An Indian visitor to the US would be even more shocked. Practically all manufactured goods of daily use, internationally branded or not (but with comparable quality), can be bought in India at a fraction of the US retail price. Global firms price their goods in India much lower than in the West for two reasons. Indians have a much lower purchasing power and hence the price must be low enough to ensure a reasonable volume of sale; perhaps more important is the stiff competition from local producers. For a variety of reasons, the latter do not find an export outlet in rich countries, allowing global firms to derive monopoly rents from sales in Western markets. Most glaring are the examples of Unilever, Proctor & Gamble, Colgate Palmolive, Nestle, etc. that manufacture and sell the same branded products at a much lower price in India (than in the West); they earn handsome profits from local sales, but do not export from India on a significant scale. How does this practice, from the Western consumers' perspective, differ from that of the Japanese network precluding foreign competition? Further, if the global firms were just agents maximising profits, why did they not outsource their requirements from developing countries? Is it too far fetched to imagine the invisible hand, not of the market, but of the respective governments in the decision-making of the firms? This leads one to question the wisdom of the routine exhortation of the Fund-Bank that developing countries should set their prices 'right'. Do the 'right' prices refer to Japan or USA or some imaginary economy out of textbooks with shadow prices?

Krugman did not touch upon one basic and distinctive feature of Japan, namely the 'dual character' of the economy. 'Its foundations', as Allen (1981, p.63) put it, 'were formed by a peasant agriculture and a variety of small manufacturing industries, many of which were peculiar to Japan. On these foundations were erected a superstructure of large-scale enterprise, an important part of which owed its existence to official initiative or encouragement.' Small-scale enterprises were also very numerous in the early years of industrialisation in the West, but lost ground at varying rates over time. But 'dualism' in Japan persists to this day. Concretely, it refers to the enormous gap in wages and labour productivity as between small and large enterprises, and the different objectives pursued, namely 'subsistence' or 'survival' for the former, and profit maximisation by the latter. Small units as against large ones also have lower wages and productivity in the West today, but the chasm is much wider in Japan. Further, in Japan a very much larger proportion of the national workforce is engaged in small firms. In 1982 of the total of 63 million workers, the percentage share of units with 1-4 workers was 28, and that of units with 5-29 workers was 19. In the aggregate value-added of manufacturing the share of small firms (1-100 workers) went up from 51 to 56 percent during 1962-79 in Japan, while in the USA it remained flat at 40 percent between 1963 and 1977. The Japanese government offered attractive loans to small businesses, the amount outstanding at the end of 1982 being $66 billion, as against the corresponding US figure of nearly $4. In addition, loan guarantees (by the government) stood at $21.8 billion in Japan, and $1.6 billion in the US. (Patrick and Rohlen 1987, pp. 94-98.) All political parties support small family firms. The state, both at the national and lower levels gave support in varied forms like tax-breaks, aid to research institutions for such enterprises, relaxation in pollution laws, restrictions on the expansion of large firms (above all in retail trade), and so on (Wood 1988, pp. 87ff). [(10)]

Porter *et al.* (2000) mounted a powerful attack against the 'conventional wisdom' on the efficacy of the 'government model' depicted so far. Referring to the stagnation of the last decade, they wrote: 'Despite conventional wisdom and the fact that the Japanese government has fought hard to preserve its approach, the great preponderance of evidence points to the Japanese government model as a cause of failure not the source of the Japanese miracle' (*ibid*., p.44). Their main piece of evidence is that in exports Japan has been successful only in a very small number of industries; consumer electronics and cars 'carried the entire economy, driving growth in both exports and productivity.' Alongside there existed a large number of highly inefficient sectors such as agriculture, chemicals, medicines, construction etc. that have been a chronic drag on overall productivity (*ibid*., p.5). The authors then probed into Japan's share in global exports of as many as 1,618 product groups. Against the pre-1990 peak, by 1996 these shares declined for 1,250, and rose for only 166, groups. In part this was due to the relocation of Japanese factories abroad. The authors believed that 'many companies… moved out of Japan because inefficiencies there were simply too high.' They went to argue that 'targeting "desirable" industries is based on a flawed view of competitiveness in which economies of scale determine success and domestic competition is seen as wasteful… Japanese targeting did not work. Government should instead focus on removing constraints to productivity. Efforts to improve productivity growth must encompass local industries, because they affect not only the cost of living but also the cost of doing business for internationally traded industries.' (*Ibid*., p. 101.) Strangely, they also wrote in an earlier chapter: 'Finally, there is the question of historical context. Many of Japanese government practices were instituted in the early post-war period when the nation was devastated. *Extreme measures were needed to rebuild the nation quickly*. As Japan became more advanced many of these practices remained the guiding model but they actually hindered further development… Approaches that may have worked in the earlier context were no longer sufficient to maintain competitive success and keep productivity in the nation rising.' (*Ibid*., p.15.) (Emphasis added.)

The last sentence implies, not that the 'government model' was *ab initio* erroneous, but that it was becoming a fetter at a later stage of development. Is that true? It is known that the decision to relocate was not taken by individual firms acting in isolation, but was prompted by the MITI and co-ordinated by the Japanese trading companies in respect of labour-intensive and polluting industries. There were also external compulsions. Japanese cars began to be assembled in America, and later in South East Asia, to escape the voluntary export restraints imposed by the USA on Japan in the 1980s. (Park and Park 1991.) In view of this relocation, changes in Japan's share in world exports do not reflect the competitive strength or weakness of Japanese firms. More appropriate would be the share of Japanese firms (including their foreign affiliates) in the world production of different product groups. Neither Porter *et al.* nor others have furnished appropriate figures.

Next, the contention of Porter *et al*. that Japan's export success is confined to a small range of goods, is questionable. Japan is the third largest exporter of manufactures totalling well over $300 billion a year. Germany is somewhat ahead, and only the US has a towering presence. It is equally true that the US exports are far more diversified than those of Japan. The theory of comparative advantage states that a country exports only those commodities in which it has *comparative* advantage over others. By definition, no country can excel in all spheres. With more and more countries trying to industrialise, 'older' centres must yield in some areas to new ones. Indeed, developing countries have made strong inroads in several sectors, and are likely, in the absence of trade barriers, to penetrate many more. China today has become a significant force in light engineering and consumer electronics. A study comparable that of Porter *et al*. for France, Germany, UK or USA should also show many product groups with a declining share of world exports.

Consider now the main recipe of Porter *et al*. (2000, p.101), namely that Japan should give up industrial targeting because 'all industries can employ high technology; all industries can be knowledge intensive.' In practice the US as well as West Europe do favour particular industries. In civil aviation, Boeing and Airbus enjoy special privileges. Many more examples can be given. Competition laws, tariff measures, including anti-dumping rules, deployment of huge government grants for R&D, setting of industrial standards, etc. are designed or altered in such a manner as to bring maximum benefits for the domestically owned firms. The precept of Porter *et al*. is hardly different from the idea of *laisez faire*. For any one industrial country to adopt it when its rivals do not would be suicidal. This argument applies with stronger force for developing countries.

In the same vein as Porter *et al*., in its country report on Japan, the American consultancy firm, McKinsey (MGI 2000), suggested restructuring the country's bank-centred industrial conglomerates, revamping the distribution network by introducing US-style free competition in retail trade, removal of special provisions for small enterprises, and so on. All these might show paper gains in microeconomic 'efficiency'. Would these lead to a more dynamic economy? The reforms would almost certainly reduce employment, wage rate, and *a fortiori* the aggregate wage bill, depressing aggregate consumer demand; the impact would be magnified by larger imports unless exports were stepped up. Even with reduced, but still high, labour costs, it is unrealistic to expect another breakthrough in Japanese exports. It is this sombre macroeconomic assessment, rather than an attachment to traditional 'values' or privileges of Japanese politicians and bureaucrats, that explains Japan's reluctance to swim in the neoliberal current. (11)

IV. India and the USSR

Indian theorists in the nineteenth century, Naoroji (1877?) and Dutt (1902) had already formulated the 'drain theory': the country was poor because resources were drained out by the British. Anti-colonialism was deeply imbedded in the nationalist movements from the 1920s. While the country was still under British rule, the Indian National Congress set up the National Planning Committee (NPC) under Jawaharlal Nehru in 1937 to draw up a blueprint for independent India (NPC 1938); in 1944 the leading industrialists published their Bombay Plan (1944) that overlapped on many points with the former.

Comprehensive planning began with the Second Five Year Plan, 1955-59. Its basic structure was crafted, not by an economist, but by a top-rate statistician, P.C. Mahalanobis, Fellow of the Royal Society, London. He had been associated with the NPC, but lacked formal training in Economics. Yet his approach was approved at formal gatherings of professional economists (of different political persuasions) in the country, and endorsed by an impressive array of economists from the West and from socialist countries. Such consensus was never achieved again. In the planframe, Mahalanobis (1953-A; 1953-B) sought to achieve objectives (similar to those of the NPC and the Bombay Plan) like accelerating the GDP growth rate, raising the investment rate without leaning too much on foreign savings, producing domestically all the major capital and intermediate goods, and increasing as far as possible domestic employment in the process. The author's initial model, it is generally held, bore family resemblance to the currently fashionable neo-Keynesian models of Harrod (1960) and Domar (1957) in the West and, more strongly, to that of the Soviet economist, Fel'dman. There is no evidence, however, that Mahalanobis had read any of these.

In fact, Mahalanobis was quite original. The Western models as well as that of Fel'dman assumed a unified, monetised national economy. But Mahalanobis posited a dualistic economy: one part was fully monetised and comprised of 'organised' industries, plantations, trade, banking, and the government, in which the economic agents acted broadly in the same manner as their homologues in a capitalist economy. The other part, employing the overwhelming majority of the workforce, was weakly integrated with, but not divorced from, the organised segment. Mahalanobis proposed that the government should try and increase resources at its command (direct or indirect) and devote a rising part of the investible resources to finance the expansion of the capital goods sector. Thanks to the Keynesian multiplier effects of investments, the growth rate of national income would rise in step with the share of capital goods industries in total investments. This would also ensure that India would manufacture all the basic producer goods in a short time and attain self-reliance as envisaged by the NPC and the Bombay Plan. But Manalanobis (1955.p 117) dismissed complete self-sufficiency as a goal.

The Mahalanobis approach outlined so far has a stronger affinity with the 'dualistic' model of Lewis (1954). For the latter industrialisation meant an expansion in the modern capitalist sector, while the traditional 'subsistence' sector (agriculture) provided mainly raw materials and 'surplus labour' to meet the growing requirements of modern industry. Lewis called for various policy measures like tax concessions for the capitalists, import tariffs, budget deficits and so on to accelerate industrial growth. He was aware that this could lead to inflation, but hoped that once the investment projects began to augment industrial supplies, the excess demand would fall over time.

But Mahalanobis had a different answer. In a typical Western economy, an attempt to raise the share of capital goods in total investment could create a shortage of consumer goods. But in India of the 1950s only a small fraction of wage goods came from the large organised industries. A lack of investment in textile mills, for instance, need not have led to a shortage of cloth as handlooms could step into the void with practically no investment funds from the government or banks in the organised sector, and with a minimum of time lag for supplies to cope with additional demand. Mahalanobis wanted the profit-driven large industries in the organised sector to focus on producer goods and those consumer goods that labour-intensive small-scale industries could not manufacture. He went so far as to recommend that big factories, turning out consumer goods that competed with those from small and village industries, should be closed down until the country attained full employment.

Mahalanobis was no doubt inspired by the Soviet experience, but his stress on small industries was quite distinctive. [(12)] Indeed, as Chakravarty (1987, p 16) pointed out, the 'dual development thesis' of Mahalanobis is akin to (and probably predated) Mao Zedong's famous dictum about 'walking on two legs'.

In the 1950s India had neither the technical know-how nor adequate domestic savings to set up a modern industrial complex. The test case was that of a public sector steel plant. When the Western governments refused any assistance, the USSR stepped into the void. Shortly thereafter, Britain and W. Germany changed track and agreed to construct one plant each, all in the public sector. Subsequently, many other governments provided both finance and technology for a large number of factories in heavy and capital goods industries, mostly in the public sector. Simultaneously, new plants also came up in the private sector, some of which were owned by Western transnational corporations. Apart from steel, other major sectors where the Soviets and East Europeans assisted in a big way were oil, machinery, power generation equipment, tractors, and so on. By the end of the seventies India became virtually self-sufficient in capital goods, importing barely one-tenth of her annual requirements. There is no doubt that the Soviets played a catalytic role in India's industrial transformation.

A few sectors deserve special attention, which may throw light on the nature of Soviet contribution to India's industrialisation. The links between the two countries were probably strongest in the realm of defence production. A wide range of weapons systems used by India were either imported or produced locally under Soviet licence. As early as 1961 India selected the fighter aircraft, MIG-21, over the Western alternatives, and the same model is still in service, though with a great deal of later modifications. Apart from the aircrafts, tanks and other military wares came under the bilateral cooperation agreement. India was not, however, entirely dependent on the USSR, and bought extensively from Britain, France and Sweden. Like the Soviet Union, Russia today remains the main source.

In oil, India was until the early 1960s completely at the mercy of the Seven Sisters, the Western oil companies that had monopolised global production, refining and distribution outside the Soviet block and China. The Soviets entered the Indian scene by offering crude oil at much lower prices than the import prices of the foreign oil companies; the latter promptly refused to process the Soviet crude. It was then that India decided to have her own oil industry with the help of the Soviets in the supply of crude and technology for the refineries. Gradually, Indian Oil Corporation (IOC) acquired the expertise, and built its own refineries with marginal imports. In the field of oil exploration the Soviets helped Oil and Natural Gas Commission

(ONGC) to explore new oilfields, and ‘productionise’ them. Over a relatively short period the country became almost self-sufficient in oil technology from exploration to refining, as Vedavalli (1976) has demonstrated. Subsequently, the major oil firms in the public sector like the IOC, ONGC and GAIL (Gas Authority of India Limited) have become globally competitive and joined the ranks of Fortune 500. Thanks to their performance, the government has desisted from privatising them so far.

In steel, soon after the agreement with the Soviets on the plant at Bhilai, there followed those with W. Germans and the British on plants at Rourkela and Durgapur respectively, each plant having a capacity of about one million tons. Subsequently, two large public sector plants at Bokaro and Vishakhapatnam came up; the Soviets were the main consultants as well as equipment suppliers at Bokaro, and they also supplied some key technologies, but not all, for Vishakhapatnam. In the 1980s the scenario changed. Many mini-steel plants were put up by private entrepreneurs with equipment imported from OECD countries. India also emerged as an exporter of steel from both the big mills and the mini-steel plants.

On the public sector steel plants there have been controversies on three points. (a) Did the Soviets (or the Germans or the British) overcharge for the aid supplies? (b) Were the technologies offered sufficiently advanced? (c) Did the collaboration arrangements between India and the three partners encourage or hinder the development of indigenous capability in steel technology?

On the question of comparative price, systematic researches by D’Mello (1988) and Mehrotra (1990, pp.91-103) have established that there is no basis for the complaint of Datar (1972) that the Soviets overcharged. In terms of ‘engineering’ efficiency, for instance, fuel or pig iron consumed per ton of steel ingot, the parameters of all the plants were broadly similar. This conclusion is reinforced in a recent study by the global consultants, McKinsey (MGI 1999). Soviet labour productivity in steel in 1990 was as high as 90 percent of the American level, suggesting that the Soviets were all through frontrunners in this sector. This also disposes of Datar’s (1972, p 254) sweeping statement in the concluding part of her book: ‘The general experience is that public sector enterprises….have run into difficulties and are characterised by bad planning and implementation.’ However, on the issue of indigenisation, neither the Soviets nor the Western donors helped much. D’Mello (1992) has shown that a systematic neglect of local talent was evident from the time the first three plants came up.

Clearly, the Soviets were not guided by the spirit of 'brotherly' assistance, but were making a business deal like any other.

Indeed, not all public sector enterprises in heavy industries were a success. Heavy Engineering Corporation (HEC), Ranchi, and Mining and Allied Machinery Corporation (MAMC), Durgapur, both built with Soviet aid, were sick almost from the beginning and never recovered. The reasons are not dissimilar. The HEC was set up on the premise that new steel plants with a capacity of one million tons would be built in quick succession, and the equipment would be fabricated at Ranchi. The MAMC was to fulfil a similar role in coal mining. The basic premise went haywire. Investments in steel or in mines were tardy, as the overall growth rate in Indian industry slackened for a decade and half after 1965. Why did it happen is a much larger topic that cannot be broached in this essay. But by no stretch of imagination can one attribute it to the deficiencies in the planning or implementation of Indo-Soviet bilateral exchanges.

Let me now turn to other aspects of these exchanges, especially to trade. India's export to the USSR expanded much faster than her total export, and the percentage share rose from 13.7 in 1970-71, to 18.3 in 1980-81, and 29 in 1990-91 (Mehrotra 1990, pp.165-83; RCF 1993-94, pp.202-03). Moreover, about one-half of exports to the USSR consisted of manufactures. By contrast, imports were generally smaller, so that India appeared to have a trade surplus. Thanks to the stipulation of the bilateral agreement, India could not use the surplus to finance import from other areas. There is a strong possibility that the surplus paid for the purchases of Soviet arms; 'defence imports', one may add, are excluded from India's published trade statistics.

Was bilateral trade beneficial for India? It is strange that most economists approved the European Payments Union created in the 1950s that facilitated multilateral trade among its members in national currencies that could not be converted into US dollars. But many in India and abroad objected to the Indo-Soviet bilateral trade arrangement as a departure from free trade with neither side getting the best bargain. In truth, India's export to the West stagnated from 1950 to 1969. India bore the brunt of the Multifibres Arrangement (MFA) in textiles, as she was the world's second largest exporter in the 1950s. Under the MFA each industrial country imposed unilaterally, against the GATT rules, quotas on the quantum and value of export from every developing country. And the USSR, as noted already, was never admitted into the GATT. Thus both countries faced trade discrimination from the West. So long as the two countries chose the basket of traded goods carefully, both should have been gained from the bilateral exchange.

In an earlier essay (Chandra 1977), I surveyed the Indian literature showing that Indian exports to the USSR fetched up to 10 percent more in unit values, while the unit values of India's imports from the USSR were to up to 10 percent less, compared to the unit values of India's export and import trade with the rest of the would. In short, looking at India's opportunity costs, trade with the USSR was as desirable as that with the rest of the world. My own calculations focused on Soviet trade data and examined the opportunity cost for the USSR of its trade with those developing countries with which it had bilateral trade agreements. The unit values in trade with this group of countries were compared with those prevailing in Soviet trade with countries where transactions were in hard currencies. I concluded that the Soviets generally paid the same price for its imports from the two sets of countries, and obtained the same price for most of its exports, excepting machinery. For machinery, the Soviets charged significantly higher prices from developing country partners than it could from hard currency buyers. Thus although both sides gained, the Soviets had a greater share of the total gain from trade with developing countries. Curiously, from the late 1970s, India imported very little of machinery from the Soviet Union and purchased mainly raw materials, minerals and fuel.

A related issue is that of switch trade. The USSR bought, for instance, large quantities of high quality Indian tea. It was often alleged that a part of it was diverted to West European markets, thereby reducing India's export to those countries that would have fetched dollars. The available data are meagre, and the possibility of switch trade cannot be ruled out. However, considering the commodity structure of India's export, the quantum of switch trade as a proportion of India's total export to the USSR could not have been large (Chandra 1977; Mehrotra 1990, pp.43-46).

There were other spheres in economic policy where the Soviet influence was far from negligible. First and foremost, India had an industrial licensing system. No large industry could come up without authorisation from the central government. Once the the Five Year Plan fixed the output targets, applications were invited from potential private entrepreneurs and a selection was made according to a number of criteria examined in depth by the Dutt

Committee (1969). The basic idea behind licensing was that India was capital-poor and foreign exchange (needed for importing equipment) was scarcer still; hence one cannot afford to have excessive capacities in some sectors and too little in others. Critics argued that licensing enabled the incumbents to derive rent from their license, since it throttled competition; various means were adopted by entrepreneurs to pre-empt capacities and distort competition to a greater extent. The strict import control regime further boosted their monopoly profits. There was some truth in these allegations, but the overall scenario was very different. Over time industry-wise concentration ratios (the shares of top 3 or 5 firms in the total output) tended to fall, barring some exceptions. Indeed, one of the main licensing criteria was a reduction in concentration. Moreover a large number of industrial products were 'reserved' for the small sector; while an existing large unit in such a product line was allowed to carry on business, its expansion was restricted. As a result, by the 1980s there were innumerable industries with a lower concentration ratio in India than in OECD countries.

Like the USSR and Japan, there was 'financial repression' in India. Investment funds for large public and private sector borrowers were available only if the relevant production scheme was approved by the state; on such schemes the institutions charged very low rates of interest compared to those demanded by private moneylenders in the 'unorganised' credit markets.

Further, the Indian government had a pricing policy that did not always reflect the relative scarcities of the market, domestic or international. Prices of most foods, steel and coal were pegged at levels well below the world prices. This appeared to be a conscious emulation of the Soviet practice of cheap food and low prices for producer goods in general.

By the end of the 1970s, India had developed an extremely diversified industrial structure. [13] Yet her per capita income remained abysmally low, and poverty barely, if at all, diminished. The government decided to borrow abroad on a massive scale and threw to the wind the fiscal prudence of earlier decades in order to accelerate GDP growth. In a pattern all-too-familiar from the experience of Latin America, the government was ultimately compelled in 1991 to approach the IMF and avoid default on external debts. Since then the quest for self-reliant development has been abandoned.

Conclusion

Before examining the continuing relevance of the Soviet model, let me recapitulate briefly the main points of the earlier sections.

a. If one considers the 'core' of the Soviet economic model, a capitalist economy (relatively advanced or backward in terms of overall productivity of labour) can incorporate some of its crucial features. Stalin in his last years became concerned with the rigidities of the system he had installed, but neither he nor his successors were able to remove the shackles. But China did transform her planned economy with astonishing growth in income. It may well be that the country is heading towards a restoration of capitalism, but the commanding heights of the economy still remain in the hands of the Chinese state – a central feature of Lenin's planned economy.

b. At the end of World War II, the 'popular mood' in several West European countries as well as Japan was against American-style free enterprise and highly sympathetic to Soviet-type planning that would ensure growth with full employment and an equitable distribution of income and wealth. To win the hearts and minds of the electorate in these countries, America as the Capitalist Superpower in the systemic struggle with the USSR, responded in novel ways. It broke with the age-old practice of extracting the pound of flesh from defeated nations; instead of paying huge war reparations, West Germany and Japan (as strategic allies in the Cold War) received considerable financial assistance in the initial post-war years. For West Europe as a whole the Marshall Aid Plan was launched to hasten the economic reconstruction of the sub-continent and put it on a trajectory of high growth. US dollar loans and grants were available not only to help West Europe import more than it could export, but also as 'seed capital' for the European Payments Union that greatly facilitated trade between these countries. Furthermore, when the European allies suffering from chronic dollar shortage demanded, not aid, but more of export (to the USA) opportunities, America readily acquiesced without insisting upon 'reciprocity' among trading partners. As a result, West Europe discriminated against imports from the USA and yet obtained freer access to the American market. Within the US Administration, as against the proponents of 'free market', the planners (mostly inspired by America's New Deal under President Roosevelt) gained ascendancy and went so far as to suggest a supranational planning agency for West Europe. The US as the occupying power encouraged West Germany to plan her economy with output and foreign trade targets. French planning was viewed positively. The social welfare schemes of West Europe (hardly in tune with the precepts of 'free enterprise') got full backing from the USA. Japan's welfare-oriented developmental state also enjoyed American blessings. Following her pre-war tradition, Japan leaned more heavily on Soviet-style planning by political *diktat* rather on resource allocation based on current prices in the global market. South Korea emulated Japan closely. In all these cases the economic outcome verged on the miraculous, and the system resembled more closely the Soviet, and not the neoliberal paradigm.

c. India's industrialisation drive was patterned to some extent on the Soviet model. With the private sector, including foreign investors playing a major role, the plan and the market had to coexist. The country succeeded, with help from the USSR as well as the West, in building an impressive array of modern industries; some of these achieved international standards. But the overall rate of economic growth was quite modest with little impact on chronic poverty and underemployment. As India tried to accelerate growth through large doses of both fiscal deficit and external loans, she ran into a debt crisis, and the IMF imposed a neoliberal regime.

In exploring the contemporary relevance of the Soviet model, one must take into account certain other aspects of the recent past. Returning to the Western group of nations, despite unilateral concessions in trade and investment, the Americans also gained economically. When the war ended in 1945, there was widespread apprehension of a major recession with large-scale unemployment in America (Samuelson 1943) as well as in Europe and Japan, analogous to, if not worse than the slump in Europe after World War I. History was not repeated. Apart from 'sound' Keynesian fiscal and monetary policies pursued by national governments, the big expansion in trade, both within West Europe and across the Atlantic as well as the Pacific, ushered in a long period of unusually rapid GDP growth in all these countries, including the USA. These developments provided strong support to the liberal view that freer trade is beneficial all-round. One must put in a caveat. As shown in section II, within the Western group, West Germany as a less developed (vis-à-vis the USA) country in the 1950s, maintained its protective wall. So did France and Italy. And all of them showed higher growth rates than the more open economies of the UK or the USA over a long stretch of time. Japan was even more restrictive all through, and performed exceptionally well till the end of the 1980s. According to Maddison (1995, Table 1-3, p. 23), during the period 1950-1973 per capita GDP (at constant 1990 international dollars) increased by a factor of 2.5 to 3.1 in France, Germany and Italy, and of 5.9 in Japan as against 1.7 for both the UK and the USA. Subsequently, between 1973 and 1992 the gap somewhat narrowed, but persisted; the percentage rise over these years varied between 39 and 56 for the first three countries, 76 for Japan, and 30-31 percent for the UK and the USA.

Thus even amongst industrial countries, a 'pure theory' in favour *either* of free trade *or* of protection hardly fits the post-war experience. Rather, one must underline the specificity of each major country during particular stages of development like the rank vis-à-vis the leading industrial centre(s), the institutional structure and so on. Now, West Germany by the end of the 1960s had grown into a strong economy that had almost caught up with the USA, and protectionism *per se* made little sense. However, Japan did not follow suit although from the 1980s she had also closed, if not reversed, the productivity gap vis-à-vis the USA in innumerable manufacturing industries. Would Japan be better off by dismantling the battery of non-tariff barriers against imports and embracing American-style capitalism? Actually, Japan has still a dual economy quite unlike nineteenth century West Europe or USA that Marx (1848) had talked about. Further, as noted in section III, since both the USA and West Europe selectively protect their industries, it would be suicidal for Japan to abandon altogether industrial targeting.

Among the developing countries, America's strategic allies like South Korea and Taiwan were favoured with generous market access, despite their reluctance (*à la* Japan) to allow unhindered imports or free entry by American firms; not surprisingly, the outcome was miraculous. Such generosity was, however, not extended to 'non-strategic' military allies like Pakistan, Iran (under the Shah), Turkey, and so on; I have characterised the latter as non-strategic because their overall prosperity, in US perception, was not crucial in the battle against communism. Leaving aside purely military aid, the second-tier allies barely received more of economic aid or access to the American market than some prominent non-aligned countries such as India or Egypt that had to be coaxed so that they did not land up in the Soviet camp. Further, although the quantum of aid from the US and her OECD allies to the last two groups of countries was not insignificant, the aid was essentially commercial in nature, and designed to push the donor country exports and investments into these countries.

After all, at any point of time, the size of Western markets is limited. If textiles from Japan, Korea, Taiwan or Hong Kong (and later in the 1980s from China) were to receive preferential treatment, those from rival producers in India, Pakistan or Egypt had to be blocked through the Multifibres Arrangement, sanctified by the GATT. More than 20 years ago Cline (1982) from the Institute of International Economics, often considered a think tank for the Washington Consensus, calculated that, if the East Asian experience of export-led growth were to be generalised, total import of manufactures from developing into industrial countries would have to rise 7-fold. Since that was hardly feasible, Cline concluded that the significance of the East Asian model was limited. A decade later, Summers, who later became US Treasury Secretary under President Clinton, and Thomas (1993: 252) joined issue with the neoliberal prescription that *all* developing countries should strive for export-led growth; it made little sense given the limits on the absorptive capacity of industrial countries.

It was awareness of this cardinal constraint, rather than an aversion to promote export, as neoliberals have asserted *ad nauseum*, that led the state in several major non-socialist countries like Brazil, India and Mexico (outside the circle of America's strategic allies) to establish a highly diversified range of industries from consumer to capital and basic goods. All these countries chose the strategy of import substitution with the domestic market absorbing the lion's share of output. Despite many roadblocks erected by richer nations on their exports, some of the new industries in these countries were highly competitive on a global plane and began to pose a threat to Western transnational corporations. Thus India's BHEL won every single global tender in the 1980s for the supply of power generating equipment to thermal power projects in India funded by the World Bank. In pharmaceuticals Indian firms started exporting generic drugs on a significant scale to Western markets. Brazil began exporting automobiles as well as small civilian aircraft. Mexico set up her own petrochemical complexes with technical assistance on the margin from American firms. The examples could be multiplied.

Consequently, America's economic supremacy faced a pincer attack from her strategic allies and a few developing countries. As Du Boff (2003) has underlined, in world GDP the US share plummeted from 50 to 21 percent during 1950-1999, and in manufacturing from 60 to 25 percent. In 1971 the US had her first trade deficit after 78 years, the current account of her balance of payments turned negative after 85 years in 1978, and she became a net debtor since 1986. De-industrialisation, measured by the share of manufacturing in GDP or in labour force, was taking place in all the Western countries.

How did the USA react? Through the 1970s the Soviet economy seemed to be quite strong, and America could not afford a trade war with West Europe or Japan. By the early 1980s the fragility of the Soviet economy became increasingly evident, and traditional rivalries surfaced in the economic relations between the 'triad'. In particular, the spats between Japan and the USA were highly publicised, leading many to believe in the imminence of a major trade war. Yet Japan continued with her huge trade surplus against the USA. The latter, in turn, profited from Japanese surpluses in several ways. The Japanese multinationals built factories in the USA on a large scale to beat the tariff wall, their banks invested heavily in US Treasury bonds, and the inflows enabled the US government to avoid restrictive monetary and fiscal policies that could trigger off a recession. American multinationals, too, could go on investing abroad without bothering about the country's balance of payments situation. Thus the trade war never took place. The story for West Europe is somewhat different. The European Union did not maintain a protective regime comparable to Japan's nor did it have a large trade surplus with the USA. In any case, Europe was an economic powerhouse that could match the USA in trade skirmishes.

If the USA was to maintain her relative strength, the only option left was rein in the major developing countries. The opportunity came in the early 1980s when first Mexico, then Brazil and other Latin American countries failed to meet their external debt liabilities and turned to the IMF and the World Bank for rescue. The import substitution policy was held by the Fund-Bank to be the prime culprit and the aid-seekers were compelled to abandon it. The Washington institutions rightly noted the twin deficits on the fiscal and balance of payments fronts as the proximate cause of the crisis in all these cases, but never explained the causal link between these deficits and the import substitution strategy. Moreover, the Fund-Bank allowed these deficits to persist in later years, while import liberalisation was thrust upon these countries leading to the 'lost decade' of 1980s for economic growth in Latin America. As Rodriguez and Rodrik (1999) and Rodrik (2000) have argued convincingly, the debt crises in Latin America and elsewhere in the developing world had little to do with their trade and industrial policies, and were caused by macroeconomic mismanagement. The 'real' objective of the donors in crisis management comes out most clearly in the Russian case as the following excerpt shows.

In January 2003 a probing BBC television interviewer elicited from the US economist Jeffery Sachs a statement that the US-led aid programme for the former Soviet Union in the early 1990s had been driven not by a wish to reconstruct but to destroy. According to Sachs (who, as the leading American architect of reform, was in excellent position to know), the core purpose was to finish off the state socialist system and conclude the Cold War agenda.' (TNI 2003: 7).

Hence reforms came with a big bang, and not gradually, as was proposed by many Russian economists as well as well-known Americans like Arrow, Stiglitz *et al.* (Stiglitz 2000).

It was in this context that the GATT was replaced by the World Trade Organisation (WTO). Under the WTO rules, developing countries cannot protect their industries after 2005 nor keep out foreign firms from the domestic markets. From the beginning of the Uruguay Round of Negotiations in 1986 it was the USA that pushed for the change, while developing countries in a body resisted it. Since nearly all non-socialist developing countries, including Brazil, Mexico and India were reeling under the burden of external debts by the early 1990s, and their economic policies were determined by the IMF and the World Bank, it is no wonder that they signed the WTO instruments.

What can a developing country do in the present scenario? Each country faces a unique set of constraint and no generalisation can fit them all. Hence the remarks that follow are merely broad indicators.

A precondition for a developing country is that it must come out of the Fund-Bank-WTO straitjacket and formulate its fiscal, industrial, trade and social policies without external interference. One must readily admit that the 'political classes' in most developing countries have become highly dependent on largesse from abroad; unless such elements are removed from seats of power, this condition will not be fulfilled.

Once this condition is met, two of the most hotly debated issues today, namely the external debt overhang and the WTO regime of free trade and free investment flows, have to be tackled by the national governments pragmatically. Thus the new government of Argentina refused to respect the conditionalities drafted by the IMF staff, but faced no adverse consequence so far. Cuba has not paid her dues since the late 1980s to West European financial institutions; the credit flow has dried up, but the country has continued to expand at a slow pace despite US embargo. On the other hand, Brazil under Lula, who was highly critical of the IMF, is collaborating with the IMF. It is premature to write off Lula as the 'basket case' of a radical Leftist overwhelmed by the responsibilities of governance.

As for the WTO, it is a fact that rich countries like the US, EU and Japan have interpreted the rules in their own ways; sometimes they were taken to the WTO's dispute settlement body (DSB) and even faced minor penalties. Yet there is a widespread perception that in the last decade practically all trade concessions came from the poor countries. A notable exception is China that has maintained her economic independence and never hesitated to retaliate vigorously against any Western attempt to curb her trading rights. After the WTO meetings at Doha (2001) and Cancun (2003) the developing countries as a group have begun to act with determination and thwarted the Western agenda to expand the scope of free trade without having met earlier commitments. Issues that seem to have been settled are now being reopened. If solidarity among the developing countries persists, they can exercise their veto and ensure that all key personnel, including members of the DSB, are committed to 'fair' rather than 'free' trade. In the absence of such unity, the more radical among the developing countries have to evaluate the pros and cons of remaining within the WTO.

The Soviet experience does offer valuable guideposts, both positive and negative. To achieve economic independence, a developing country has to manage its macroeconomic balances in a prudent manner, i.e. maintain in the long run a balance both in the government budget [(14)] and in foreign exchange transactions. [(15)] Economic growth must be based as far as possible on the use of domestic resources and the domestic market. The former implies a return to the import substitution strategy, while the latter requires that institutional constraints on the development of the home market – above all, various forms of monopoly whether in the ownership of land or in private sector manufacturing and services – have to be removed. These are essential to raise the purchasing power of the masses in most developing countries. Planning should cover only the major sectors, and avoid the pitfalls of overcentralisation. Lastly, an inward-looking policy, even in a large country like the USSR succeeded up to a point. In a world of rapidly changing technology no country can be self-sufficient and yet maintain a steady rise in labour productivity. It is therefore necessary to look for exchanges with other countries without jeopardising national sovereignty. Unfortunately, the developing countries in the last half-century looked mainly to the West, ignoring in the process opportunities for trade between themselves. Although some beginnings have been made in this direction, it remains one of the major challenges facing them in the coming decades.

ENDNOTES

1. One of the best examples is the long study by Sidney and Beatrice Webb (1937), two leading Fabian Socialists in Britain. An expanded version, Webb and Webb (1944), carried a preface by George Bernard Shaw, who was described by Sir Winston Churchill as the greatest English man of letters of the first half of the last century.

2. By using the less controversial elements of Soviet statistics, leading Western scholars like Jasny and Bergson confirmed that economic growth was indeed quite rapid in the 1930s, though much lower than the official claims. Using Soviet concepts of national income, Jasny estimated the figures for 1928,1937 and 1940 at constant 1926-27 prices. Bergson followed the same concepts but used 1928 prices for the first two benchmarks years, and 1937 prices for the last two. The annual growth rates in national income are shown below along with Soviet official calculations at 1926-27 roubles.

	Jasny………		Bergson….		Soviet
	A*	B*	C**	D***	official*
1928-37	7.47	9.0	11.9	4.4	16.7
1937-40	6.0	n.a.	n.a.	5.1	10.0

* 1926-27 roubles ** 1928 roubles *** 1937 roubles

Note: Jasny A is estimated by industrial branches, while Jasny B is estimated by the expenditure method. Bergson used the expenditure method for both C and D.

Source: Bergson 1961, tables 43 and 47.

In an economy undergoing rapid structural changes, the choice of the base year has a decisive impact on the growth rate; it is vividly illustrated by the enormous gap between the two Bergson figures for 1928-37. In such cases Fisher's 'ideal index' is the geometric mean of the two rates of growth, which comes to 8.1 percent; it is a shade lower than Jasny's, but less than one-half of the Soviet official estimate. These rates of Bergson or Jasny covering almost a decade is very high by international standards, not only of capitalist countries over more than two centuries, but also by those of 'miracle economies' in East Asia like Japan, South Korea and Taiwan in the post-war decades, and China after 1978.

Bergson's methodology was followed by the US Central Intelligence Agency (CIA) for estimating Soviet economic growth in post-war years. By the 1980s the CIA estimates of Soviet economic growth, though somewhat lower than the Soviet official figures, were widely criticised in the West for being too high.

In Gorbachev's USSR, scepticism about official data, especially in the recent past, was widespread. Khanin from Novosibirsk looked at the question dispassionately, covering all the years since the 1920s. The findings were startling. The debate among Soviet economists around the earlier essays by Khanin and his collaborators were summarised by Ericsson (1990). Khanin's (1991) estimate of industrial growth in 1961-80 was only 4.6 percent per annum as against the official 7.2 percent. As for 1928-32, while the official source claimed a doubling of national income, Khanin found an actual decline by 15-20 percent; this was mainly due to the sharp fall in agricultural production that accounted for a major part of national income in 1928. But Khanin also observed an exceptionally rapid rise from 1932 to 1937, and a more subdued one from 1938 to 1941; much of the increase in the last three years was due to an expansion in Soviet territory. Still, the whole period of 1928-40 was one of rapid growth, when the economy underwent a major structural shift towards heavy and capital goods industries, and there was a perceptible increase in the Soviet share of the world economy. Unfortunately, Khanin did not present annual estimates of national income over these years.

From 1928 to 1940 industrial production, according to him, went up by 10.9 percent per annum, after allowing for a much higher inflation rate in industrial wholesale prices (19.4 percent per annum) than in the official index (13.2 percent per annum) of 'listed' (*preiskurantnykh*) prices. But on 'national income produced', the current price figures deflated by Khanin's alternative index of wholesale prices (of industrial and non-industrial goods and services), yield an annual growth rate of 6.3 percent from 1928 to 1940 (Khanin 1991, pp.196, 205-06, 212). Khanin's estimates fall within the range indicated by Jasny and Bergson.

Khanin's alternative price indices are far above the Soviet official indices, and also of those of Jasny and Bergson *et al*. With 1928=100, Khanin's index for 1940 stood at 840 for industrial wholesale prices, and at 550 for machine-building (Khanin 1991, pp. 212, 223); but

Moorsteen's 1937 index for machinery was a mere 143, and that of Bergson *et al.* (at 1937 weights) for 'basic industrial products' was 222 only (Bergson 1961, table 44). As the deflator for national income and gross social product, Khanin puts the wholesale price index with 1928=1.0 at 9.1 for 1940; since prices in the kolkhoz market rose even faster, the 'true' index of retail prices should have been still higher. On consumer prices, Bergson cites Chapman's 1937 index, covering both state shops and the *kolkhoz* markets, at 8.7 (1928 weights) or 6.0 (1937 weights); combining it with that for 'basic industrial prices', of Bergson *et al.*, the inflation index should be considerably lower than Khanin's.

3. The Soviet impact was also visible in other countries. On Latin America, see the paper in this volume by Cole Blasier. In Africa, Soviet influence on the economy was quite strong for a while in Egypt, Algeria, etc. South Africa's African National Congress, not top speak of its Communist allies, drew inspiration from the USSR.

4. Bergson did not explain how he obtained the ratio for the USSR. In all probability he relied on Holzman's (1974) meticulous estimates of trade ratios for the USA in 1869-1913 and the USSR in 1928-59. Holzman compared the Soviet GNP of 1928 and 1931 as calculated by Hoeffding, and the 'adjusted' values of Soviet exports. The adjustments were needed because Soviet exports, according to a Soviet scholar, Aizenberg (1958, p.74), were valued at 32 percent below Soviet domestic prices. Thus the Soviet export-GNP percentage stood at 3.2 in 1928 and 3.9 in 1931, far below the average US ratio during 1869-1913. The adjustments amount to a PPP (purchasing power parity)-type export-GNP ratio, though the more common method is to evaluate the GNP at PPP, leaving exports unchanged.

Let me now present other estimates. According to Vainshtein's (1969, table 6, p. 98) calculation, national income 'produced' at current prices amounted (in billion roubles) to 26.4, 30.1, 38.3 and 47.8 in the calendar years, 1928 to 1931 respectively. From MOFT (1960, pp.94, 121) one finds the export values (in billion roubles) at 3.2 in 1929, 3.6 in 1930 and 2.8 in 1931. Combining the two estimates, the percentage of export to national income comes to 10.7 in 1929, 9.4 in 1930 and 5.9 in 1931. On the other hand, Davies (1996, table 13(a), p.534) used another official source and put export values in billion roubles at 'world prices' at 0.92, in 1929, 1.04 in 1930 and 0.81 in 1931; the trade percentage would then be 3.0 in 1929 and 1.7 percent 1931. The big discrepancy in the two sets of export values arises from the well-known fact that the *valyuta* rouble in the latter case is very different from the rouble used for estimating domestic production, consumption, etc.

Maddison (1995) presented comparable estimates over a very long period of time of GDP and its components, all at ‘constant 1990 international dollars’, for a sample of 56 major countries. Reproduced below are his (*ibid*., Table 2.4, p.38) export/ GDP percentages for some countries.

	1870	1913	1929	1950	1973	1992	
Russia/USSR	-	2.9	1.6	1.3	3.8	5.1	
Western Europe		10.0	16.3	13.3	9.4	20.9	29.7
USA	2.5	3.7	3.6	3.0	5.0	8.2	
Japan	0.2	2.4	3.5	2.3	7.9	12.4	
China	0.7	1.4	1.7	1.9	1.1	2.3	

Several observations are in order. (a) Western Europe has always been an ‘outlier‘; its trade included a great deal of essentially inter-regional trade with close neighbours. (b) While the ratios for the USSR in 1929 and 1950 are lower than those for the USA in 1870 and 1913, the gaps are much smaller than suggested by Holzman. On the other hand, Maddison’s Soviet ratios are lower Holzman’s. (c) Japan’s trade ratio was lower than that of the USA up to 1950. (d) China, by all accounts, was a ‘miracle’ economy with a strong export thrust by the early 1990s, and yet the trade ratio in 1992 was a third lower than that of ‘autarkic’ USSR in 1973. (e) The ratio for the USSR rose almost 3–fold in 1950-73.

A binary comparison between the USA and the USSR over the periods selected by Holzman may be justified by the fact the periods represented the ‘initial’ phases of industrialisation in these countries. But there are pitfalls. (1) It is widely accepted that, *ceteris paribus*, the foreign trade ratio rises as per capita income goes up. According to Maddison (table 1-3. P 23), the Soviet per capita income in 1913, 1950 and 1973, all at ‘1990 international dollars’, amounted to 1488, 2834 and 6058 respectively; the US figures were 2457 in 1870 and 5307 in 1913. Since there was hardly any growth in the USSR during 1913-29, one may put the Soviet capita income in 1929 at around 1500, or about three-fifties of the US level in 1870. For 1950-73, the GDP figures just cited imply a compound annual growth rate of 3.34 percent for the USSR. Considering the decelaration in growth since the 1960s, I assume that the annual rate was 5.0 percent in 1950-58, implying for 1958 a per capita level of 4187 or about 21 percent below at of the USA in 1913. Hence one should expect a significantly lower trade ratio for the USSR. (2) The USA during 1869-1913 emerged as a significant exporter of manufactures. But the USSR in 1929-58 concentrated on the export of primary goods, and their world market prices witnessed a severe crash in the 1930s. This again should have lowered the Soviet trade ratio.

In characterising the USSR as autarkic, Holzman made three important qualifications. The First Five-Year Plan had to find resources for financing large-scale imports of machinery. Holzman quoted somewhat approvingly Mishustin (1938, p. 10): exports had to be increased in 1929-31 in the face of 'embargoes, custom and currency restrictions, higher tariffs, and other anti-Soviet measures'. Second, Holzman endorsed Gerschenkron's view that the fear of war with disruption of trade made the Soviets inward looking. That should explain in part why the Soviet trade ratio fell even after 1934 when the terms of trade as well as the terms and availability of Western credit improved. Moreover, expansion in Soviet production of machinery, etc. greatly reduced the need for imports. One may add that the security consideration is not confined to communists. After supply disruptions during World War II, the search for 'food security' drove most OECD countries to protect domestic agriculture, and it continues to this day. On a more general plane, 'security' apparently justified the whole set of Western, primarily US, restrictions on their exports to the USSR and its allies/satellites.

5. Sachs (1995), who played a key role in the Russian 'big bang' of 1992, has been complaining for a long time that the Fund-Bank and the OECD countries were rather niggardly in offering aid to Russia. Had it been on a scale comparable to the Marshall Plan for West Europe after the last war, the situation would have been vastly different. Similar views were expressed by two prominent neoliberals, Dornbusch (1992) and Popov (1992). Another group of well-known authors proposed that a part of foreign aid should be used to launch 'a major drive for promoting exports of Russian manufactures, if a tragedy is to be avoided in many industrial centres. The Russian domestic market will be subdued, but many Russian goods are potentially supercompetitive in world markets... Russia has already many excellent products... No one buys them [abroad] because no one knows they are there... Aid money used to promote Russian exports has great leverage.' (Blanchard *et al.* 1993, pp.34-35.) As shown below, the Americans took special measures during and after the Marshall Plan era to help W. Germany expand her exports.

6. The size of Soviet aid was quite modest. The official figure up to 1957 was 5.3 billion yuan, not all of which can be called 'economic' aid. The range for the latter in different Western estimates for 1950-57 was 1.0 to 1.7 billion yuan (Cheng 1964, p.82; Eckstein 1966, p.154; Li 1959, p.171). Hollister (1964, p.42) reckoned that the Soviet contribution was a mere 1.5-3.0 percent of total investment in China's modern industries over the period. China obtained two further loans totalling 1.5 billion yuan in 1960-61. But Eckstein (1966, p.170) assigned a much higher significance to Soviet assistance since it covered as much as one-quarter of China's imports in the most difficult years, 1950-55. In the absence of Soviet aid China's national income growth rate, it has been estimated, would have been lower by 2-3 percent per annum (Eckstein 1966, p.124; Dernberg 1968, p.235). But such macroeconomic exercises, relying exclusively on financial flows, are not meaningful, as argued below.

It is important to look at some other magnitudes. Soviet aid covered 156 projects up to 1957, and 291 till February 1959. During the First Five Year Plan years, 1953-57, Soviet-aided plants contributed 92 percent of the *incremental* output in iron industry; the percentages for other sectors were 83 in steel, 23 in coal, 45 in power, etc. As much as one-half of state investments over these years went into Soviet-aided plants. On the manpower side, 11,000 Soviet experts went to China for varying periods till early 1960, while 38,000 Chinese were received in the USSR, including about 7,000 who got university education (Cheng 1964, p.27-43).

After the Soviet specialists left China in the wake of a political rift and took away many blueprints, it took China many years to complete the unfinished projects. If the Soviets had not come at all, and access to Western technology were limited either by China's dollar earnings or by a political embargo, it is very doubtful if China could set up even a fraction of the modern industries that she actually did during the Maoist period.

7. The contrast with the Fund-Bank policies in Eastern Europe and ex-USSR in the 1990s is quite marked. Till 1989 there was brisk trading between these countries. These exchanges collapsed as trade began to be settled in dollars with no mechanism for bilateral payments, and this contributed in no small measure to the impoverishment of one and all. The Fund-Bank and Western governments encouraged this process.

8. When India faced foreign exchange crisis in 1957, the government had to relax restrictions on foreign private capital in a number of industries like drugs, aluminium, heavy electricals, fertiliser and synthetic rubber before obtaining a World Bank loan of $600 million (Kidron 1965, pp.158-59).

9. It is worth recalling that the Soviet model of War Communism, 1918-21, was copied from the practice of Imperial Germany during World War I. Although War Communism was explicitly repudiated in favour of the New Economic Policy in 1921, the latter was in practice abandoned around 1928-29, and the 'classical', (borrowing Kornai's adjective), Soviet model gradually emerged with many traces of War Communism. The UK and the USA during World War II also resorted to extensive government control over prices, production, input allocation, and income distribution. One could then say that during an all-out war a militarisation of the economy is inevitable, and the classical Soviet model is as relevant as that of Imperial Germany. Hence Hayami's statement should be modified in this regard; the Japanese bureaucrats and the military establishments were mainly concerned with the 'technical' aspects of planning that were no different as between the USSR on the one hand, and war-time Imperial Germany, the UK or the USA on the other.

10. Beside Japan, special schemes for the small sector exist in China as well as India. Everywhere these are under attack on 'efficiency' grounds, as was the case with pre-war Japan. Landes (1965, p.119) conceded that in the 1930s labour productivity in Japan, and even more in her small industries, was significantly lower than in the West, and sometimes this was indeed inefficient. But on 'balance the Japanese undoubtedly gained, achieving a higher rate of growth than they would have, had they adopted the "best", that is the most capital-intensive practice.' For the recent period, Patrick and Rohlen felt that the thesis of 'dualism' is no more appropriate for two reasons. First, it often implies an exploitation of the small by the large firms. Second, it ignores the symbiotic relations between the two sets of enterprises. In my view the charge of exploitation of small industries is baseless since the Japanese left, traditionally hostile to the *zaibatsu*, has always supported small businesses. As for the second argument of Patrick and Rohlen, none of the authors writing about 'dualism' denied the links between the two sets of enterprises. I would also reiterate Landes' point: The replacement of the small sector in Japan by large units would raise the capital-output ratio; if the savings rate did not rise, the growth rate of national income would fall. I would add one more argument.

The competitive strength of many Japanese firms in the world market today depends on the subcontracting system, the suppliers often being small family enterprises. Not only would exports fall, but the home market would also shrink because of lower employment. The same might be said of contemporary China and India.

11. Locke (2004) has made several interesting points exploding the neoliberal view that Japan is a sick economy, although he did not emphasise Japan's 'dualism'.

12. Curiously, the First Five Year Plan adopted by the Soviets assigned an important role to handicrafts and artisans' cooperatives for consumer goods, but in practice the sector was squeezed for ideological reasons.

13. In an influential book Joshi and Little (1996, p. 9) claimed that by 1990, just prior to neoliberal reforms, India had become the most autarkic country outside the Soviet bloc. Figures cited earlier show that Brazil and Japan had lower ratios of manufacturing import than India. If one further agrees that per capita income level is an important determinant of the foreign trade ratios, the USA, despite her recent surge in imports, is probably less open than India.

14. The fiscal crisis in developing countries has roots in the inability of the government to collect taxes according to the law. On the expenditure side a great deal of wastes (from a social perspective) takes place; this is why Myrdal (1968: 66ff.) coined the phrase, 'soft state'. The wastes include 'populist' subsidies on a whole range of items. It is generally accepted that certain subsidies are necessary in a civilised society, e.g. cheap food and shelter for the needy. But there is no logic behind extending the same facilities across the board. According to official estimates, while subsidies accounted for 15 percent of India's GDP in the early 1990s, about 80 percent of the total went to the non-poor segments of the population. If the unjustified subsidies could be eliminated and loopholes in tax collection reduced, government outlays on health, education, and capital formation would go up very substantially. Poverty and unemployment could be drastically reduced within a few years.

15. Dependence on foreign aid or foreign investments over long stretches of time cannot but weaken the state. Domestic investments should be financed through local savings. So long as the state is in control of the control, private investors from may also be invited like China, Vietnam or Cuba, if they bring in high technology or provide access to foreign markets. But such inflows cannot be regarded as the engine of domestic growth.

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