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Executive Summary

Are winds of change sweeping across the Eurasian landscape? Or are the reforms occurring in the People's Republic of China, the Soviet Union, and Eastern Europe merely gentle breezes, strong enough to stir the interest of the West but unlikely to uproot the economic structures of the East? It seems likely that the allure of the marketplace, evident in several Eastern European states for decades now, will become increasingly irresistible to all but the most incorrigibly Stalinist regimes throughout the communist world.

A closely related (perhaps even inseparable) question is whether, or to what extent, economic liberalization in China and the Soviet bloc will lead to democratization. Moreover, what impact will those nations' internal political and economic reforms have on international politics, particularly relations between the East and the West?

For the East, the growth of "market Marxism" has potentially far-reaching implications, not least because of the intimate relationship between politics and the economy. In adopting market-oriented reforms, Communist party leaders are sailing into uncharted waters. How far can economic reforms go, they must ask, without creating popular demand for political rights? Allowing pockets of capitalism to develop and grow is bound to bring into being an entrepreneurial class whose interests are at odds with those of a privileged party elite determined to perpetuate its power monopoly.

The dilemma that Communist party leaders face can be expressed as a paradox: the more effective the economic reforms (measured by the commercial success of the new or renascent private sector), the shorter the likely life span of the Stalinist party-state. In the course of a recent assessment based on an extraordinary interview with Mikhail Gorbachev,

Heidi and Alvin Toffler--authors of *The Third Wave* and *Future Shock*--noted:

> An advanced economy requires incessant technological innovation. But technological advance in today's world is ever more closely tied to culture and to social structure. To generate a lot of new ideas, even technological ideas, the system must permit the expression not simply of alternative scientific theories and hypotheses, but of "crazy" social notions, offbeat art, controversial economic theories, errors, and even ideological dissent.[1]

According to the Tofflers, that is why so many Soviet scientists favor glasnost (openness) and "want even more freedom."[2] That is also why "it will be necessary [for Soviet leaders] to think the apparently unthinkable--that many of the Soviet Union's most critical 'contradictions' arise from the monopoly of political power by a single party."[3]

For the West, the economic reform movements in the Soviet bloc and China hold out the prospect of unprecedented opportunities--not only for trade liberalization but also for progress in such areas as arms control and regional-conflict management. But the prospect is far from being a reality. The West's response could play a significant role in determining the pace and direction of the market-oriented programs now under way.

The following analysis is divided into four sections. Considered in the first and the second are the context and the content, respectively, of recent economic reforms in certain communist states; in the third, the inherent tension between individuals' economic rights and the collective ethos enshrined in Marxist-Leninist ideology and institutionalized in party rule; and in the fourth, the implications of the trend toward reform for U.S. foreign policy.

Stalin's Legacy: Reform or Decline

Observers have long disputed the relative merits of free - market and centrally planned economies. Even those who contend that the Stalinist system brought about an unprecedented rate of industrialization in the 1930s, however, often hasten to add that the human costs of that achievement were also unprecedented (and unnecessarily high).[4] Others stress that the Soviet Union's economic growth has been unbalanced and point to its chronic agricultural shortfalls.

A profound issue faced by communist regimes is whether centralized economic planning is appropriate for "mature" (that is, industrially developed) socialist nations. The specter of a moribund workers' state has haunted the Soviet Union at least since the early 1960s. Following Nikita Khrushchev's ouster in 1964 (which was due in part to the failure of his efforts to revitalize agriculture and reorganize industry), Moscow's new leaders launched their own program to rejuvenate the creaky Soviet system of centralized economic planning and administration. In doing so, they were guided by the theoretical writings of E. G. Liberman, a Soviet economist.

The so-called Liberman reforms were designed to decentralize economic decision making for the first time since central planning was introduced in the 1930s. Managers were to be given considerable discretion and charged with making a variety of microeconomic production and investment decisions. Their enterprises were even to be charged interest on the total amount of capital used. "With this new-found latitude, managers were expected to take risks, innovate, reduce costs, and thereby

increase the sales and profits of their enterprises."[5]

Had Libermanism triumphed, Soviet managers would have had to operate a lot like Western entrepreneurs. But the embryonic reform movement was quickly aborted by the entrenched party - state bureaucracy, at whose expense the reforms would have come.

In 1973 Leonid Brezhnev's regime announced a new approach: merging related enterprises into large industrial and production associations. The purpose of the new groups, which were apparently patterned after the corporate conglomerates found in many market economies, was to cut costs and make better use of technology. For the second time in a decade the Soviet leadership imitated Western economic practices without adopting Western economic principles. And for the second time the undertaking foundered on the rocks of a change-resistant economic apparat.[6]

The waning years of the Brezhnev era saw the Soviet economy grow as ossified and arthritic as its aging leaders. Through a mixture of intimidation and new incentives, Brezhnev's successor, former KGB (secret police) chief Yuri Andropov, apparently intended to address the perennial problem of low labor productivity, but he fell gravely ill and died soon after his accession to power. Andropov's successor, Konstantin Chernenko, was ailing and largely incapacitated from the start of his very short reign as party general secretary. It thus fell in March 1985 to Mikhail Gorbachev--at age 54 the youngest Soviet leader since Joseph Stalin--to deal with the economic ills afflicting an encrusted bureaucratic system that Stalin had created when Gorbachev was only an infant.

Defenders of the Soviet model usually point to Moscow's meteoric rise to superpower status under Stalin's draconian rule. In the early 1970s one such scholar wrote:

The Soviet Union has advanced from a relatively backward and predominantly agricultural country to an economic power second only to . . . the United States . . . . It is probably fair to say that in spite of all the shortcomings of the

Soviet economic system one can point to, the annals of no other country show such rapid industrialization and such high growth rates sustained for so long a period of time.[7]

But that assessment was made before the current economic trends were evident. Those trends, as we are about to see, strongly support a view long held by many Western students of economic development: that whatever successes forced industrialization may have brought about in the Soviet Union during the 1930s, the utility of the Stalinist approach is at best inversely related to the preexisting level of development in a given economy. The Stalinist developmental model is likely to apply-- if at all--only until an economy reaches a certain level of industrial and technological sophistication; after that its application becomes more and more of a drag on efforts to achieve sustained growth.

A recent study authored by William U. Chandler and released by the Worldwatch Institute reveals striking differences between the current economic performances of free-market nations and those of nations run by central planning authorities.[8] The indicators of economic efficiency used in the study include agricultural productivity, energy conservation, and pollution control.

"Until recently, centralized planning served as a model for almost half the world," according to Chandler, but there is now a growing reliance on free-market principles. The reasons for this reversal include the disastrous failure of Mao Zedong's "heaven storming" approach (all-out mass mobilization) to economic development in China, the debt crisis in Latin America, the famine and stalled development in Africa, the chronic underdevelopment in South Asia, and the burgeoning deficits in Western Europe and elsewhere. (Privatization is often viewed as a way to reduce subsidies to inefficient state-owned enterprises.)[9]

"The issue is not socialism vs. capitalism; it is the efficacy with which economic systems achieve their intended ends," wrote Chandler, who compared the resource-use efficiency of free-enterprise economies (including those of the United States, Japan, and West Germany) with that of state-run economies (including those of the Soviet Union and Czechoslovakia). He found that the agricultural labor productivity rates of Western Europe are often double those of Eastern Europe and that U.S. farmers are 20 times more efficient than their Soviet counterparts. Chandler's study also demonstrates that free-market economies enjoy a comparative advantage in energy conservation and pollution control. (See Figures 1, 2, and 3.)

Those trends may come as a surprise to some Western observers, but leaders of such communist states as Yugoslavia, Hungary, and, to a lesser extent, Poland have for many years had misgivings about the wisdom of central planning--misgivings expressed in market-oriented deviations from the Stalinist model. The mounting evidence of the pervasive superiority of market systems

has probably been a major factor impelling China and, most recently, the Soviet Union to pursue economic reforms as well

The Reform Movement: To Moscow via Beijing

Yugoslavia was the first Eastern European nation to experiment with market-oriented reforms, but Hungary has shown the way to far-reaching reforms within the Soviet bloc. The Hungarian example is now being emulated throughout the communist world. The regime in Poland, where agriculture has never been collectivized, recently announced its intention to under- take systematic reforms in other sectors. Not only has China taken up the cudgel of reform, but, surprisingly, so has the Soviet Union--under the twin banners of Gorbachev's glasnost (openness) and perestroika (restructuring), it is toying with a latter-day version of Lenin's New Economic Plan that includes some elements of free enterprise.

Eastern Europe

Led by Josip Broz Tito, Yugoslavia broke with Moscow nearly 40 years ago and subsequently looked westward for friendship and assistance. Yugoslavia, recall, was the only Eastern European country to liberate itself from Nazi domination at the end of World War II; it alone was not occupied by Stalin's armies. In addition, Yugoslavia has the good fortune not to share a border with the Soviet Union.

Yugoslavia's pioneering efforts to institute administrative decentralization and worker self-management--as well as its welcome-mat approach to trade relations with the West--are widely acknowledged.[10] The so-called workers' councils have long been the cornerstone of Yugoslavian "socialist democracy"; Tito promised "factories to the workers" early in 1950 as the first step toward a repudiation of the Stalinist model. The workers'

Figure 1

Total Agricultural Productivity for the United States and the Soviet Union, 1960-84

(Graph Omitted)

Figure 2

Energy Consumption per 1980 $U.S. of GNP for the United States and the Soviet Union, 1970-82

(Graph Omitted)

Figure 3

Sulfur Dioxide Emissions per Capita in Selected Countries, 1970-82

(Graph Omitted)

Source: William U. Chandler, "The Changing Role of the Market in National Economics" (Worldwatch Institute, September 1986).

councils were intended to ensure democratic self-management at the enterprise level and thus avoid the stultifying effects of hierarchical party-state control.

But in the 1950s reality failed to catch up with the rhetoric of self-management. In the 1960s Yugoslavian reformers made repeated attempts to achieve economic liberalization. Their aim was nothing less than "to end arbitrary political intervention in the economy in order to allow the market to work freely."[11] Self-management in Yugoslavia finally came of age in the 1970s.[12] In theory, the Yugoslavian worker now manages the means of production and decides how the fruits of his labor will be distributed. The social and political sig -nificance of the system has been described as follows:

Within Yugoslavia, self-management provides the foundation for the "democratization of social life" and "the construction of a political system" that expresses the plurality of interests in society and allows contradictions inherent in such a society "to be resolved democratically by dialogue and consulta-tions." . . . Self-management affects almost every facet of Yugoslav life. Its application to the government and administration is reflected in the 1974 Constitution.[13]

Yugoslavia's 1974 constitution was its fourth since the end of World War II (others were adopted in 1946, 1953, and 1963). A document unique in the communist world, it introduced a new representational system and gave each of the six republics an equal number of delegates in the federal parliament. The 1974 constitution, however, has done precious little to erode the party's monopoly of political power.

Without question, Yugoslavia has been the most innovative (and the least illiberal) state in Eastern Europe. But for all of its experimentation with market-oriented and pseudodemocratic reforms, Yugoslavia's leadership has not been able to revitalize the nation's lethargic economy or solve its festering political problems.[14]

At the outset of the present decade the Kosovo uprising provided a portent of Yugoslavia's present troubles. In 1981, about a year after Tito's death, thousands of young Albanians in the Serbian province of Kosovo marched in demonstrations, chanting anti-Yugoslavian slogans and demanding political emancipation from Serbia. Inspired mainly by subnational particularism, which is always just beneath the surface of Yugoslavian politics, the upheaval in Kosovo also had economic causes, including a $20.5 billion foreign debt, a 40 percent inflation rate, and double-digit unemployment..[15]

Yugoslavia's economic plight has not improved much since then. Although the country reduced its foreign debt (thanks to trade surpluses in the mid-1980s) and in 1986 achieved a respectable 3.5 percent growth rate, evidence of remaining structural problems is easy to find. Inflation has increased to an annual rate of over 90 percent, over a million workers (14 percent of the workforce) are unemployed, and state control of the economy is increasing.[16]

Milovan Djilas, Yugoslavia's most famous dissident, recently asserted: "We [Yugoslavians] now face a choice. Either we go forward, become freer and join the rest of Europe, or we will fall backward and become the underdeveloped state we were before World War II."[17] That statement, made against a backdrop of sustained economic stagnation, underscores the urgency of the need for structural reform not only in Yugoslavia but throughout Eastern Europe.[18]

Unlike Yugoslavia's, Hungary's reform movement came at the behest of a leader who had been hand-picked by the Kremlin. Following an abortive revolt against Moscow in 1956, Hungary was forcibly returned to the communist fold. However, under Janos Kadar, who has ruled for three decades, a package of reforms known as the New Economic Mechanism was created. Begun in 1968 and halted in 1972, only to be reactivated six years later, the NEM--whose marketplace-oriented features included greater reliance on prices and profits, decentralized industrial management, incentives for "worker entrepreneurism," and supports for private farming and small business--was combined with continued Communist party domination of Hungarian politics.[19]

The revival of the NEM from 1978 to 1979 was necessitated by Hungary's growing indebtedness to other nations (due in part to rising oil prices), rising raw-material costs, declining export earnings (due in part to the faltering world economy), and stagnating productivity.[20] The revivified NEM helped make Hungary, despite its vacillations and continuing problems, something of a showcase in Eastern Europe in the late 1970s and the early 1980s, even though worldwide recession was causing many other nations, in both the East and the West, to reevaluate their economic policies.[21]

An emphasis on consumerism undergirded by a partial reprivatization of agriculture was one of the NEM's most conspicuous (and successful) departures from the norm:

What proved decisive [for meeting consumer demand] was the priority accorded to the modernization of agricultural production and the green light given to the development of a rural second economy. The result was adequate food supplies for the domestic consumer (with substantial amounts left for export) and the availability of basic foodstuffs at subsidized prices (at least until 1983). [Those NEM-related measures] also helped dim the memory of the regime's often brutal recollectivization campaign of 1958-60 and created a basically reform-supportive consensus in the countryside.[22]

The Hungarian economy has since fallen into a deep slump-- -Hungary had the lowest growth rate in Eastern Europe in 1985 and appeared likely to repeat that dismal performance in 1986.[23] The Central Committee of the Hungarian Communist party reportedly engaged in a vigorous debate over the future of the NEM in December 1986; the upshot was that failing firms now face bankruptcy and the state banking and monetary systems are slated to be broken up this year. According to an article by Jackson Diehl in the Washington Post, "a strategy of further liberalization appears to have won out. That course and Poland's retrenchment . . . could increase Hungary's profile as a lone liberal in an Eastern Bloc headed toward increased economic subordination to the Soviet Union."[24]

People's Republic of China (PRC)

The most spectacular and rapid disengagement from central planning has occurred in China. In a recent article in Foreign Affairs, A. Doak Barnett, a noted China scholar, summarized the change as follows:

A decade has passed since the death of Mao Zedong. During these years, China has embarked on a course of reform that Deng Xiaoping has called a "new revolution" and Premier Zhao Ziyang asserts represents "an extensive, profound and sustained transformation" of the country's economic structure. In a 180-degree change of direction from Mao's last years, the Chinese have moved rapidly from ideological dogmatism toward eclectic pragmatism, from extreme totalitarianism toward liberalized authoritarianism, from a command economy toward "market socialism," and from autarkic

isolationism toward international interdependence. These trends signal a major new stage in China's long march toward modernization.[25]

As part of that reform movement, Beijing adopted an open - door policy, under which the PRC more than doubled its foreign trade--primarily with the West--during the Sixth Plan years (1981-85).[26] Under Deng's pragmatic guidance, the PRC reversed its position on foreign loans and direct foreign credit and is now eagerly seeking both. By the end of 1985 China had borrowed more than $10 billion, according to its official statements; by 1990 that figure might double.

The decision to seek direct foreign investment--absolutely taboo when Mao was alive--is even more remarkable. Deng's most controversial and innovative step was the creation in the late 1970s of Special Economic Zones, which were intended not only to attract foreign capital but to stimulate exports and expose the PRC to modern technologies and management methods.[27] Although the obstacles to foreign companies that wish to do business in China are still formidable, the nation had attracted over $5 billion worth of direct foreign investment by 1985 and has recently stepped up its efforts to obtain more.[28]

Nowhere have the results of the PRC's shift toward market principles been more apparent than in agriculture, where the average annual rate of labor productivity more than quadrupled (and that of land productivity more than doubled) during the early 1980s, compared with the rate in the previous quarter - century. During the Sixth Plan years the average annual increase in agricultural output was over 8 percent, while the increase in rural per capita income was nearly 14 percent.

The reason for that success story is simple: for all practical purposes, farming has been reprivatized in China. The peasants decide what to plant, manage their own land, and sell only a portion of their crops under contract to the state; they dispose of their net produce, after taxes, in any way they choose. Moreover, individual households have a guaranteed land tenure of at least 15 years. Legal ownership is essential to generating investment, but Chinese culture has never accorded it the prominence that it has in the West. Despite the lack of formal ownership, the Chinese peasants now manage the land they cultivate relatively free from state interference.

In industry, decentralization and a shift from bureaucratic strangulation to economic regulation have spearheaded the PRC's drive. Several years ago the number of major industrial products subject to central control was halved, from 120 to 60. Beijing claims that by the end of the Seventh Plan years (1986-90) the number will have been reduced to "a few vital commodities." Giving managers greater decision-making authority and stronger incentives to operate their enterprises efficiently is a major aim of China's industrial reforms. Accordingly, Beijing has moved steadily toward the use of capitalist criteria--chiefly profit and loss--as measures of performance. Beijing hopes to make "a great majority of the enterprises . . . solely responsible for their own profit and loss" by 1990, according to the regime. A rational pricing system has yet to be established, but an effort to do so, albeit halting, was under way before a student revolt commenced last December. It now appears that the trend toward relying on market prices has at the very least been slowed.[29]

Since last fall two additional features of a free-market economy have made their debut in China. First, it is now possible for enterprises there to go bankrupt. A debt-ridden factory in Shenyang became the first bankruptcy case in the PRC's 37-year history. (Chinese officials estimate that at least 20 percent of the state-owned enterprises operate at a loss, partly because until recently factory managers merely had to fulfill output quotas, not realize profits.) Second, a small securities market was opened in Shenyang. (The regime had long inveighed against the old Shanghai stock exchange as a symbol of the evils of capitalism.)[30] Clearly, the present leadership has been willng to try new policies--including some that to mention in public would have been heresy just a few years ago.

In mid-1986 the PRC applied for membership in the General Agreement on Tariffs and Trade. Several other communist states belong to the GATT, and it has had to bend (or suspend) many of its rules in order to accommodate nonmarket systems. But the PRC's membership in the GATT poses problems on an entirely new scale. In a recent issue of the Washington Quarterly, Penelope Hartland-Thunberg cautioned:

Although China's present leadership is apparently committed to an increasingly market-oriented economy, its economy is still almost totally centrally controlled, internal opposition to "socialism with a

capitalist face" is significant, and the success of its new policy is by no means assured. The world trading system cannot risk the easy assumption that China will soon be an economy more capitalist than centrally controlled. . . . The geopolitical interest of the West lies in encouraging China's new policy, but not at the expense of emasculating the world trading system.[31]

Clearly, Beijing's move toward market-oriented reforms creates new opportunities for improving relations between China and the West and should be welcomed; just as clearly, it calls for renewed vigilance in maintaining a sturdy and stable international marketplace.

The Soviet Union

Under Gorbachev, the Soviet Union is unabashedly emulating its reform-minded Eastern European neighbors in economic matters and touting a new glasnost (openness) in political matters.

The conventional wisdom within the Soviet bloc used to be that a little country such as Hungary could not be a model for a big country such as the Soviet Union. But attitudes are changing; a Hungarian recently told a U.S. reporter, "We just have to succeed now. If our ideas let Gorbachev down, we'll be in real trouble!"[32]

At a Communist party conclave in early 1986 Gorbachev endorsed calls for perestroika--for a radical restructuring of Soviet society. Later in the year the official gazette of the Supreme Soviet, the nominal legislature, published a list of 38 measures to be implemented before the end of 1990; the laws' concerns ranged from voting and plebiscites to economic incentives, pricing, the press, governmental reorganization, and even the activities of the KGB.[33] Then, in November, the Supreme Soviet approved a law allowing citizens to moonlight for extra cash--which many of them had been doing nalevo (ille-gally) for decades.[34] Finally, in January 1987, the Communist party's Central Committee gave its imprimatur to Gorbachev's radical economic restructuring.[35]

The new moonlighting law, which took effect on May 1, 1987, is the first to ease the ban on free enterprise since Lenin introduced his short-lived New Economic Program in 1921. Any Soviet citizen may now ask local authorities for permission to start what would amount to a small business; officials will then decide whether there is a need for the goods or services that the applicant intends to provide. A Soviet spokesman warned that in establishing the moonlighting law, the Kremlin was not sanctioning "free enterprise activities." Its intention was to tap the energies of Soviet citizens who are not in the workforce, including housewives, pensioners, invalids, and students.[36] There is little doubt that the service sector of the Soviet economy is woefully underdeveloped; the new law, therefore, should help meet an important need. Moreover, it represents a small step toward official recognition of individuals' economic rights.

Gorbachev also moved to decentralize the bureaucratically encrusted Soviet economy late last year, most notably by changing the regulations governing international trade. As a result, about 70 industrial enterprises and 20 governmental departments can make deals with foreign firms. Previously, all international commerce was conducted through a state monopoly--specifically, by the Ministry of Foreign Trade and its appendages (among them the Eksportkhleb, which buys and sells grain, and the Licensintorg, which used to be the sole conduit for sales of Soviet technology). Moreover, the eligible enterprises and departments will now be able to use some of the money they earn to improve their own operations instead of turning all of it over to the central government.[37]

Thus, Moscow has apparently abandoned its long-standing claim that the Soviet Union is the proper economic model for the rest of the communist world. Instead, the teacher appears to be taking lessons from such former students as Hungary and China.

Eric Bourne, a staff writer for the Christian Science Monitor, observed that "what seems to have contributed to Moscow's changed thinking is the fact that an even bigger communist nation--China--is also drawing on Hungarian and Yugoslav experience and seems to be succeeding. Gorbachev's Russia must not be seen to be trailing Deng Xiaoping's China!"[38]

That concern partially accounts for the apparent falsification of Soviet economic statistics in recent years. Two recent studies by Western experts working independently concluded that the Soviet Central Statistical Administration has deliberately exaggerated the growth rates for total goods consumption since 1985. It is unlikely, noted the experts, that Gorbachev had anything to do with the doctoring, because he needs quick and reliable information from the regime's statisticians in order to monitor the effects of his economic reforms.[39] In addition, a reputation for "cooking the books" would undermine Gorbachev's attempt to get the Soviet Union into the mainstream of international commerce and finance. (On the other hand, Gorbachev also needs evidence of success to justify his policies.)

Although Gorbachev has called for sweeping changes in the way that the Soviet economy operates, it remains to be seen just how far he will allow the current reform movement to go. In late March 1987 the shutdown of a Leningrad construction trust-- the first state-run company in the Soviet Union to go "bankrupt"--dramatized Gorbachev's commitment to economic revitalization. The shutdown, which temporarily displaced about 2,000 workers, put the managers of countless inefficient enterprises throughout the Soviet Union on notice that the reformers in Moscow mean business, literally and figuratively.[40] A key question is whether the loosening of economic controls will lead to the easing of the tight political controls that have always been synonymous with Communist party rule. The record of previous liberalization campaigns in communist states does not inspire optimism.

The Limits of Reform

There appears to be an inherent tension between capitalism and Communist party rule, but appearances are often deceiving. In addressing the issue, Milton Friedman observed, "History suggests only that capitalism is a necessary condition for politcal freedom. Clearly it is not a sufficient condition." Having pointed to the experiences of Italy, Spain, Germany, and Japan between world wars I and II (and that of Russia prior to the October Revolution), Friedman concluded, "It is therefore clearly possible to have economic arrangements that are fundamentally capitalist and political arrangements that are not free."[41]

Although Friedman's point is valid, not all of his examples seem apt; it is doubtful that a totalitarian state such as Nazi Germany should be considered "fundamentally capitalist." At any rate, Friedman's examples were all right-wing dictatorships, whereas the prospect of capitalism's coexisting with left-wing dictatorships is clouded by the Marxist-Leninist identification of capitalism with the twin evils of democracy and imperialism. On the other hand, Lenin proclaimed the need for "creative" interpretations of Marx's writings, and the present Chinese leadership has already stripped the mystique from the memory of Mao (just as Khrushchev demystified Stalin). Thus, it seems likely that if communist regimes move much beyond the very limited market reforms implemented to date, they will be compelled by the logic of their own ideology to reinterpret Lenin's aversion to "bourgeois democracy." (Indeed, Hu Yaobang, the PRC party chief ousted in January 1987, appears to have been doing precisely that; his sudden fall is a sobering reminder of the obstacles to meaningful political reform in communist states.)

Any democratization in nations under Communist party rule will almost certainly be very gradual. Yugoslavia--long a communist pariah--could serve as a model of sorts. Despite contin uing party domination, it is a relatively open state. Foreign travel and freedom of movement are largely unrestricted--many Yugoslavians became gastarbeiter (literally, guest workers) in West Germany in the 1970s. Moreover, foreign journalists can get entry visas in minutes (it can take weeks to get a visa to enter, say, Czechoslovakia or Poland). Cultural controls such as curbs on free speech and free academic and artistic expression are considerably less oppressive in Yugoslavia than in any other Eastern European nation. When six dissidents were arrested in Belgrade several years ago "for defaming the state," critical articles appeared in the Western press; the dissidents were subsequently released. "The authorities don't want a bad image," according to a Yugoslavian civil rights lawyer.[42]

In contrast, although the Kadar regime in Hungary allowed plural candidatures in elections for the first time in 1985 and bookshops in Budapest are no longer filled with "agitprop trash," the Hungarian government still suppresses open dissent with a firm hand.[43] Despite several popular uprisings in Poland since 1956, the Jaruzelski dictatorship, having crushed Lech Walesa's Solidarity movement in 1981, stifles direct opposition while moving to restore the modus vivendi between the Roman Catholic church and the communist regime. Elsewhere in Eastern Europe, democratization has never recovered from the setback that Moscow dealt it by invading Czechoslovakia in 1968.

Unfortunately, there is little reason to believe that the Soviet Union's Communist party will give up its monopoly of political power anytime soon. And until Moscow begins to democratize, the memory of the events in Hungary (1956), Czechoslovakia (1968), and Poland (1981) will most likely deter other Warsaw Pact nations from attempting to do so. (The Soviet Union did not invade Poland during the Solidarity period [1980 -81], but it was clear that the Soviet army, which maintains a permanent presence there, was ready to move if "asked to" by the Polish government.) Prior to the purge of Hu and other reformers in January 1987, the best candidate for democratic reforms, oddly enough, was China.

Beijing flirted briefly with freedom of expression in 1978, using the "democracy wall" as the vehicle for introducing it. As in the "hundred flowers" campaign in the 1950s, though, things soon got out of hand--or so it appeared to the PRC's leadership, which was unaccustomed to popular criticism. A wave of repression followed, and dissent was quickly smothered. Since then the regime has moved toward democratization very cautiously, if at all. Last fall Flora Lewis reported in the New York Times, "The news from China is that certain aspects of the political structure are being debated. This is important but it certainly doesn't mean that the monolithic Communist power is to be jettisoned or that a new system has been shaped."[44]

The crackdown following student protests in many major Chinese cities during December 1986 and January 1987 must be viewed in that context. Demanding political liberties, thousands of students demonstrated, in defiance of prevailing rules. At first the government avoided overreacting and the police refrained from arresting or brutalizing the demonstrators.[45] That restraint, however, seemed to embolden the protesters. When the uprising spread to Beijing, police in the capital quashed it, arresting several students and issuing stern warnings.

Even before Hu's dismissal in January 1987, the Chinese Communist party's leadership began to put the damper back on dissent. As its object lessons, the regime chose three leading intellectuals: literary critic Wang Ruowang, astrophysicist Fang Lizhi (viewed by some as China's Sakharov), and journalist Liu Binyan. All three were expelled from the party as part of a campaign against "bourgeois liberalization." All three were vilified daily, by name, in the press. One of Fang's "errors" was to insist that democracy and human rights are as natural to the Chinese as they are to Westerners; an article in the Guangming Daily charged Fang with the unspeakable sin of advocating "total Westernization."[46]

If the past is any guide, the Beijing regime will continue to clamp down on dissent, and "democracy" in China will vanish as quickly as it appeared. Predictably, the spontaneous student uprisings caused a backlash; they prompted the government to tighten its political controls and jeopardized Deng's vaunted economic reforms. Ironically, protests aimed at ending tyranny have often had the unintended effect of strengthening the hand of the skeptics and hard-liners. The PRC's repressive acts against students and intellectuals fit that pattern with heartbreaking precision.

For Leninists, there can be only one lesson in the China uprisings: economic liberalization too easily infects the body politic with the virus of popular revolt--give the teeming masses an inch and they will take a mile. Instead of exerting a salutary influence on Eastern Europe, Beijing's close encounter with democracy is likely to have a chilling effect on the communist regimes still subject to a Kremlin veto over the pace and direction of internal change.[47]

Implications for U.S. Foreign Policy

Communist leaders are caught in a predicament. If they abandon their market-oriented reform efforts, they will guarantee prolonged economic stagnation and will have to watch their societies slip further and further behind those of the West. Yet if they press for reform in the economic arena, they will unleash powerful pressures for a corresponding liberalization of their nations' political structures and will ultimately endanger the monopoly of power held by the Communist party. That conflict is creating severe stresses within communist regimes (and in Leninist terms, it is a contradiction that must ultimately be resolved). A limited but significant opportunity exists for the United States and other Western democracies to influence the outcome of the struggle.

The Historical Setting

In the 1950s the United States' economic policy toward communist countries reflected the fact that the Soviet Union had become the nemesis of the Western world. U.S. companies were prohibited by law from selling any product that had a military application--or embodied technology that might have such an application--to Soviet bloc countries (with the partial exception of Yugoslavia). The United States pressured its NATO allies to ban such sales as well. It also denied the Soviet Union and Eastern Europe most-favored-nation treatment, which meant that their exports had to hurdle much higher tariffs than those of noncommunist states. Trade credits too were placed on the proscribed list.[48]

The trade sanctions against the Soviet Union and Eastern European nations were not very successful; during the most frigid years of the cold war those nations experienced rapid economic growth and made major advances in the development of atomic weapons, missiles, and space technology.[49] One of the reasons the sanctions failed is that many of the Soviet bloc countries were going through an early phase of industrialization (or a reindustrialization necessitated by the ravages of war). During such phases, which are characterized by extensive (as opposed to intensive) growth, mass mobilization and forced savings can produce impressive results with a minimum of external aid. In addition, "Soviet scientists made large strides in nuclear weapons and rocketry, with the help of East German scientists and some espionage, and our NATO allies were much less enthusiastic than we were in applying restrictive controls on trade with the bloc."[50]

Washington's attitude toward trade with the Soviet Union and Eastern Europe softened in the 1960s. In October 1963 President Kennedy approved the sale of wheat to the Soviet Union, and the Export-Import Bank made medium-term loan guarantees to finance the deal. The wheat sale, the first since the onset of the cold war, was concluded in 1964.[51] President Johnson tried to expand East-West trade in order to encourage greater pluralism in the Soviet bloc and more stable East-West relations. Toward those ends, the Johnson administration removed a large number of items from Cocom's export control list. (Cocom--the Coordinating Committee--is a NATO-based group that decides what strategic products and technologies should not be sold to Soviet bloc countries. It primarily bans arms and arms - related technologies.)

In 1964 Johnson appointed the Special Committee on U.S. Trade Relations with East European Countries and the Soviet Union. One of the committee's conclusions was that a reduction of trade barriers could be used to encourage greater "external independence and internal liberalization of individual Communist nations."[52] The committee also did the following:

-- recommended that the president be given discretionary authority to grant most-favored-nation treatment to Eastern European countries;

-- opposed broad commercial concessions and argued that the United States should demand reciprocity in such areas as patent protection and antidumping regulation from the Soviet Union and Eastern Europe;

-- opposed using subsidies and artificial inducements to increase trade with the Soviet bloc;

-- recommended that the term of credit agreements be limited to no more than five years;

-- suggested that trade concessions be rescinded if necessary for political reasons; and

-- opposed the decontrol of strategic goods (those on Cocom's list) that might enhance the military capability of the Soviet Union and its allies.[53]

In May 1966 an East-West trade relations bill was introduced in the House and the Senate. The bill, in accordance with the recommendations outlined above, gave the president broad discretionary authority to make commercial agreements with Eastern European communist countries and grant them most - favored-nation status, which only Yugoslavia and Poland had received. But the trade bill never reached the floor of either house; instead, Congress tightened the restrictions on Eastern European nations' access to U.S. credit. (Congress did so by prohibiting the president from waiving provisions of a 1964 law barring Export-Import Bank loans and loan guarantees for communist countries, countries at war with the United States, and countries that aided the latter.)[54] In short, the prospects for liberalized East-West trade became a casualty of the Vietnam War.

The Nixon administration also sought to expand U.S. trade relations with the Soviet Union and Eastern Europe, as part of a strategy intended to undergird detente. But that administration too was thwarted by Congress, this time through the Jackson-Vanik amendment, which linked U.S. trade concessions (including most-favored-nation treatment) to a liberalized Soviet emigration policy.

Although the United States' export policy was eventually liberalized (by the mid-1970s Yugoslavia, Poland, Hungary, and Rumania had been granted most-favored-nation status), it remained more restrictive than the other NATO members' policies. Toward the end of the decade the Carter administration reimposed tight export controls in response to Soviet human rights violations; following the invasion of Afghanistan in 1979 and the crackdown on Poland in 1981, U.S.-Soviet trade relations returned to a virtual cold-war footing. President Carter's grain embargo and President Reagan's strict ban on technology exports (a restriction that resulted in intra-alliance acrimony over the Siberian gas pipeline issue, as discussed below) were only two facets of a punitive policy.[55]

The Atlantic Community Divided

The Reagan administration's hard-line approach to dealing with the Soviet Union has its virtues. Applying that approach to East-West trade relations, however, presents problems, not the least of which is that a number of NATO nations consider greater liberalization to be in their long-term interest. In 1982 Franklyn Holzman summarized the situation as follows:

Attempts to pressure our NATO allies into joining the United States in cold-war economic policies toward the USSR have not been successful. For this past year, a battle has raged over the Siberian gas pipeline. The West European allies have refused to withdraw from the pipeline deal, and the Reagan Administration has begun to take punitive measures against not only the foreign subsidiaries of US firms but also foreign firms--British, French, Italian, and West German--that are participating in the construction of the pipelines, and thereby has weakened the NATO alliance.[56]

The Common Market countries' representatives--led by West Germany's chancellor, Willy Brandt (a Social Democrat)--spearheaded the movement to break down the economic barriers between Eastern and Western Europe. As a result, East-West trade rose sharply during the decade of detente, but the United States' share of that trade was minuscule. (See Figure 4.) In the fall of 1986 a move toward establishing formal ties between the European Economic Community and the Soviet-dominated Council of Mutual Economic Assistance (Comecon) provided yet another straw in the wind.[57]

Given that trend, the United States' failure to achieve a NATO consensus on economic sanctions in recent years is easy to understand. Western Europe increasingly relies on Comecon countries for raw materials and energy as well as markets for its manufactures. The percentage of the labor force that exports its products to Eastern Europe is eight times greater in West Germany than in the United States. In another year or two, when the Siberian pipeline is complete, the Soviet Union will be selling about $10 billion worth of natural gas to France, West Germany, and Italy, about one-third of their needs (but only about one-twentieth of their total energy consumption). The Soviets will spend most of the hard currency they earn from those sales in Western Europe. The economic interdependence of

Figure 4

East-West Trade and U.S. Share

(Graph Omitted)

Source: Charles W. Kegley, Jr., and Eugene R. Wittkopf, World Politics: Trends and Transformation (New York: St. Martin's Press, 1981), p. 212.

Note: East = Bulgaria, People's Republic of China, Czechoslovakia, East Germany, Hungary, Poland, Rumania, and the Soviet Union. West = Austria, Belgium, Great Britain, Canada, Denmark, France, West Germany, Italy, Japan, Luxembourg, Netherlands, Norway, Sweden, Switzerland, and the United States. the Soviet Union and Western Europe is therefore likely to grow stronger in the coming years.

U.S. Policy Options

The United States has become increasingly isolated in its pursuit of cold-war economic policies toward the Soviet Union. What should it do to end that self-imposed isolation? Several policy options should be considered.

Extending most-favored-nation (MFN) status to the Soviet Union and Eastern Europe is a logical first step. Denial of that status is an affront to them because it symbolizes their exclusion from the international marketplace. "The insult was aggravated when the United States played the 'China card' and granted the People's Republic of China, the Soviet Union's principal communist rival, most-favored-nation status in early 1980."[58] The United States has used MFN treatment as a political means to achieve political ends.

Those who oppose granting MFN status to the Soviet Union on economic grounds point out that imposing such basic rules of fair trade as reciprocity and nondiscrimination on nations with centrally planned economies is a major problem because quotas rather than prices determine the amount of the production, consumption, and trade. They also argue that Western governments would be hard-pressed to prevent dumping by the Soviet Union if it was given MFN access to Western markets; centrally planned regimes can target (and subsidize) exports at will. Finally, they note that Moscow insists on achieving bilateral balancing-- -importing no more from a given nation than the Soviet Union can finance through exports to it or loans from it--and that the overall effect of the practice is to hinder free trade.

Not surprisingly, Soviet trade officials can be expected to take a very different view:

They would argue that it is unfair to compare the right to try and sell in the West, which is all the West can offer, with an insistence that the Soviet side undertake to purchase specified quantities of goods. That, they would maintain, is not reciprocity. They also understandably dislike being compelled to spend their earnings in any particular country, preferring to buy the cheapest and best wherever it is available. It must seem odd to them to hear us lecture about the virtues of multilateral trade and then insist on bilateral balancing, as several Western countries do.[59]

Artificially restricting the Soviet bloc countries' ability to sell to the West reduces their ability to buy from the West. Their exports to the West still represent a small portion of their total trade. Even without tariff barriers, the Soviet bloc's export activity would be severely limited by the low availability of raw materials and the poor quality of most of its manufactures.[60]

Giving MFN status to the Soviet Union and its Comecon partners would not open the floodgates. It would be widely viewed as a good will gesture and would therefore blunt Gorbachev's peace offensive and put the ball back in the Soviets' court. Finally, it would reaffirm the United States' commitment to the principles of free enterprise and free trade.

But extending MFN treatment is only one of several steps that the Reagan administration should consider. Another is reviewing the Cocom list of exports prohibited to the Soviet bloc. The U.S. list has always been longer than that of our NATO allies (Cocom's decisions are nonbinding), and there is reason to believe that Cocom's primary achievement was to ensure that Moscow would steal Western technologies instead of buying them. About 40 percent of our industrial exports currently require licenses. Most of those products go to our NATO allies; only a few go to communist countries. International Business Machines (IBM), for example, sells about $20 billion worth of goods to Western Europe and Japan yearly and only $20 million worth to the PRC and Soviet bloc countries.[61]

Anything that the United States exports is probably available--one way or another--to the Soviet Union. And because ours is an open society, even technologies that are not exported are often fairly easy targets for industrial espionage. Of course, the United States and NATO must try to protect military secrets, but most of the items embodying technologies with indi-rect military applications (and even many of the items with dual-use technologies) could be removed from the forbidden exports list with little or no damage to the West's security.

The Commerce Department's recent proposals to streamline the United States' system of export controls are a step in the right direction.[62] Announced in February 1987, the proposals came in the wake of a National Academy of Sciences study arguing that the Defense Department's efforts to keep U.S. technology out of Soviet hands are undermining American competitiveness in overseas high-tech markets. According to the NAS study, in 1958 U.S. business lost over $9 billion worth of sales and U.S. labor lost 188,000 jobs as a result of strict Pentagon-backed controls designed to prevent the diversion of sophisticated technology into Soviet weapons systems.[63]

Moreover, technological transfers can benefit producers on both sides of the Iron Curtain. U.S. firms are discovering that Soviet bloc countries possess some useful technologies that are not available in the West. John W. Kiser III, president of a company that searches out technologies in Eastern Europe for licensing to firms in the United States, believes that U.S. business has long underrated Soviet and Eastern Euro-pean technology.[64] Americans should at least have the right to evaluate the quality of Soviet bloc goods without the paternalistic interference of their own government.

The Reagan administration's recent decision to reinstate Poland's MFN status was a response to growing political pressure. (The punitive economic sanctions against Poland, recall, stemmed from the Jaruzelski regime's December 1981 decision to declare martial law in order to suppress the Solidarity movement.) The Polish-American community had joined other U.S. citizens in concluding that the sanctions had outlived their usefulness. Moreover, the Roman Catholic church of Poland and even Solidarity's Walesa had asked the United States to lift the sanctions. The European allies, of course, had never supported them.

Removing the sanctions and reinstating its MFN status will

not provide Poland with any immediate economic windfall. Doing so will yield only $60 million to $80 million a year in additional export earnings for Poland--precious little relief for a country burdened with a $31 billion foreign debt.[65] In the final analysis, Poland's economic recovery is a prerequisite to the repayment of its debts to the West. Seen in this light, the decision to lift the economic sanctions is a modestly constructive step.

Finally, the United States should reassess its policy of seeking to bar communist (especially Soviet bloc) nations' participation in international economic organizations. Gorbachev has served notice that he wants the Soviet Union to play a larger role in the global economy and trade system. He has expressed interest in its joining the GATT, which already counts four communist states--Czechoslovakia, Poland, Yugoslavia, and Rumania--among its members. (The PRC has observer status.) He has also knocked on the doors of the International Monetary Fund and the World Bank. (Rumania is currently the only Soviet bloc state in the IMF.) And he is seeking ways to adapt the Soviet economy to foreign investment in joint ventures.[66]

The terms of the Soviet Union's participation in the international system--whether as beneficiary or as benefactor--would of course have to be negotiated. But it has always been an unspoken (and at least since the Nixon-Kissinger years has been a spoken) objective of U.S. foreign policy to compel, coax, or cajole the Soviet Union into becoming a more responsible participant in that system. With a new and dynamic leadership bent on giving Soviet economic policy at home and abroad a new look (and perhaps new substance), Moscow is ripe for the challenge.

How might more conciliatory U.S. policies toward the Soviet Union promote further economic reforms? Three possibilities come to mind:

-- The Soviet economy will become fully involved in the larger world economy (a prospect that Gorbachev, during a speech before a Western audience in February, strongly implied he would welcome), thus enmeshing itself in a web of interdependent commercial and financial relationships--one of the hallmarks of international politics for the noncommunist world.[67]

-- Soviet workers and managers will be compelled to produce higher-quality goods capable of competing in the world market, which they have not been able to do under central planning (in part because the tyranny of "plan fulfillment" is inimical to the kinds of market incentives that foster invention and innovation in the West).

-- Soviet consumers, most of whom are familiar with only the shoddy products of Soviet and Eastern European industry, will be exposed to Western goods. (In matters of quality control, the Soviet economy has long operated on a double standard: relatively stringent criteria for military manufactures and extremely lax criteria for everything else.)[68]

Will economic liberalization in the Soviet Union lead to the relaxation of political and cultural controls? Certainly market-oriented reforms will create pressures in that direction. Gorbachev's recent call for "deeper changes"--

specifically, more meaningful elections within local and regional political structures--is intriguing and potentially precedent-shattering.[69]

Even if Soviet society does not plunge headlong into democracy--and the prospect of its doing so remains, to say the least, highly unlikely--a more decentralized Soviet state may be less paranoid about a gradual democratization in Eastern Europe. In any event, the economic reform movement now in progress in most of the communist world is a positive development in itself--one that the U.S. government should actively encourage.

Two hundred years of U.S. history attest to the symbiotic relationship between freedom and prosperity. It should be a permanent aim of U.S. policy, both domestic and foreign, to keep that lesson before the nation and the world.

FOOTNOTES

[1] Heidi and Alvin Toffler, "Society on the Move Has Far to Go" (part 2 of a three-part series), Christian Science Monitor, January 6, 1987, pp. 1, 6.

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[3] Heidi and Alvin Toffler, "Gorbachev's Task: To Propel His Nation into the Modern World" (part 3 of a three-part series), Christian Science Monitor, January 7, 1987, pp. 1, 8.

[4] See, for example, Alec Nove's Was Stalin Really Necessary? (London: Allen and Unwin, 1964) and An Economic History of the USSR (London: Allen and Unwin, 1969).

[5] Stanley Rothman and George W. Breslauer, Soviet Politics and Society (St. Paul, Minn.: West, 1978), p. 242. For a general discussion of Libermanism, see E. G. Liberman, Economic Methods and Effectiveness of Production (White Plains, N.Y.: International Arts and Sciences Press, 1971).

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[7] Harry G. Shaffer, "Economic Performance under the Plan: The Soviet Union and East Europe," Revue de l'Est (Paris, 1972). Excerpted in The Soviet Crucible: The Soviet System in Theory and Practice, ed. Samuel Hendel (Belmont, Calif.: Duxbury Press, 1973), pp. 271-77.

[8] See William U. Chandler, "The Changing Role of the Market in National Economics" (Worldwatch Institute, September 1986).

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[14] For a discussion of Yugoslavia's recent domestic problems, see Darko Bekic, "Yugoslavia's System in Crisis: Internal View," Problems of Communism (November/December 1985): pp. 70-76.

[15] Ibid., p. 71.

[16] Jackson Diehl, "Yugoslavia's New Leader Has Yet to Take Hold," Washington Post, December 8, 1986, p. A17.

[17] William Echikson, "Top Dissident Now Free to Go Abroad; Yugoslavia 'Faces a Choice,'" Christian Science Monitor, January 22, 1987, p. 12.

[18] Even the Soviet bloc's foremost economic success story, East Germany, is experiencing severe difficulties due to structural rigidity and overcentralization. See, for example, Elizabeth Pond, "The Irony of East Germany's Relative Economic Prosperity," Christian Science Monitor, January 2, 1987, p. 11.

[19] Eric Bourne, "Thirty Years Later Hungary Still Yearns for Reform," Christian Science Monitor, October 30, 1986, p. 9.

[20] See Rudolf C. Tokes, "Hungarian Reform Imperatives," Problems of Communism (September/October 1984): p. 2.

[21] Sophie Kujda, "Hungary Introduces Some Choice into Elections," Christian Science Monitor, July 22, 1986, p. 11.

[22] Tokes, p. 4.

[23] See, for example, Jackson Diehl, "East Bloc Reforms Debated," Washington Post, December 1, 1986, p. A14.

[24] Ibid.

[25] A. Doak Barnett, "Ten Years After Mao," Foreign Affairs vol. 65, no. 1 (Summer 1986): p. 37.

[26] In addition to Barnett, see Kenneth Lieberthal, "The Future of Reform in China," American Enterprise Institute, Foreign Policy and Defense Review vol. 6, no. 3 (1986): pp. 3-9; Dorothy J. Solinger, "China's Economy: Reform and State Control," Current History (September 1986): pp. 261-75; and Jan S. Prybyla, "China's Economic Experiment: From Mao to Market," Problems of Communism (January/February 1986): pp. 21-38.

[27] For an elucidating discussion of Special Enterprise Zones, see Joseph Fewsmith, "Special Economic Zones in the PRC," Problems of Communism (November/December 1986): pp. 78-85.

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[46] Paul Quinn-Judge, "Reform and Intellectuals: USSR and China Take Opposite Tacks," Christian Science Monitor, January 27, 1987, pp. 1, 32.

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[65] Nicholas G. Andrews, "Lift US Sanctions against Poland," Christian Science Monitor, September 15, 1986, p. 13.

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