

[Home](#) > [Economics of Planning](#) > Article

Taxation, money, and credit, in a liberalizing socialist economy

| Published: January 1992

| Volume 25, pages 97–112, (1992) [Cite this article](#)

[Economics of Planning](#)

[Aims and scope](#) →[Submit manuscript](#) →[Ronald I. McKinnon](#)¹ **124** Accesses  **4** Citations [Explore all metrics](#) →



Abstract

Understanding the system of financial control in the pre-existing régime of ‘classical’ socialism is a key to understanding what might go wrong in the transition. Accordingly, this paper proceeds in four steps by examining:

- (1) how domestic fiscal and monetary processes complement central planning in the classical socialist economy;
- (2) why this mechanism for securing domestic financial control under classical socialism tends to break down naturally into inflation when decentralization begins and central planning though direct materials balancing is weakened;
- (3) how, in a more deliberate transition, domestic tax and monetary arrangements might be better managed to keep the price level stable as prices of individual goods and services are freed; and

(4) how, in moving toward free foreign trade, explicit policies governing tariffs and foreign exchange convertibility could best parallel and complement the evolving restraints on money and credit in domestic commerce.

In effect, moves to dismantle the apparatus of central planning, decontrol prices, privatize property, and so on need to be supported by a proper sequence of fiscal, monetary and foreign exchange measures-as analyzed more fully in the author's new book *The Order of Economic Liberalization*. In this short essay, a summary outline of such a financial order is provided.

 This is a preview of subscription content, [log in via an institution](#)  to check access.

Access this article

[Log in via an institution](#) →

[Buy article PDF 39,95 €](#)

Price includes VAT (Poland)

Instant access to the full article PDF.

Rent this article via [DeepDyve](#) 

[Institutional subscriptions](#) →

Similar content being viewed by others



[Inter-jurisdiction migration and the fiscal policies of local governments](#)

[Optimal interregional redistribution and local budget rules with multidimensional heterogeneity](#)



[Institutional Economics](#)

References

Blejer, Mario and Gyorgy Szapary (1989), The evolving role of fiscal policy in centrally planned economies under reform; The case of China, *IMF Working Paper*, 0407, March 31.

Brainard, Lawrence J. (1990), Reform in Eastern Europe: Creating a capital market, *The AMEX Bank Review: Special Papers*, No. 18, November.

Kornai, Janos (1986), *Contradictions and Dilemmas: Studies on the Socialist Economy and Society*, MIT Press, Cambridge.

[Google Scholar](#)

Kornai, Janos (1990), *The Road to a Free Economy*, W.W. Norton, New York.

[Google Scholar](#)

Hinds, Manuel (1990), Issues in the introduction of market forces in East European socialist economies, The World Bank, Internal Discussion Paper, IDP-0057, April.

International Monetary Fund (1990), *The Economy of the USSR: Summary and Recommendations*, December.

Litwack, John (1991), Discretionary behavior and Soviet economic reform, *Journal of Soviet Studies* (forthcoming).

McKinnon, Ronald I. (1979), *Money in International Exchange: The Convertible*

Currency System, Oxford University Press, New York.

[Google Scholar](#)

McKinnon, Ronald I. (1991), *The Order of Economic Liberalization: Financial Control in the Transition to Market Economy*, Johns Hopkins University Press.

Murrell, Peter (1990), Big bang versus evolution: Eastern European reforms in the light of recent economic history, *PlanEcon Report*, June 29.

Williamson, John (1990), Convertibility, trade policy and the payments constraint, presented to an OECD conference *The Transitions to a Market Economy in Central and Eastern Europe*, Paris, November.

Wong, Christine (1990), Central-local relations in an era of fiscal decline: the paradox of fiscal decentralization in post-Mao China, Working Paper No. 210, University of California, Santa Cruz, September.

[Google Scholar](#)

Author information

Authors and Affiliations

Economics Department, Stanford University, 94305, Stanford, CA, U.S.A.

Ronald I. McKinnon

Additional information

Printed with permission of: *The emergence of market economies in Eastern Europe*, Basil Blackwell, Oxford, 1992.

Rights and permissions

[Reprints and permissions](#)

About this article

Cite this article

McKinnon, R.I. Taxation, money, and credit, in a liberalizing socialist economy. *Economics of Planning* **25**, 97–112 (1992). <https://doi.org/10.1007/BF00366292>

Issue Date

January 1992

DOI

<https://doi.org/10.1007/BF00366292>

Keywords

[Foreign Exchange](#)

[Foreign Trade](#)

[Central Planning](#)

[Individual Good](#)

[Socialist Economy.](#)

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

