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

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Abstract

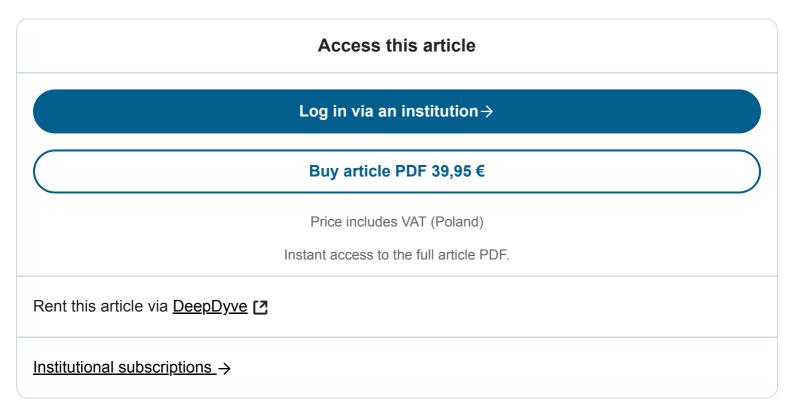
Understanding the system of financial control in the pre-existing régime of 'classical' socialism is a key to understanding what might go wrong in the transition. Accordingly, this paper proceeds in four steps by examining:

- (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.

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