Looking Again at Markets

Reviewed by Eric Aarons

At present socialists in all countries face many perplexities. The concentrated expression of these is that, at a time when capitalism is experiencing crisis and humanity faces unparalleled menaces, socialism has not been able to establish its moral ascendancy or develop a general political-ideological offensive.

Alec Nove throws light on this in that his book deals with defects endemic in most socialist economies. And since this is the area in which socialists have traditionally claimed particular superiority, Nove’s criticisms, if sound, are especially wounding.

His central conclusion is that a feasible socialist economy needs a market. By “feasible” he means one we can reasonably envisage as possible in the foreseeable future, not one based on unreal expectations of material, political or psychological conditions.

This conclusion does not come primarily from theoretical considerations, but from close examination of the experiences of socialist economies.
over many years, and extensive study of data and conditions "on the spot". Indeed, on general theoretical grounds Nove's conclusions may seem strange because socialism and market have long been seen as mutually exclusive opposites. Defining the movement to which he and Karl Marx contributed so much, Frederick Engels opens his book *Anti-Dühring* with the following sentence:

"Modern socialism is, in its essence, the direct product of the recognition, on the one hand, of the class antagonisms existing in the society of today between proprietors and non-proprietors, between capitalists and wage-workers; on the other hand of the anarchy existing in production."

This anarchy, reflected in ups and downs in the market, and especially in the periodic world economic crises from 1825 to the present day, was to be overcome by supplanting the market with planning, possible once private ownership of the means of production was abolished.

This would likewise end classes, exploitation and class antagonisms since control of the production process and of the surplus generated in it would now lie with the producers themselves or with a government which was truly "theirs". Other oppressions, such as national oppression and the subordinate position of women would consequently and subsequently vanish.

The socialist case against the capitalist market is a telling one, no less today than previously. The basic capitalist assumption (assertion) is that by following private interests the social interest will be served through the 'invisible hand' of the free market mechanism.

Apart from the fact that in Adam Smith's classic definition, the market is not "free" when monopolies and multinational corporations (which have themselves arisen from the free play of market forces within capitalism) dominate, the last decade of capitalist crisis provides clear evidence that market mechanisms do not ensure that social interests are served.

The reader may care to apply such monstrous "principles" to the field of nuclear weapons and industry, for example.

There is also the fact that the world market is now dominated by corporations so large that even whole nations find it increasingly difficult to assert their independence.

All this — and more could be said — is indictment enough of the market to make socialists' rejection of it understandable in the present as well as the past.

How then, can Nove and others draw, as their main conclusion from the experience of Soviet-type economies, the need for a market? The main reasons he gives are:

- It is impossible to effectively plan centrally the twelve million different products and components made in the Soviet Union, even with bigger and more efficient bureaucracy than the present one.
- The general, or social interest is not so transparent, even when private ownership and profit seeking is abolished, because of the complexities of a modern economy, because people have different situations, perceptions and desires, and because of the inevitable separation of decision-making units. Add self-interest, particularly the self-interest of the very large bureaucracy and there remains, in Nove's view, a role for the kind of impersonal economic influence provided by a market.
- "There is abundant evidence of pollution of air and rivers, and local soviets have at least as much difficulty in enforcing zoning and other town planning regulations as the authorities of Western conurbation."

One reads almost daily of some ministry or department neglecting the interests of some related or complementary activity, because it is beyond its 'departmental barrier'. There is a strong tendency to self-supply (through) fear of not receiving needed supplies of so-called deficit products .... and it is shortage which
makes it all too easy for the producers to neglect the requirements of the users." (Shortage, says Nove, is the form taken in the Soviet Union by the forces which appear as inflation in the capitalist world.)

"Indeed, the numerous lacunae, inconsistencies and uncertainties in the plan, especially the unreliability of material supplies, lead not only to 'self-supply' (i.e. wasteful duplication) but also to unofficial links between enterprises, a network of personal relationships, supply agents known as tolkachi ('pushers' or 'expediters') and also corrupt practices."

* Departmentalism and localism are constantly criticised, but as constantly survive in the Soviet Union.

* Due to lack of "feedback" to producers from those who use their products, the producers, even with the best of intentions, cannot tell directly whether the quantity — and especially quality — of their production is really what is wanted. And if they don't care, as is often the case because they are not really involved, the result is even worse.

Complaints about the quality of goods, and services, are endemic. Says Nove: "One can issue an order — produce 200,000 pairs of shoes and this is identifiable and enforceable. To say 'produce good shoes' ... is a much vaguer, non-enforceable order.

* The efficient use of capital goods is a major problem when these are supplied free by the state and without any form of market feedback to the enterprises producing them (this applies even more to properly estimating the costs of alternative uses of given resources).

* Another feature of the market is stimulation of technological development because of the extra profit to be made by those who first introduce it. Marx repeatedly 'celebrates' the capacity of capitalism to develop the material forces of production.

But without a market (including relations with the international market) there is no direct economic stimulus for this. Consequently, socialism actually lags behind in many fields, with damage to its image, especially since its ultimate theoretical justification was supposed to be that it would accelerate progress by removing capitalist fetters to the development of the productive forces.

As Nove points out, new technological developments have to be consciously introduced — and often are not. (There is a potential plus for socialism here in that human beings should treat technology and its use with discrimination, not as 'inevitable' whatever its nature or social consequences, but this is not the reason for the present lag in Soviet technology.

* Agriculture is a subject in itself. Nove recognises the progress made, but points to the aggravated problems of central planning in this area and the diseconomies of scale it is liable to display:

"'In the last two decades there has been a very substantial increase in agricultural procurement prices and in peasant incomes. Over half of all arable land is now cultivated by state farms, and the collective now pay a guaranteed minimum 'wage' to their members. Yet the practice continues of imposing compulsory delivery quotas and issuing operational orders to the farms. State farm management was and is appointed from above, and collective farm management (the chairman and the committee) are still 'elected' on the nomination of the party authorities. Indeed, the tendency is to try to incorporate agriculture more closely into the centralised planning system, with much talk of 'agro-industrial complexes'."

Given the nature of agricultural work, this is a major difficulty in ensuring supervision. It is unnecessary to follow a peasant proprietor or working farmer around to ensure that he does his job properly, as he is directly interested in its outcome. But the many and varied tasks on a mixed farm can be done well or badly, and this may remain unnoticed, the consequences unforeseen. The large size of the farms, and the sad history of the treatment of the peasantry by the Soviet authorities, contribute to a strong sense of alienation, of lack of commitment ... Incentives exist, of course, but repeatedly produce perverse results." (Shallow ploughing, for example).

The problems discussed in this book are of long standing and not unrecognised by various leaders. I can vouch for this from personal experience. Along with Peter Thomas I visited the Soviet Union nearly twenty years ago (1965) when economic reforms associated particularly with the name of E.G. Liberman (Professor of Economics at Kharkov University) were being discussed.

We had the opportunity of interviewing a number of high economic officials, factory management and Professor Liberman himself. Typical comments were: artificially set prices which did not accord with actual expenditures; enterprises consequently concentrating on profitable items and underproducing others; lack of involvement and interest by workers in the activities of the enterprise; slackness in the early part of the month and a rush at the end to meet the quota; inefficient use of fixed assets; old machinery used because it was more profitable than to get new (when quotas and some state charges could go up).

Professor Liberman's comments were particularly revealing for the present discussion:

"There has been an underestimation of economic education by the Ministry of Higher Education. In our University, the Economics faculty was liquidated seven years ago. It will now be restored. Speeches of various Party leaders have spoken of the importance of economists but in practice this was neglected. If
you use administrative methods instead of economic stimuli, then you need economists only to count, not to invent .... There are good economists but if you have no field in which to operate then you can't do good economic work. Many also prefer to keep to the traditional safer job of (for example) interpreting Das Kapital, rather than the more difficult job of tackling the existing problems of socialist society.

These reforms of 1964-5 were in fact basically aborted, in my opinion because the decentralisation of power required (even if only to managers of economic units and not the workers therein) involved political consequences unacceptable to the bureaucracy.

In April last year, it is reliably reported, a confidential study on the Soviet economy was presented to a special seminar organised by the Academy of Sciences, sections of the Central Committee of the Communist Party of the Soviet Union with economic responsibilities and the State Planning Commission.

Trenchant criticism of the economic system as a whole were made:

The current system "was a social system in which the people were consistently regarded as 'screws' in the economic mechanism and they behaved almost as obediently (and passively) as machines and resources. This system was corrected, renovated and improved but it was not once subjected to a qualitative restructuring ... (it is unable) to ensure a full and sufficiently effective use of society's intellectual and labor resources. ... (The Soviet economy) has long passed the point where it is possible to regulate it effectively from a single centre.

The study challenged a number of ideological dogmas, including the view that, under socialism, change can be effected "without social conflicts":

A fundamental restructuring of the system of economic management touches significantly on the interests of many social groups, some of which see in it hopes for an improvement of their positions while others see a worsening.

And the main opponent of such reform? The state bureaucracy itself: (They) say that the changes envisaged would "weaken the centralised principle and the real importance of the plan". This is the "good" reason, says the study, but the real reason is that they are afraid of losing their power and positions.

**Former Soviet leader, Yuri Andropov, indicated his support for change in a number of speeches, including one in June 1983 in which he said that changes in the economy were "inevitable" and that the economy was managed on an "irrational trial-and-error" basis.**

But the resolution of social conflicts, particularly where a large stratum of people has a vested interest in maintaining the status quo cannot occur without political mobilisation of the mass of people and the right to publicly advocate alternatives. These democratic requirements have not existed, with only a brief and partial thaw in Khrushchev's time, so one cannot at present be sanguine about the outcome. And, while one should not have a closed mind, most informed opinion considers that the new leader, Chernenko, is much less likely to challenge the bureaucracy than his predecessor — indeed, is seen by many as representing it.

Of course, consequences flow from having a market and from institutionalising self-managing rights, and not all of these may be congenial to socialist expectations or desires.

To influence the pattern of production by their behaviour as buyers is surely the most genuinely democratic way to give power to consumers. There is no direct political alternative. There being hundreds of thousands of different kinds of goods and services in infinite permutations and combinations, a political voting process is impracticable, a ballot paper incorporating microeconomic considerations impossible.

"Of course, consequences flow from having a market and from institutionalising self-managing rights, and not all of these may be congenial to socialist expectations or desires."

There are, of course, opponents of a socialist market other than self-interested bureaucrats, both on the kinds of general grounds stated at the beginning of this article, and on particular aspects such as the generation of inequalities.

And put in a general form — market or no market — the problem seems insoluble. But if approached more concretely, the paradox looks less formidable. (Boris Frankel in an otherwise valuable book Beyond the State, for example, seems to forget his own strictures on over-generalised and ahistorical approaches when it comes to the market. I hope to review his book in a later issue.)

"THE MARKET" is not an unchangeable absolute, irrespective of its scope and of surrounding social conditions. It makes a great difference whether private ownership and the private profit motive dominate, or social ownership and recognition of the primacy of social need is the major element.
The general ideology prevailing will influence what is possible, even under capitalism. Twenty years ago, for example, or even ten, it would have been unthinkable that arguments about the economic benefits of hydroelectricity (even if accurate) could have been over-ridden by the values of wilderness conservation, as was the case with the Gordon below Franklin dam.

Many means are also available for restricting adverse consequences to manageable or acceptable dimensions (acceptable to both public and socialists). In other words, the market can and should be used more to "fine tune" certain aspects of the economy, rather than being used to select the channels of development.

For example, one may decide that a steel industry of a certain size is necessary in a socialist Australia on grounds of providing a material base for asserting national independence, providing defence capability, employment, etc., yet to allow competition between different steelworks or even with the international steel market, in order to prevent bureaucratic inertia in management, low technological level, and poor overall performance.

Similarly, income differences* may be restricted by various means such as maintaining a base income level through a form of social insurance, while allowing variation of a certain percentage above that.

A distinction should also be made between particular consequences of technological development and more general ones. As mentioned earlier, there should be social consideration and decision about major technological changes. And where far-reaching change is agreed upon, with such consequences as displacement of labor, society should pick up the tab.

As R.M. Titmuss observes in *Commitment to Welfare:*

> The emphasis today on 'welfare' and the benefits of welfare often tends to obscure the fundamental fact that for many consumers the services used are not essential benefits or increments in welfare at all; they represent partial compensation for disservices, for social costs and social insecurities which are the product of a rapidly changing industrial-urban society.

They are part of the price we pay to some people for bearing part of the costs of other people's progress; the obsolescence of skills, redundancies, premature retirements, accidents and handicap, urban blight and slum clearance, smoke pollution, and a hundred-and-one socially generated disservices. They are social caused disservices; the losses involved in aggregate gains. (Quoted by Bruce Harnett in *The Socialist Objective,* ed. Bruce O'Meagher.)

T"aking all the above and more into account, I do not think it possible to state in advance the scope of the market which should exist under socialism at a particular time in a particular country. It will depend on the international and national conditions prevailing including, crucially, the degree of development of a new socialist morality and set of values.

And if there are more difficulties than so far perceived in using a market under socialism within certain limits, I am convinced that there are far more in allowing concentration of economic power centrally. For such concentration, on top of the political and ideological power available at the centre, is too dangerous to permit, even if there are genuine electoral and other democratic constraints.

An economic counter-weight in the shape of some form of self-management rights in enterprises and institutions is essential.

Nove has performed a valuable service for socialists by exposing the unreality of much of their thinking and predictions about the economy. This is so whether or not one accepts all of his points or his definition of "feasible socialism".

But his overall framework shares other unrealities in the thinking of many socialists today in that he virtually restricts the definition and discussion of socialism to that of an economic system.

Besides the failures in expectations and practical shortcomings in socialist economic performance, socialism's failure to gain the moral ascendency at this stage of capitalist crisis and multiplying menace, is no less affected by its downplaying (in theory at least) of other dimensions of human life, often with the underlying assumption that they will in any case follow from the economic project.

Socialism, in fact, needs to redefine itself all along the line in accordance with experience and the present situation if it is to grasp the initiative and regain the momentum it had in previous periods. This is necessary not from the narrow point of view of socialists' own success, but as an expression of their dedication to human well-being and progress, which otherwise faces in coming decades greater dangers and difficulties than ever before.

*Socialism, of course, has never promised such equality, but payment according to work done cannot readily be measured directly even in production of material commodities, not to mention services and state activities of various kinds. It requires some sort of economic mechanism such as is provided by a market.*

At a higher level of material abundance and development of a new socialist morality, Marx envisaged a change to work according to ability and recompense according of need, and the abolition of money as well as the market. But restraints on a higher level of material abundance than on average existing in advanced countries today are great on resource and environmental grounds alone. Yet alone when an internationalist view is embraced. Consequently, abolition of money etc. does not seem realistic in any foreseeable future.