

Notes about Selected Literature about Socialism

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Chapter 1

Bottomore's Book: The Socialist Economy, Theory and Practice

This book is an excellent review of the literature, can almost be considered an annotated bibliography. Also gives good observations about how the thinking about socialism was influenced by current events and the prevailing social structures.

This book was written shortly before the collapse of the Eastern European socialist experiments. Relevant literature which are not covered in this survey are [Lev95], [AH91a] and [CC93].

Introduction: Socialist Economy and Socialist Society

1:1 Socialism has never had purely economic aims; its aims are also political and social. From the beginning its ideal was the creation of a new type of society.

1:2 Prior to 1920, socialists did not even seriously think about structure of socialist *economy*. This book will discuss the absence of economic thinking early on, the economic theories debated in the 30s, and post-WWII experiences. Approach is sociological, setting economic relations in a wider social and cultural framework.

1:3/o What unites the diverse conceptions of socialism is the theme of the importance of the economy in shaping social life—an idea having its roots in Marxism and subject to various modern interpretations. Bottomore interprets this theory not as a strict determination of political and cultural superstructure by the economic 'base', but that the manner in which human beings produce and reproduce the material condition of their existence is a major factor in the creation of a whole 'form of life.' Cites German Ideology.

2:1 What individuals are is defined by what and how they produce (technology and social relations).

In capitalism, means of production are privately owned by the capitalists, workers must work for a wage. Even non-Marxists consider socialism to be the transformation of private ownership into social ownership.

Question 1 *To what extent can one say the economy is "primary" in a capitalist society. Will this still be true in socialism?*

2:2-3:2 'Cooperative production' has more than economic significance but implies that individuals are independent of dominant minorities and can develop freely in a social environment which they took a full and equal part in creating. Brings a Marx quote that the sphere of necessities will never become negligible. Therefore work time is important: a nation is only truly rich if they work only 6 hours instead of 12.

Question 2 *Why will, according to Marx, the time devoted by society to the production of necessities never become negligible?*

3:1/o Marx anticipated continued growth of material wealth, and virtually unlimited development of human powers of production in socialist society. Bottomore asks whether this is possible or desirable in the face of ecological problems. Marx sometimes mentioned ecological themes, and the early Marx had emphasized human freedom and creativity outside the sphere of work.

Question 3 *Should one emphasize non-material needs in socialism? What would this look like?*

4:1 But the actual socialist economies were preoccupied with sheer growth. Why? They were usually economically backward countries. During the Great Depression they thought it was their historic chance

to outdo capitalism, and in postwar expansion they felt that they had to keep up with capitalism and that they needed to develop their military.

Bottomore does not question this last decision.

Question 4 *Why did the real socialist countries put so much emphasis on economic growth? To what extent is this growth justified, and where does it have its limits?*

4:2/o This addiction to growth criticized by many Marxists. Frankfurt School (drive to dominate nature is obstacle to human emancipation) and the Greens in West Germany.

5:1/o On the other hand, economic growth necessary to give the abundance socialism needs. Aim of socialist growth has been a broad procurement of necessities to the population in education, health care, housing, public transport, recreational facilities.

In developing countries the most striking successes were: overcoming illiteracy and providing basic health care. Compare 45:1. Major problems: meeting the rapidly rising expectations of their populations, while investing heavily in infrastructure. Combatting growth of bureaucracy, centralization of power, and coping with the hostility of the capitalist world.

Question 5 *What are the most important achievements and pitfalls of real socialist economies?*

Question 6 (p. 6) *What are the two basic aims a socialist economy should have?*

6:1-2: The two basic aims a socialist economy should have are (1) participation of the producers in a society not dominated by a particular class, and (2) efficient provision of goods and services in order to eliminate poverty and increase leisure time.

6:3-7:1 We cannot predict how to build socialism.

Bottomore is silent on what one *can* say. One can ask what would be desirable, which is not so obvious.

1.1 The Nineteenth Century Vision

Question 7 *How was the idea of “socialism,” which started around 1830, different from earlier social criticism and utopian movements?*

9:1 The idea of “socialism,” which started around 1830, differed from earlier utopian movements by: Extent and organization of the movements, growing

identification with the specific interests of the industrial working class, systematic theoretical underpinnings of their world view (Marxists were only one strand among several), and the emergence of the word “socialism” itself. Socialist movements led to social experiments, political movements in the revolutions of 1848 and the Paris Commune, the development of trade unions, cooperative societies and many educational and cultural institutions.

Question 8 *When did people start to write about socialism, and when did they start to seriously consider the problems of a socialist economy?*

Question 9 *Why did the early socialist thinkers neglect the economic problems of socialism? Was this neglect justified?*

9:2/o Marx was critical of the Utopian Socialists. Bottomore cites Communist Manifesto, conditions were not yet ripe.

Question 10 *Why was Marx opposed to making theories about socialism?*

Marx concentrated on understanding capitalism and the proletariat. But utopianism did not disappear, see William Morris’s *News from Nowhere*, and Edward Bellamy’s *Looking Backwards*. In their vision of socialist society, complete equality would prevail. Poverty, injustice and crime would be eliminated. In both cases, Bottomore says “socialism depends ultimately on a radical transformation of human nature.”

Morris characterized his *News from Nowhere* as a goal and not a prediction. This is what Bhaskar probably meant in [Bha93, p. 345] with the “need for a William Morris-type moment of positive concrete utopianism to stand alongside Marx’s negative explanatory critique.”

Question 11 (p. 10:0) *Is it correct to say that socialism depends on a radical transformation of human nature?*

11:1 Although Marx rejected utopianism, Marx himself also has utopian elements. Labor is to become unalienated (i.e., not under external compulsion) and attractive. [Hel76, pp. 118–30]. In Grundrisse, both conditions are met. In Capital III, a sphere of necessity remains. Marx gave only very abstract answers to the questions: (1) ‘how can these ‘true social needs’ be measured?’ and (2) ‘who makes the decisions about how productive capacity should be allocated?’

11:2/o These questions must be answered now not in theoretical and speculative terms, but in light of the historical experience from the movements toward socialism. Heller: Marx's ideas remain fertile as a goal.

Bottomore does not distinguish sufficiently between goal and prediction/planning. Bottomore is still thinking along the lines: The validation of utopia is a prescription how to put it into practice, and the ultimate validation is the realization of it. Bhaskar in [Bha93] has a better answer: the refutation of a utopia is a better utopia, i.e., is the proof that this utopia is not really desirable. (Remember how often it is a misfortune if your wishes come true.)

Question 12 *How can a utopia be refuted?*

12:1 These utopias played an important part in creating concrete social structures: trade unions, cooperative factories, consumer co-ops, friendly societies, and political socialist parties.

12:2/o Once these institutions were in place, their goals became more reformist: universal suffrage, trade union rights, factory legislation, the expansion of education and of health and welfare services. By the end of the 19th century, this led to a more 'gradualist' concept of the transition to socialism.

Question 13 *Which "revisions" of some basic tenets of Marxism did Bernstein propose? He envisioned a more gradualist transition to socialism than classical Marxism. Which are the three main mechanisms in this transition? Which arguments can be given in favor or against such a gradualist approach?*

13:1 Bernstein: Capitalism will not collapse, its contradictions will not sharpen continually. "Peasants do not sink; middle class does not disappear; crises do not grow ever larger; misery and serfdom do not increase. There *is* increase in insecurity, dependence, social distance, social character of production, functional superfluity of property owners." Bernstein sees three tasks: (1) producer cooperatives, (2) democratic struggles, (3) municipal socialism alongside parliamentary struggle.

It is important to deal with this approach, or should one say the hope that socialism can be obtained in this way, because people rediscover it again and again.

13:2/o Fabian society, which had influenced Bernstein (Bottomore goes here backward in time), viewed socialism in an evolutionist, therefore gradualist manner. Against all catastrophic views, for democracy and municipal socialism.

14:1/o With the growth of socialist parties the idea gained prominence that production must be centralized, an industry based on a cooperative grass roots development was dismissed as an utopian fantasy.

15:1 At the beginning of the century there was consensus economy should be organized through the nationalization of major industries and centralized economic planning. But there had been little experience in operating publicly owned industries. It was recognized that much will be new and unforeseeable, and that socialism will have to be constructed with the kind of people inherited from capitalism.

15:2/o Kautsky's *Day after the Revolution* identified the following problems: (1) problem in incentives, which he thought will depend partly on working class discipline, (2) there will be a variety of social property forms: national, cooperative, and municipal. (3) Working class discipline complemented by more attractive and shorter work with better working conditions. Money would still be there although it would no longer function as measure of value. Wages will rise but not too much, because one will have to invest a lot. Leaves out the important question of technical innovation in socialism (which may be impeded by the bureaucratic, mechanistic thinking).

Kautsky saw limits to how much production can be socialized: Importance of small producer in agriculture and also in intellectual production.

Question 14 *Explain the function of money as measure of value.*

Question 15 *Which issues did Kautsky discuss in his theory of socialism in the 1890s? Which important problem of modern socialist countries did Kautsky not foresee?*

Question 16 *Which forms did the idea of self-management by associated producers (council communism) take over time? What are the problems or criticisms of council communism?*

17:3 Despite the consensus on centralized planning and large-scale production, the ideas of self-management, council communism did not completely vanish. William Morris's *News from Nowhere* was widely read, and the French syndicalist movement is William Morris transposed into the 20th century. Also Italy, Spain, IWW.

17:4/o At end of WWI, the idea of self-management became a prominent idea among the emerging workers' and soldiers' councils: the 'council movement.' Tries to give economic interests political form. State needed to regulate conflicts of interest. Described as economic democracy. Karl Renner.

18:1 Self-management idea stayed alive and was realized in Yugoslavia, from there increasingly influential in the Eastern Bloc, and also in the West in the 60s.

18:2/o Two criticisms of the council movement: How can you have effective participation in management in enterprises which differ greatly in size, complexity, and technological sophistication? And how should these different enterprises relate to each other?

Question 17 (p. 19) *Did a consensus emerge over time what socialism should be like? Elaborate your answer and give examples.*

19:1 During 20th century growing rift between authoritarian and totalitarian socialism in East Europe and democratic socialism in West Europe. A broad rise of socialist idea in West European countries after 1945 was reversed starting in the 70s. In the East a rekindling of the debate about market socialism.

Bottomore thought, at the writing of his book, that all this talk about markets will lead to a rejuvenation of socialism. Was he in for a surprise also in this respect.

Question 18 *Are welfare state institutions capitalist or socialist?*

19:2/o Concluding paragraph saying that one need not adopt either of the extreme positions: the Utopian view of the past where a sudden miraculous transformation of human nature is necessary, or the gradualist view which fears a crisis of change. We cannot predict the nature of society in the future. But, the ideas and experiences of socialism are here to stay and are bound to have a powerful effect on the future.

1.2 Marxist Conceptions of a Socialist Economy

22:1/o A few Marx quotes, but not “the development of the individual is the condition of the development of all.”

Question 19 *Which important Marx quote about socialism is missing in Bottomore?*

Until the turn of the century, Marxist thinkers just thought socialist economy consists of the nationalization of corporations.

23:1 Kautsky was an exception. Only with the rise of the large socialist parties and the Russian revolution did the question of the economic structure of socialism become more urgent.

23:2/o Experience of WWI showed how far the capitalist state can penetrate into the economy. Renner argued: we don't have to abolish the state, we can take over its economic functions. But there is also a concern about the all-powerful state (Renner, Hilferding.)

Question 20 *Describe Neurath's economy in kind. Would such an economy work? Which lessons can be learned from his experiences of economic planning in socialist Bavaria 1919?*

24:1-2 Anecdote illustrating how important it is to develop a theory of socialism now.

24:1-26:3 Otto Neurath interpreted the WWI experience differently. In his ‘economy in kind’, money should only be used by consumers to arrange their consumption. The whole of production should go on with calculations in kind, with money playing no role. Very similar to [CC93]. The quote 24:4/o applies directly to it.

How then to measure efficiency? by direct comparisons and judgements (made by the economic central office and people's representatives) of the desirability of different projects.

[CC93] has some better ideas with computer simulation and neural networks.

25:1/o Which then brought forth a vigorous critique by Mises, who said that in a complex economy value calculations are inescapable.

26:1-3 Neurath relevant for ecological considerations!

26:4/o After WWI, the Soviet Union was the central point of reference for the other discussions about socialism. Renner wanted to transform the interventionist capitalist state in a socialist direction. Hilferding argued that post-war capitalism had moved toward an ‘organized economy’ in which the capitalist principle of free competition was replaced by the socialist principle of planned production. He also argued that the present generation face the problem of transforming (with the help of the state) an economy directed by capitalists into one which is directed by the democratic state. The Austro-Marxists and also Neurath conceived the socialist economy as one in which production would be dominated by large state enterprises, with public ownership of the financial institutions, and directed by a central plan.

Question 21 *What were the main issues in the discussion regarding socialism by the Austro-Marxists? Could they ever implement their plans?*

27:1-28:1 Main theoretical issues debated by the Austro-Marxists (but this is not so clear-cut in the text):

(1) how to integrate workers' councils with a centrally planned economy. Only workers educated in workers' councils will be able to take command over the whole economy.

(2) use capitalist democratic state for socialist direction of the economy, especially by control of financial institutions,

(3) organize production to satisfy basic human needs for the whole population.

They never had state power, but municipal government in Vienna allowed them to put their ideas of (3) into practice.

28:2–31:1 (end of chapter) Industrialization debate in Soviet Union.

Question 22 *Which two important issues were mixed together in the discussions about how to build socialism in the Soviet Union?*

The Soviet influence was somewhat unfortunate, because it was as much the problem of industrialization as that of socialism. Footnote 2 to 28:2 on p. 31: discussions in Soviet Union had same subject as development literature in 1960s, and they had valid ideas.

Question 23 *Which were the issues in the debate in the Soviet Union involving Bukharin and Preobrazhensky?*

Bukharin versus Preobrazhensky. Bukharin promoted liberalization of agriculture, allowing the peasants to hire labor and get rich, and of foreign trade. Said this would lead to general economic growth. Preobrazhensky promoted primitive socialist accumulation with forced saving by the peasantry, state promoting heavy industry. Did not foresee that Stalin would do this with forced collectivization.

In the West, split between old social democratic and new communist parties. Social Democrats favored slow evolution and were critical of SU. [Stalin's response was: they are fascists!]. Hilferding: organized capitalism would be transformed into socialism.

Debate about SU-type central planning sidetracked by socialist calculation debate of 20s and 30s. External conditions of debate changed between end of 20s and mid 30s: sharp contrast between Depression in West and rapid industrialization in the Soviet Union, which made possible the victory of the Soviet Union in WWII, and expansion of SU into Eastern Europe.

End of 40s: everyone believed in central planning, state ownership and management. in 50s, Yugoslavia had self-management and a socialist market economy. Very gradually, the highly centralized socialist economies opened up to markets.

1.3 Experience of Planning since WWI

[The Russian Revolution

Question 24 *Was the Russian Revolution Premature? Which kinds of dilemmas have revolutionaries again and again been faced with when deciding whether to organize an open uprising?*

33:1 Circumstances of Bolshevik revolution could not have been worse: predominantly agrarian and backward society, country ravaged by WWI and then by civil war and foreign intervention.

Bolshevik leaders at first doubted that they could stay in power and hoped for support by revolutions in more advanced countries, but these were quelled. Therefore had to build socialism in one country. This required above all massive and rapid industrialization.

Question 25 *Describe War Communism*

33:2/o 1917–21 During the times of *war communism* they had to cope with civil war, foreign intervention, and the loss of critical areas due to WWI. They nationalized and redistributed land and after a brief period of worker's control, they quickly extended state ownership and control of industry and financial institutions. Ban on trade, moneyless economy, forced requisitions from peasants.

34:1 in 1921, production was 1/3, agricultural output 2/3 of 1913 level. Foreign trade collapsed, peasants revolted and Kronstadt rebellion.

Therefore introduction of NEP. No more forced requisitions from the peasants but a food tax, first in kind and then in money. Mixed economy with private agriculture, legalized private foreign trade and private small-scale production, but a state bank. By 1925, industrial and agricultural production had recovered rapidly.

Question 26 *What do the letters NEP stand for? What was the NEP? What was "new" about it?*

34:3/o But this was only catchup to 1913 level. Industrialization debate how to exceed that level. and how to get technological advances. Three reasons for industrialization:

35:1–3 (1) Political reason was defense. This is why they linked iron ore in Urals with coal 1000 miles away in Siberia. In 1931, Stalin said: we are 50-100 years behind the advanced countries. We must make good this distance in 10 years. In 1941, Hitler invaded Russia.

35:4/o (2) Relationship of classes. The many newly independent peasants wanted capitalism, not socialism. Their creation of an industrial proletariat was hoped to shift balance of power. Forced industrialization began in 1928, later forced collectivisation of agriculture almost eliminated independent farmers.

36:1 (3) Improvement of standard of living. Compared with the West (Great Depression) they were very successful.

Question 27 *Which three reasons did the Soviet Union have to embark on a rapid industrialization in the late 1920 and 1930s?*

[Social Democracy elsewhere in Europe]

36:2 In the capitalist countries, state intervention in the economy became more common after the experience with an interventionist state during WWI and inspired by the achievements of the Soviet Union. Unemployment insurance and state pensions, low cost housing, but no extension of public ownership and no planning.

36:3/o Great Depression gave new vigor to socialist critics of capitalism. Considerable literature about planning.

Wootton: first prerequisite for planning is knowledge and the ability to use that knowledge.

37:1 Durbin distinguishes between state intervention in a particular industry while the greater part of the economy is in private hands, and planning which aims to replace private business decisions. Rejects rigid long-term planning, sees planning as the enlargement of the scope of the decision-making units.

37:2 The book *Britain without capitalists* [Ano36] envisaging Soviet-type planning in Britain was widely read.

Question 28 *Can you remember authors and/or titles of some of the Utopian literature Bottomore mentioned?*

38:1 Rapid growth in SU, at a time when capitalism was floundering, was very much noticed. Stimulated growth of communist parties in Europe.

B does not say that the SU was not only very powerful as a good example but also as a bad example.

38:2 Sweden Social Democratic Labor Party came to power in 1932 and was in power ever since. No public ownership but strong welfare state institutions.

38:3/o USA New Deal with state intervention in banking, rationalization of industry, re-organization of agriculture, TVA large public corporation. Relief for the unemployed together with Public Works.

Much less in Britain: measures to rationalize agriculture and subsidies (shipping).

[World War II and Socialism]

39:1 Partial planning and state-ordered rationalization intensified with the approaching WWII, and only this eliminated unemployment. Germany was the first; it a war economy since 1933, others re-armed starting mid-thirties.

B says the war “loomed” despite all the evidence he brings that it was an event planned and prepared for over many years.

Question 29 *What influence did World War II have on the idea of socialism?*

During WWII, even more massive state regulation of the economy than in WWI. People thought that at least part of this would be maintained in peace times.

39:2/o After war: The Labor government in Britain nationalized some major industries and expanded social services (national health service). France: firms owned by collaborators with the Germans were nationalized. Austria: German property during Third Reich incorporation of Austria into Germany were confiscated by allied occupying forces, and remained in public ownership after they were returned.

Germany: Codetermination and strong ties between Unions and Social Democratic Party.

B neglects to say that Germany was remilitarized by the allied forces when it obtained its sovereignty.

40:1 After war, soviet-type socialist economies in Eastern Europe. Soviet model also used by many newly independent countries in the Third World.

40:2–41:1 Three kinds of planning could be witnessed 1914–1950:

40:2 (1) War planning in WWI and II provided practical experience and showed that planning is feasible.

40:3 (2) Partial planning (rationalization, government subsidies, some public ownership) during Great Depression and reconstruction after WWII.

41:1 (3) Comprehensive planning with public ownership of the major means of production exemplified by Soviet economy, and extended to Eastern Europe and many developing countries, and also influential in Post-WWII Britain and OEEC.

Question 30 *Bottomore distinguishes three kinds of planned economies during the 20th century. Which are they? How do they differ from each other?*

41:2 Boundaries between partial or capitalist and comprehensive or socialist planning not very clear cut.

41:3/o Funny paragraph: It is not only economic but also social planning, and that the welfare of the citizens was always utmost in the mind of the planners. But this was already a reflection of the Soviet Union. They had to create the illusion that life in capitalism is as safe or better than in socialism. Only recently they show what capitalist planning is really about.

42:1 SU's industrial growth in the 1930's was unprecedented. Now they say the SU shouldn't have done it, although it was clear, everyone could see the war coming. Strange taboo that they don't recognize that the war was planned, and visibly so, for a long time!

42:2/o-43:1 This growth feat was then repeated by the East European countries after the war.

43:2 But changes, modifications. Yugoslavia withdrew from Soviet orbit in 1948. Soviet influence in China diminished in mid 50s. In the Soviet Union changes after the death of Stalin, in East European countries after a succession of revolts from 1953-1980.

43:3/o Changes accelerated in the 1980s with Gorbachev and what Bottomore did not yet know the collapse (assisted suicide) of these regimes. But overall in terms of industrial output they were quite impressive. To say that they could not function is a lie.

My thoiht: The astounding thing perhaps is that this economic success was not accompanied by political success.

44:1 Some people have argued that the slowdown of growth since the 1960 was just due to the maturation of the socialist countries as industrial societies.

44:2/o Another view is that the initial growth was extensive, and that despite all efforts this system had difficulties to implement intensive growth, i.e., technological innovation.

45:1 Another distinguishing feature of SU style planned society throughout the world was: they achieved a much better distribution of the basic goods to society: literacy, health care.

45:2 After WWII planning was also considerably extended in the Western capitalist countries. Bottomore says Soviet Union was only a minor influence. I am not so sure.

46:1 Gives evidence for their capitalist nature: Private sector always dominated the economy, and banks were not nationalized. Is called corporatism, Hilferding's organized capitalism. Recognition that capitalism is by no means automatic: It needs a lot of doing

to maintain capitalism in the present time.

46:2 Also mentions the Marshall Plan. This was a very obvious anti-socialist measure.

46:3-47:2 Planning in France, special type of capitalistic planning.

47:3 Another success story is Japan.

47:4 Bottomore is twisting and turning. Starts with comparison: how do capitalist plans differ from socialist plans? (1) socialist plans are more comprehensive, more imperative than indicative, involve direct state management over large parts of the economy, have different objectives because high priority is given to full employment and welfare services.

Question 31 *How did planning in capitalist countries (France, Japan, Britain) differ from planning in Eastern Bloc countries?*

Then he says there is convergence. If that would be true, this would mean those differences are not essential. But why is there convergence? (a) Western countries ape the Eastern countries, in order to confuse their workers. (b) Eastern countries are becoming capitalist. Here Bottomore is muddying the issue.

Last thing he is saying: there were impressive results on both sides. Tinbergen quote that business cycle was eliminated due to this kind of planning. Bottomore tries to suggest that planning is in the interest of the capitalists.

Growth in West European countries after WWII was unprecedented and also unsurpassed later, should not really be taken as a measuring stick for how capitalism usually performs.

48:2 Additional evidence for success of planning in both capitalism and socialism is that the least planned societies, USA and Britain, have been doing badly lately. I am not convinced about this argument.

Question 32 *Is planning good for capitalism?*

1.4 Critiques of Socialist Planning

52:1 Two kinds of critiques: (1) possibility of rational planning, and (2) bureaucracy, management, motivation.

Question 33 *Which are the two main strands of critique of socialist planning?*

First socialist calculation debate in 1930s.

Even before the debate proper Wieser in the Austrian marginalist school, with his theory of imputation laid the ground for national accounting in a socialist society.

52:2/o Böhm-Bawerk said that socialism could not hold what it promised because it would acquire a positive interest rate.

Question 34 *Bring the basic arguments in the Socialist Calculation Debate.*

53:1–54:0 **A** Mises's argument: socialist planner can determine which consumption goods are the most desirable, but will only have vague estimates about which means of production to use. For this the capitalist is needed who finds out with the market which means of production are the most profitable and in this way gives an evaluation of the means of production. Especially in a dynamic society, market valuation is indispensable.

54:1–3 Real Mises reveals himself in his phantastic tirades against the social horrors of socialism.

54:4 Reality showed that socialism is possible, which stole the thunder from this debate.

54:5–57:1 **B** Oskar Lange. See the New Palgrave entry. The three pieces of information needed for a market economy are (1) preferences, (2) resources, and (3) production functions. A socialist government can have access to this information as much as the capitalists do. I guess he has in his mind the way how you solve a general equilibrium model. We should discuss that in class, in this way we teach the students also something they can use for mainstream economics.

55:3–56:1 Lange's theory of market socialism: genuine market in final goods and labor, but not in other productive resources. Central administration sets accounting prices for productive resources, and the market sets the prices for final goods and for labor, in such a way that demand equal supply everywhere. This can be achieved by trial and error. Managers at the firms are instructed to minimize costs. Income distribution is guided by social policy.

Advantages: better income distribution, and better ability to internalize costs.

Older: You know production functions and set prices such that the capital goods are fully used as long as production is cost minimizing and goes to the extent where marginal product equals price.

Very interesting model. I wonder how this differs from usual general equilibrium model.

56:2/o additional points: possible to form prices by trial and error, advantage of socialism is that income distribution can be done by policy, and that this

economy would avoid waste. Disadvantages: possible arbitrariness of the rate of capital accumulation, and bureaucratization.

In my view, we need to know this theory in order to be able to put in place the first transitional reforms.

Question 35 *Describe the basic features of Lange's theory of market socialism.*

57:1 At end of his life, Lange was concerned whether socialism could ensure technical progress.

Question 36 *Describe von Mises's original argument in the calculation debate. How as it refined by Hayek and Robbins, and how by Lavoie?*

57:2–58:3 **C** Refinement of Mises' argument by Hayek and Robbins, apparently in the light of Lange's economics: Socialist calculation practically impossible, too many variables, no longer that it is theoretically contradictory. **D** Both Lange and Schumpeter said it could be done by trial and error.

58:4/o **E** Hayek's retort to Lange's trial and error: this works in a static economy but not in a quickly changing one. Also: how can Lange make sure that managers do what planners want them to do. Freedom cannot be preserved in a planned economy.

F The success of planning in WWII and in the Soviet Union silenced the debate for a while.

59:1/o **G** Lavoie's [Lav85] revival of the debate: trial and error procedure reduced the problem to purely routine behavior, avoiding all the problems of alertness to new opportunities, futurity, and knowledge dispersal. Seems to be related to those arguments about the nonverbal knowledge which people still express with their monetary choices.

Question 37 *How can bureaucracies endanger socialism?*

Now second strand of the critique of socialist planning: bureaucratization. How would I try to think about this? Why is bureaucracy so much more dangerous for socialism than for capitalism? Because in capitalism it is a restraint, but in socialism it tries to be the driving force? There is the notion that there will not be enough grass-roots momentum towards socialism, that socialism has to be pushed by the state apparatus.

60:1 Max Weber, Mises, Lange all said that this was the real danger of socialism.

60:2 Schumpeter says that bureaucracy is a necessary complement to democracy.

60:3/o Nevertheless he recognized dangers of bureaucracy: depressing for the most active minds.

61:1 Bottomore says: there are two meanings of bureaucracy. Rational and efficient means of administration, but can be the rule of the state officials like in Imperial Germany.

61:2 Bottomore says: obviously the rational administration is a not a problem. Really?

61:2/o It was not bureaucracy alone, but a mixture of bureaucracy and communist party and suppression of public criticism.

Question 38 *Can a centralized economy coexist with democracy?*

62:1 Another strand of this debate said that the merging of state power and economic power gives a totalitarian regime.

62:2/o Hayek argued this way, and Dickinson's naive defense that the distinction between state and economy was always artificial gave Hayek only further cannon fodder.

63:1 Aron says there is a unified elite in the SU versus a plurality of rival elites in capitalist democracies.

63:2/o Important questions whether the authoritarian regime was necessary outgrowth of planned economy or result of lacking democratic tradition in SU: attempt to have a good tsar, then war and cold war.

64:1 End of strand about bureaucracy.

Question 39 *In which areas did the existing socialist countries fail economically?*

Now Bottomore's assessments about *economic* (as opposed to political) problems of socialism. They are good!

(a) calculation debate greatly exaggerated the difficulties, even less founded in age of modern computers.

(b) socialist economy better for a well defined task: industrialization or war economy, but less effective in developing production and distribution of consumer goods (and the flourishing of the individual is not the same thing as that.)

64:2/o Other sore points: Socialist planning is much less effective in agriculture than industry.

Quality of goods notoriously low.

Inability to generate technological advancement is third and most telling sore point.

65:1/o Socialism's inability to direct the more mature economies triggered the restructuring efforts after WWII.

66:1 Mixed success in achieving growth: level of consumption of capitalist countries has not been reached, introduction of technology sluggish.

66:2/o Another important point here: in post-war time the capitalist economies experienced growth which Bottomore attributes to capitalist socialism, therefore it was really socialism competing with socialism.

67:1/o Other question: is growth so desirable? Environment.

68:1 Economic calculation not the main problem of socialist countries.

1.5 State Bureacracy and Self Management

70:1 Starts with the observation that the economic role of the state has been extended everywhere, not only in socialist countries. This extension does not *necessarily* make the state less democratic. But centralized economy is *conducive* to emergence of a unified elite.

Question 40 *Why has there been so little debate about the political form of socialist regimes?*

70:2/o There has not been enough debate of the political system in a socialist country because Marxism held that everything was fine when the working class is in power, and the state would wither away anyway.

My thinking is: another reason why there was not much debate about this is the lack of a Marxist critique of capitalist democracy.

71:1 Common thinking has been that in the short run there would be dictatorship of proletariat. Bottomore proposes something different: one might want pluralism in the short run. He calls this a central issue of his book. He thinks that the events in the Eastern Bloc he was witnessing were such a turn towards pluralism, which is a reason to take his arguments with a grain of salt.

Question 41 *(p. 71) What are the three goals of socialist pluralism as envisioned by Bottomore?*

71:2/o If there is pluralism, then there is the possibility that the country will revert to capitalism. Bottomore says this is in contradiction to Marx's view of irreversible development from capitalism to socialism. [It does not contradict my brand of Marxism. And what does Bottomore say about the collapse of the existing socialist regimes?]

Question 42 *Should a socialist state allow its citizens to decide, maybe by a vote, to go back to capitalism?*

72:1 Pluralism is not only free elections and parties. but also regional autonomies, and the representation of all kinds of minorities, preservation of diversity, in the electoral system. This is already an implicit criticism of democracy as we know it.

73:1 Third element of pluralism is development of active associations in civil society. (NGO's?) Occupational, economic, community based, environmental, cultural.

73:2 They are other enemies of liberty besides the state. Which ones does Bottomore mean? The KKK?

73:3 Now we will discuss growth of bureaucracy and its consequences, but this time the economic bureaucracy, not the political one.

73:4-75:0 Following [Ber88, chapter 8] there are two branches of bureaucracy: planning bureaucracy between firms and party leadership (state planning ministry Gosplan) and managerial bureaucracy inside the firm. Berliner asks about their motivation and efficiency. Seems to be a book worth reading.

In Soviet Union, the planning bureaucracy developed (original faith in a central plan directing all the details diminished over time, efforts to decentralize planning, which was overall a decrease of the size of this bureaucracy), but the bureaucracy inside the firm was left intact.

In Yugoslavia and Hungary, fundamental changes were made in structure of enterprise, but introduction of market instead of central plan also introduced problems.

Question 43 *What are the two branches of economic bureaucracy in a planned economy?*

My thinking: the contrary development of these two branches gives credence to Marx's dialectic (complicity) of anarchy of the market versus despotism in the factory.

75:1 Bottomore seems to favor this dismantling of the bureaucracy outside the firm, although it may reintroduce capitalistic problems (Nutti).

Question 44 *Briefly characterize the Yugoslav model of planning. What are its main achievements, its failures, its flaws?*

75:2-81 (Till end of chapter) Yugoslavia, the first major break with the Stalinist system.

75:2-76:1 In Y, worker autonomy in the firm and market relations between firms. Therefore reward according to the market success of the firm.

76:2 Initially impressive growth rates but high unemployment. Therefore labor migration mainly to West Germany. Income disparities and regional disparities grew. Recently (in 87:0 he says after the

mid-70s) economic performance deteriorated greatly. Saddled with external debt.

77:1 First problem: economic success of firm varies considerably. Should the least efficient firms be allowed to go bankrupt, and if so, what happens to the employees? Also, group egoism developed in the successful firms.

77:2 Second problem: Worker participation is low. At most 40%, usually much lower. Nevertheless, it demonstrated its feasibility over a long period, see [Szé88].

77:3 Third: unresolved problem is how to mesh this market with some planning and control? This will be subject of Chapter 6.

Also substantial achievements. Far more open society than any of the other socialist societies. Yugoslav model has been guideline for reforms in Eastern Bloc and China.

78:1 One aspect of the Yugoslav model was market socialism, but this was not its central feature but only one element, amidst democratization of all spheres of social life.

78:2/o An economy of associated producers is infinitely more difficult than previously imagined. Experience so far has been either centralized bureaucracy with new elite, or decentralized firms with sectional interests and inequalities between firms.

79:1 [Hor82] proposed personal taxation a possible means to reduce income inequality, as they are doing it in Hungary.

79:2/o Concluding remarks of this Chapter start here. Further problems: enmeshment with capitalist world market with its cyclical ups and downs. Those countries also became indebted. I consider this a very important and quite central problem.

80:1/o Bottomore expresses hope that they will start growing again.

1.6 Plan and Market

This Chapter is compromised by Bottomore's view that the reforms in the Easter Bloc countries were attempts to build better socialism.

82:1 One-paragraph history of the idea of market socialism (which should better be called socialism with markets, see 78:1). Was started by Lange and Dickinson's "competitive" solution (this was Hayek's term for it). Intense discussion and practical application of it in Yugoslavia. In Y, main problem: how to reconcile independent self-managed firms operating in a market with rational economic planning. During the economic reforms in the 70s and 80s, this discussion spread through Eastern Europe.

Bottomore ends this paragraph with the assertion that market socialism is terribly complex. I interpret this to mean: market socialism does not function as nicely as one might expect from the theory, and he does not have a theoretical handle how to explain this. But for Bottomore this is the opener to make three distinctions:

82:2/o First distinction: Without introducing the terms yet (for this see 101:2/o), Bottomore distinguishes between socialist and socialistic countries. In this Chapter only the socialist (i.e. Soviet Union type) countries will be discussed. B stresses how heterogeneous that group itself is.

83:1/o Second: Not only the form and scope of centralized planning has to be discussed here (as if this were the same question as that of plan and market), but another important question is: which forms of property? Of course here one has to distinguish personal property from private property of means of production. Therefore the question is: which form of property of means of production? Marx seems to have envisioned mainly socialized property, but later theoreticians and later practice also had room for individual property.

84:1–85:0 Bottomore's third distinction: Planning and socialism are not one and the same. Phillip Morris hoped that a spontaneous order would arise from the cooperation of citizens. Supporters of workers' councils and self-management have similar ideas; they rely on the market to coordinate the autonomous enterprises.

84:2–85:1 Despite this, the mainstream of socialist thought identified planning with socialism. But this identity became problematic with capitalism planning more and socialist planning running into snags.

85:2–86:0 Despite these reforms it should remain socialism defined as: the *major* means of production and land are owned socially, and the goal is to build a new civilization.

86:1 Now a discussion of the economic reforms in present-day socialist countries. Such economic reforms must be combined with political reforms, which will be discussed in the next Chapter.

86:2–87:0 *Yugoslavia* was the first to embark on reforms. Experienced good growth until the early 60s, but its further development compromised by the unresolved contradiction between economic self-management and an autocratic state led by a Leninist party. After mid-70s, economic situation deteriorated rapidly, also aided by oil crisis and recession in the West, and also political liberalization was halted.

87:1/o Debate around the economic questions: what kind of ownership of productive resources, ben-

efits and disadvantages of markets for socialism, appropriate planning in a socialism with markets, and also about the political question of pluralism.

Solutions: Some form of private property of means of production present in all socialist countries, but major productive resources publicly owned: either state or collective property, with a trend away from state-managed firms to collectively owned firms.

88:1 Most recent reforms did not extend Yugoslav-type self-management but extended private property and relaxed plan in favor of market.

88:2/o Expansion of private production is one way to expand the autonomy of enterprises and individuals, i.e., to decentralize decision-making. But such decentralization can also be brought about in other, more socialist ways.

89:1–3 Decentralization and replacement of vertical by horizontal lines of communication is necessary because the goals of the economy have become more complex than in the early industrialization stages.

89:4–90:2 Relationship between plan and market in Yugoslavia: According to [Hor82] they want consumer sovereignty and worker self-management. Therefore they need a market. Not a free market but a market as a planning device, which makes several other planning instruments necessary: planning bureau, national bank, development fund, arbitration board for incomes and prices.

90:3 The above institutions did not exist in Yugoslavia. Unresolved clash between central planners and absolute market proponents, exacerbated by national differences.

Question 45 *What institutions other than the market are necessary for a socialism with markets?*

Question 46 *What is wrong with the concept of a "mixed economy"?*

91:1 The question before us is: does Yugoslavia show that markets themselves are inimical to socialism? Bottomore says it cannot be resolved because of confounding influence of oil crisis.

91:2/o Two diverging explanations of the failure in Yugoslavia: weakness of political leadership, self-management was only a fig leaf for bureaucratic control. Or: there were not enough markets.

92:1–93:1 Hungary: 1968: Introduced New Economic Mechanism, no longer any compulsive annual plan, but planning by influencing the financial environment in which firms operated. 1971: introduced element of labor direction, 1974: strengthened central control over investment plans. Later measures to re-centralize, mainly in response to oil price shocks.

1980: reinstatement of the original market mechanism. In 1980s introduction of income and value added tax, and toward multi-party political system. But not much worker self-management!

Results? They did not do better than the centralized planning GDR.

93:2–94:1 China much more sweeping reforms, comparable with NEP, seems to go over to capitalism. Not as a temporary measure but markets are here to stay. China continued to grow.

Now summary of the main issues:

94:2/o Markets and ownership of means of production are two different things. Socialism needs the latter but is not incompatible with the former.

Often one hears that privatization should begin with agriculture. Bottomore has his doubts.

95:1 Markets under socialism must be a “planning device” but this does not seem to be as easy as imagined (“regulation illusion”), just as Keynesian activist policy was not as easy as imagined, and the rational expectations critique says it is pretty much impossible.

Question 47 *What is the so-called “regulation illusion”? What is its capitalist counterpart?*

95:2/o Two issues: (1) quality of management, which depends on incentives (not just monetary) and careful planning. GDR has good managers. (2) attitude of workers.

96:1 Desire for more participation in all spheres of society.

96:2/o Political openness diminishes power of Communist Party but creates a new “civil society.”

97:1 With this openness also rose nationalism, politically backward-looking. Proliferation of special-interest groups. All this promises to make things turbulent.

97:2–99:0 Tentative verdict: centrally planned economies undoubtedly successful in many important respects.

Bottomore wants more markets to give more self-determination to the producers, but he does not want more private production.

Markets must be complemented by a sophisticated regulatory apparatus.

1.7 Problems of Socialism Today

101:1 B considers Western goals to “bury socialism” a fantasy; he sees a “renaissance of socialism” happening in 1980–1990, wants to discuss the open issues

which have to be resolved so that these reforms can lead to the creation of a new civilization.

101:2/o For this distinguishes *socialist* countries (Soviet Union, Eastern Europe, China, some Third World countries) and *socialistic* countries (i.e., capitalist welfare-state type countries in Western Europe and also Third World).

Socialist Countries

102:1 (a) Means of production socially owned, (b) planned societies, (c) initially tried to provide equality and freedom and end alienation, but this one failed, especially in the earlier Stalinist periods of industrialization.

102:2/o Abolition of private property of means of production creates new problems: Different groups of citizens have different goals; Impossible to involve millions of people in decisionmaking; Representative system produces new interests and divisions.

Question 48 *Is a “general will” possible? What are the implications of this for socialism?*

103:1 A general will impossible: in so far as it is will it is not general, and in so far as it is general it is not will. Hayek says: society is incapable of acting for a specific purpose. Bottomore’s feeble way out is: general will or universal consensus not necessary for socialism.

My take on this: as long as ethics is subjective, socialism is impossible.

103:2/o Central planning: Durbin recognized that the usual close association between socialism and a planned society did not exist prior to 1917. It is due to growth of rationalism fostered by technical progress. Hayek criticizes this; he considers human development in society as a largely unconscious process. (I.e., he says that Marx’s basic aim, to gain more control over social relations, cannot be reached.)

104:1 We already discussed some problems of planning: bureaucracy with its cautious outlook. Difficulty of detailed central control of economic activity in a complex and rapidly changing economy.

Question 49 *Is human nature an obstacle to socialism?*

104:2–105:1 Assumption of a less acquisitive, more peacefully cooperative and responsible human nature. Such transformation does not seem impossible, but it is folly to pretend that this transformation has already been attained.

105:2 What the socialist countries should do with their inefficiency and lack of enterprise and innovation. Current reforms have given more initiative to decentralized decisionmaking. Then Bottomore says this requires a market and this is a point I am not convinced of.

105:3/o Will have to be a mix between planning (especially in investment) and market. One will have to experiment how to do it.

106:1/o Property relations: private property has a place in small-scale trade, restaurants, market gardening, bookshops, some publishing, small scale building, repair work.

Question 50 *In which branches of production is private property of means of production appropriate (according to Bottomore?)*

107:1/o Inefficiency and lack of innovation became a problem only since 1960, and not everywhere (not in GDR).

108:1 Also the experience of publicly owned Western companies shows that they can in principle be as efficient as capitalist countries. (Here Bottomore does not address the innovation issue.)

108:2 One may want to have a lower level of efficiency than in the West. For instance if efficiency generates unemployment.

109:1 One may also have less competition since this contradicts socialist goals.

109:2 In a competitive society, other human values are sacrificed: ecology, no extremes of wealth and poverty, cultural creativity, leisure, citizen participation in the public good.

Question 51 *Which desirable alternative economic goals are sacrificed in a single-minded pursuit of growth, productivity, and competition?*

110:1/o Summary of policy proposals: going to be long and difficult, question of ownership is not as important as the decentralization of economic decision-making, and political changes: more freedom to allow the grass roots groundswell which he envisions.

111:1/o Requires democratization, a democracy which is better than that in the West. Democracy will extend beyond political sphere into economy.

‘Socialistic’ Countries

112:1 Their problem is the form which public ownership and control of productive resources and economic planning should take in the future. Movement gradual and with reversals (Britain). Sweden and Austria most consistent on this course.

I used to think: all this is temporary because people will vote it out of office again, but this possibility also means that people will only have a socialistic government if they believe in those principles.

Question 52 *Which two countries in the West have pursued most consistently a socialistic development?*

112:2/o Short history of Sweden: Socialist party came into power in 1932, Substantial changes in Swedish society especially since 1945. Growth in 50s and 60s marked by sustained movement towards socialism, greater economic equality, more industrial democracy, and substantial expansion of public sector.

Crises of 1970s were weathered better than most economies, while maintaining their socialistic policies. Open unemployment never above 2.5 percent. Democratization of working life, power of unions increased, that of corporate owners diminished, public sector continued to expand, more public representation and participation in industry. Better environment, more leisure, increased possibilities for making the decisions that affect one’s life.

Negatives: continued centralization and bureaucratization, intensified efficiency and a sense of alienation in individuals. Employee investment funds are a new development towards collective ownership of productive resources.

Austria: Had socialist administration of Vienna 1918–1935, but socialist policies on a national scale only after the WWII.

Austria’s largest bank, Kreditanstalt, nationalized following its collapse in 1931. Two more banks and all German property nationalized after the war. Now public sector has almost 100 percent of utilities, about 2/3 of mining, iron and mineral production. 1/4 of total output of manufacturing and 31% of GDP excluding agriculture.

In 1970 no more direct nationalization, but policies strongly influenced by Swedish example: modernization of industrial structure, new ministries for health and environment, reform of the archaic penal code, extension of social welfare net, increasing participation in management, improving dissemination of information, encouraging broad debates on social and political questions.

All this until 114:2

114:3/o Other countries which had intermittent social democratic governments are France, Britain, Norway, FRG, Spain, Greece, with sometimes too limited or ill-prepared policies.

Britain: Labour government of 1945: nationalizations, health service and educational system, but did

not nationalize banks and did not do central planning. Therefore socialism was weak, stumbled from crisis to crisis. private capital remained dominant, special subordination to United States.

115:1/o Sweden and Austria were protected by their smallness. France had difficulties: in 1981 they tried to reflate their economy by government policies, but the other countries did not follow suit, in this way France got a balance of payment crisis. "The strongest and clearest pressure group against reflation is the financial institutions, both official and private." Therefore measures can be found by which governments can resist the pressures of financial markets.

116:1 Bottomore hopes that this can be accomplished through the European Monetary Union. There are Green pressure groups in Western Europe.

116:2 All this may seem too gradual, but such a gradual approach is justified by two things: (a) by the slowness with which human attitudes change in general (b) the deterring example of the socialist countries will make it even less likely that people will actively pursue it.

116:3/o What is needed? In socialist countries extension of democracy by creating a pervasive democratic culture; decentralization of the economy; change in structure of enterprises, not only for efficiency but also for democracy; a more sophisticated and indirect system of planning the economy as a whole. I am asking: is indirectness desirable in itself?

In socialistic countries (Sweden, Austria): extension of public ownership, growth of public service, improvement of indirect economic planning.

117:1 Bottomore thinks we are living in a situation of convergence, reforms in the socialist countries will not lead back to capitalism.

1.8 Modes of Transition to a Socialist Economy

121:1 Capitalism has its problems too: cycle of boom and slump (recession of late 70s, stock market crash of 1987, worse to come (Mexican crisis)). Inability to ensure consistent employment, gross inequality of wealth and income, impoverished and tawdry culture dominated by money,

121:2/o The kind of society to which it is reasonable to aspire: substantial degree of public ownership; democratic and social planning (national, regional, local, and eventually transnational); decentralized economy with regulated market, self-management in firms. Aim is greater economic and social equality.

122:1 Modes of transition vary greatly: in Eastern Europe one needs decentralization of economy and extension of democracy. In West extension of public ownership and introduction of planning. Also individual circumstances of the country play big role: in East size and strength of the different economies, particular problems of multinational states.

122:2/o Socialist movements always have been in the forefront of struggle for democracy.

123:1/o More democracy also necessary in the West, democratization of all spheres of life: firms, educational and cultural organizations. Government should be less monolithic (conceivably coalitions of various parties), devolution of power from central to regional and local governments. This would also limit the role of government, this is the withering away of the state.

124:1 Democracy fairly recent: most since WWI, some only since WWII. Better representation by reforming electoral systems to allow for proportional representation, greater powers to regional and local elected representatives.

Problems in Britain: Non-elective totally unrepresentative second chamber, no proportional representation, a government elected by 40% can make sweeping reforms, steady erosion of powers of local government.

United States: electoral system frustrated the development of more than two parties. Voting dominated more than elsewhere by money.

124:2/o Likely to be more coalition governments, representing the diversity of goals and values. Growth of 'social democracy' i.e. pervasive democracy, and a less elitist government.

125:1 Proposals for economic reform in socialist countries: Restructuring of management to get new spirit of individual enterprise, commitment, and responsibility. Development of coherent and systematic relationship between planning and market. Then he says there is no theoretical model that can be 'mechanically' applied: but if it is to be coherent and systematic, then there must be a theory describing it! Effective regulatory systems, like experiences in Yugoslavia, war time planning, and post-war planning in France and Japan.

126:1-2 In capitalism a more purely economic changes: extension of social ownership and planning. Britain just did the opposite, which was a big setback. Eliminate domination by capitalist class, extend democratic participation. Public ownership especially of financial institutions is a prerequisite of effective socialistic planning.

126:3/o Bottomore uses the word socialization in-

stead of nationalization, which connotes large centrally administered state corporations. Besides state corporations, socialism may take a variety of other forms: self managed enterprises, cooperatives, maybe joint private-state ventures.

Question 53 *How should large basic industries be organized under socialism?*

First form he discusses is state corporations (airlines, railways, telecommunications, utilities, engineering, chemicals, car manufacture. etc.). Regional devolution, participatory management, representation of consumer interests. Maybe more than one in each sector which compete with each other: engineering and auto, large scale retail trade. Very important is the ownership of banks: not one bank but competing banks, even socialistic stock exchange.

Additional, strangely neglected point: public ownership of all land, with a variety of leases and use rights.

127:1/o Autonomous self-managed enterprises appropriate for medium-size producers, much agricultural production, cultural and leisure activities. Learn from Yugoslavia, and various forms of co-determination.

128:1 Cooperative enterprises for small-scale production and services: rapidly established and also dissolved, can quickly respond to new needs, and may form networks with each other.

128:2/o Also private enterprises. Increase in number of self-employed individuals along with the expansion of the service sector of the economy. Small scale private firms (which could however also be cooperative) in agriculture, artisan production, retail trade, services. Reasons: quality control, flexibility, producer knows best and nobody should tell him what to do, pioneering of new ideas.

Danger that this nurtures individualism is overstated, since socialism also emphasizes the individual, i.e., the ability of all individuals to flourish, not just of a minority.

129:1 Those private producers would take in cooperative aspects of society in the spheres other than production.

Question 54 *Which forms of property of means of production does Bottomore propose, and which branches of production are appropriate for each of these forms?*

129:2/o This will be very gradual and uneven between countries, but organic social change *can* only be gradual.

After privatization in Britain, re-nationalization seems unlikely, and also the buying-out of shareholders does not seem realistic unless the enterprises fail.

130:1 Swedish employee Investment funds: part of the profits of large companies should be converted into shares held by the employees. In a period of 25–60 years it would lead to employee control. That original plan was watered down completely.

131:1 other measures: encouragement of cooperative ventures. In Britain, new banks should be socially owned, existing banks subject of an employee ownership fund. All this has to be a transnational process and be designed as such.

132:1/o Hopes that more socialistic governments will be elected, so that these things can be pushed forward slowly but on a broad base.

132:1 Task is to continue the improvement of quality of life, while extending it to the poor and limiting the extremes of wealth. But this will be increasingly done not by sheer growth regardless of what is growing, but enhancements of quality of life.

132:2 Another goal is the overcoming of poverty in the poorer countries. Many experiences but no coherent socialistic policy.

Industrialization of the whole world will create an incredible burden on the environment.

133:1 Hopes for a new Green Socialism.

132:1/o Re-emphasis on small scale production which is locally centered, concerned about environment, less commuting time.

134:1 Planning has to develop the inter-generational decision regarding exhaustible natural resources.

134:2/o Otto Neurath had suggested that. Neurath also advocated the construction of alternative scientific utopias. Not the naive belief in miracles, but forceful statement of long-period goals.

135:1 Need for a new socialist Manifesto. The time to start doing all this is now.

Chapter 2

Notes about Towards a New Socialism [CC93]

The book can be viewed as a pdf file on the internet on

www.lib.utah.edu/books/tans

or also at

www.ecn.wfu.edu/cottrell/socialism/book

Everything written in small italic typeface is not a summary of the text but our comments about the text.

Introduction

1:1 This book is our response to the failure of socialism.

1:2 Most socialists say that they want a different kind of socialism than that in the Soviet Union. But the reasons why they say it differ. Social democrats say that the failure of Soviet Union does not say anything about countries like Sweden. Idealist Marxists say: USSR was betrayal of socialism, it was not socialism at all.

1:3/o Our own position differs from both: we think that social democracy is not radical enough a solution of the ills of capitalism, and we think that the Soviet Union was significantly socialist. We concede that it had many undesirable features. Reasons: it was born under extremely difficult historical circumstances; important policy mistakes were made, and it also reflects serious weaknesses in classical marxism itself.

Question 55 Which are the “extremely difficult historical circumstances under which the Soviet Union was born?”

Why is Social Democracy Inadequate?

(1) Does not remove the very great inequalities in “income, wealth, and life chances.”

(2) Socialist elements are subordinated to capitalist elements and will only be allowed if capitalism flourishes.

(3) These democracies do not have a theoretical principle for their socialist sector, and the authors hope that the principles which they are going to lay out will fill this gap.

In what sense was the USSR socialist?

4:2 The basic social mechanism is the extraction of the surplus product, how the non-workers (from the idle rich to children) get access to products. The Soviet Union did this in a fundamentally different way than capitalist countries. Here are some examples:

4:3/o Feudalism: exploitation visible, religion says it is virtuous to tolerate it.

5:1 Capitalism based on unpaid labor, but exploitation invisible.

5:2/o Soviet socialism: the division of product into wages and surplus product result of political decision, because it depended on the product mix of the planned output.

6:1 This itself is in line with Marx, but the problem is that this decision was not made democratically (and also not visibly).

6:2 Stalin was not an aberration but an integral part of this system.

What can be Learned from the Failure of Soviet Socialism?

Demise had two reasons: revulsion against the undemocratic regime, and: their antiquated planning

mechanism could not perform as well as capitalism in the West.

Question 56 (p. 7) *How did the period after Stalin's death differ from the period under Stalin?*

The two pillars of the Soviet mode of extraction of surplus were on the one hand enthusiasm, on the other hand terror.

7:1 after Stalin both of those pillars eroded. Breshnev equalized wages too much, there was no incentive left.

7:2 If this diagnosis is right, one should have expected that democratization would have fixed it. Thorough democratization and substantial reforms in the planning mechanism might have salvaged the Soviet Union.

Question 57 *Do CC think the Soviet system could have been salvaged? If so, what would have been necessary to do it, and if not, why not.*

Theoretical Basis for a New Socialism

Radical democracy plus efficient planning. Democracy is not a luxury or something that can be postponed.

9:1 There are certain weaknesses in classical marxism: (a) soviets of workers and soldiers deputies are inadequate and even dangerous for socialist democracy; (b) absence of a theory of socialism in marxism. (c) they improvised their own system shying away from certain no-nos, like marginal analysis, and this was not a good enough basis for socialism.

Synopsis of the Book

1–2 Inequality and Inequity 3 Justification that labor content can be calculated. 4–9 Outlines of a planning system 10–11 International aspects 12–14 Beyond the economic: social and political questions. 15 Discussion of arguments in favor of market socialism.

2.1 Inequality

13:1 Socialism strives to overcome inequalities of income, rights and opportunities that capitalism produces. Of course, those who benefit from capitalism are opposed to this.

It is good to point out that much of the criticism of socialism is not due to the flaws of socialism itself but simply represents the class interests of the present ruling class. On the other hand I think that modern capitalism has become such a vicious system

that even many of those who make a lot of money in this system would be better off with a different system.

On the other hand, CC are wrong when they say that it is the purpose of socialism to overcome the flaws of capitalism. Socialism will not have the problems of capitalism but will have its own problems.

Question 58 (p. 13:1) *The first sentence in Chapter 1 reads: "One of the main aims of socialism is to overcome the gross inequalities of income, rights, and opportunities that are associated with capitalism." Comment on this sentence.*

Question 59 *Do you personally suffer under or benefit from inequality?*

13:2 *Capitalist*: Inequality is inevitable, and it also serves a good purpose: it provides the incentives to work hard and efficiently. Even the socialist countries resorted to material incentives to make their economies work.

Socialist: If I look at the incentives which you are advocating, I wonder whether you are arguing in good faith: For the rich you are advocating lower taxes, i.e., greater wealth, and for the poor you are advocating lower social benefits, i.e., more poverty.

Already Marx in *Capital I*, Chapter 25, remarked on this!

13:3 *Socialist*: it is possible to have a society that is efficient, humane and basically equal. Some inequalities are inevitable, but they are tiny compared to the inequalities of the capitalist system.

Question 60 (p. 13) *Which are the two main arguments commonly given in favor of inequality?*

Sources of Inequality

13:4/o What are the real causes of inequality, and what can be done? The important causes: 1. Exploitation of those who work; 2. Inheritance; 3. Unemployment; 4. Age and sickness; 5. The economic subordination of women; and 6. Differences in skills and ability.

Question 61 (p. 14) *Which 6 causes of inequality are given by CC? Can you think of any causes CC might have overlooked?*

The following sources of inequality are missing: Racism, nepotism, and the state.

Exploitation

14:1 Economic exploitation means: not being paid for the work a person has done. A worker is exploited if the wages earned are less than the product of the work.

14:2 If a person works for 40 hours a week, and her wages allow her to purchase goods and services that also took 40 hours to produce, then there would be no exploitation. However current wages are much lower than the value added to the product produced.

Question 62 (p. 14) Define Exploitation

In 14:1, CC define “exploitation” as: the strong take advantage of the weak. This definition suggests that exploitation is an interpersonal relationship, and ignores systemic society-wide exploitation. Our concern here is society-wide, socially sanctioned exploitation. There is no hope to abolish exploitation on a personal level as long as the structure of society itself is such that some groups in society, called classes, can systematically take advantage of others.

14:2 The short definition of this society-wide economic exploitation is: those who work are not allowed to consume or decide over the fruits of their labor.

14:3 In a capitalist system wages are dictated by the employer, for a person who is unemployed, or fears unemployment will be willing to accept any job or conditions. The employer can choose from a number of applicants, so that a worker does not have the ability to negotiate a fair equitable wage.

15:1 If there is a shortage of workers, that would require capitalists to pay a more equitable wage, the capitalist still has other options to keep wages low. They may leave the capital in the bank or move their business to a Third World country.

15:2–17:0 All these factors force workers to sell themselves for exploitative low wages. Just how low can be examined by the value added through labor (wages and profits). Figures derived from the 1983 National Income and Expenditure Blue Book published by the Central Statistical Office (Britain), show the average added value due to workers is 57%, while the added value of profits and other property income was 43%. What this means is that a worker on average works approximately 34 minutes in an hour for their wages, while the remaining 26 minutes of work is for profits.

17:1–18:1 But, these numbers overestimate the real amount workers are paid because some labor is unproductive: it does not produce new value.

18:2 The effect of these implications reduces the average percentages to 53% for wages and 47% for

profits. Thus a worker works 32 minutes of every hour for themselves and 28 minutes for their employer.

18:3-4 The surplus value created by the exploited workers are either distributed as dividends or interest payments, or they are used to finance capital accumulation. In either case share holders are the ones that directly benefit. In 1975 the royal commission on Distribution of Income and Wealth reported that the bottom 80 percent of the population owned less than 4% of stock shares; and workers who do own shares amount to little worth, when compared to their total wages and debts.

18:5-19:1 The uneven distribution of income is self-perpetuating. The Royal Commission reported that some 330,000 people own 55% of all shares and 58% of all land. Due to their income this class can save a greater percentage of income and will continue to hold a greater part of nation’s financial capital. This small class is the beneficiary of the exploitation of working population.

Question 63 (p. 18) *Argue the pros and cons whether investment decisions should be made privately, or whether the public should have a say in them.*

Unemployment

19:2 Another source of economic inequality is unemployment. The unemployed cannot afford even trivial expenses. They are dependent on government benefits, that are calculated to provide for bare survival. Even these benefits of survival are being reduced or unavailable to many unemployed in most capitalist countries.

19:3 Although unemployment is a very bad experience, it is only a secondary source of inequality: it affects only a minority of the labor force, and more importantly unemployment serves to maintain the exploitation of the employed. Unemployment creates a buyers market for labor, thus workers will not question wages for fear that they will not have job.

Question 64 (p. 19/20) *Why is unemployment only a “secondary” source of inequality? What is the primary source to which unemployment is secondary?*

19:4-20:1 Unemployment maintained by government policy in order to keep wages low! Economic policies for full employment are possible. Britain after W.W.II followed an economic policy of full employment for two decades. Full employment during the 20 years almost doubled real wages of the workers. But the share of the companies profits were halved,

reducing the exploitation placed on workers. Attempts by the companies to maintain profits through price increases led to inflation.

Question 65 (p. 20) *Should someone who is unemployed by no fault of their own get less pay than someone who is working?*

20:3-4 There is no reason why employment should entail poverty and deprivation. If no work is available then a civilized society should pay those that are idle and willing to work a decent income. But unemployment is due to the change in public policy. Governments have accepted unemployment as a necessity, while also setting out to degrade the unemployed. Real level benefits provided to the unemployed has been reduced, while basic living standards continue rise.

20:5 The reduction of benefits to the unemployed, by the government, depresses the lower end of the wage scale. The poverty of the unemployed is the gateway to poverty for the employed.

Infirmity and Old Age

21:1-3 The majority of the old and disabled live on relatively low fixed income. The wealthy do not suffer from this problem, rather it is only those who are dependent on selling their labor that suffer. The low level of pensions is a government decision, encouraging people to rely on private pensions. This encouragement of private pensions prolong the income differentials established during working life into retirement. Low government pensions also serves to provide the middle class with an incentive to have a stake in the capitalist financial system.

Question 66 *Why are the very old, the very young, and the ill treated so badly under capitalism?*

Question 67 (p. 21) *What is CC's conjecture why state pensions (social security payments) are so low?*

Women's Economic Subordination

21:4–22:2 We live in a mixed economy: besides capitalism there are also socialist elements, and, very importantly but often overlooked, also the domestic economy. The domestic economy is ultimately responsible for the inequalities between women and men. This inequality is marked by the unpaid performance of the labor services of the family, with the direct benefits of the labor going to children and husbands.

Question 68 (p. 21–25)

- (a) *What is the "domestic economy"?*
- (b) *Which branches of production belong to the domestic economy today?*
- (c) *Why should the domestic economy be abolished?*

22:3-4 Since the domestic economy is non-monetary its contributions are not shown in the official statistics of the national product. If the domestic economy was measured it would be one of the biggest sectors of the economy. However, the importance of the domestic economy has declined during the capitalist era.

22:5/o During periods of rapid economic growth the capitalist economy expands at the expense of the domestic sector. The most important stage of the process is the replacement of domestic food production. Socialist revolutions have generally taken place in countries where domestic food production was still dominant. In the capitalist system the domestic economy has been limited to: 1. the final steps of food preparation; 2. the care of preschool infants; 3. part care of school age children; 4. part cleaning and maintenance of the domestic premises; and 5. part care of the elderly and infirm.

23:1 While under the capitalist era other areas of the domestic production have been lost or transferred to the capitalist economy. These include: 1. the cultivation of crops; 2. care of domestic animals; 3. milling; 4. slaughtering; 5. food preservation; 6. spinning/weaving; and 7. house construction.

23:2 The transfers of production from the domestic economy to the capitalist economy was a result of better efficiency and sometimes coercion. These transfers of domestic production have resulted in decrease of work expended, thus freeing labor to be used in other areas of production.

23:3/o Although labor is still expended in domestic production it produces relatively little in physical terms, while in contrast the physical production of the market economy continues to grow.

24:1-2 However, part of the domestic economy was also transferred to the socialist sector of our economy. The loss is in part due to social policy and free public services— i.e. compulsory education, care of elderly, feeding children, and care of infants. Many other aspects of the domestic economy could be transferred to the socialist sector.

24:3 Exploitation in this economy takes a very mystified form, cloaked in the ideologies of sexual and maternal love. Class struggle takes the form of personal antagonisms—arguments, moral pressures, wife beating, desertions and divorces.

24:4/o But since the same conflicts are repeated millions of times, one can see that they are not really

personal conflicts but involve classes of individuals who share a common place in relation to the rest of society and to the means of production.

25:1 It is in the interest of the exploited to seek political solutions, while the interest of exploiters is to keep the contradiction private and personal.

25:2–4 All class struggles requires both a class conscious leadership and a program of demands. For woman one of the most important issues is abortion rights, so that women can control their labor time.

There are so many issues involved in abortion that it does not seem to be a very unifying demand. A demand like equality of wages might be a better rallying point for the women's movement.

Question 69 *Is it true that abortion rights are indispensable for the emancipation of women?*

Summary

Goal of socialism is to oppose the inequalities discussed in this Chapter. The remedy will be to consistently uphold the principle that human work should be the sole source of income.

2.2 Eliminating Inequalities

27:1 This book describes a set of principles and mechanisms which will prevent the above inequalities. The elimination of capitalist exploitation and of unemployment will also lead to the elimination of the privations of older people. New forms of communal family will help to eliminate gender inequalities. The remaining inequalities due to skill or training can be reduced to a fraction of what they are today.

Question 70 *(p. 27) Why will the elimination of exploitation of the economically active people also end the economic deprivation of the very young and very old?*

Question 71 *(p. 27) Which of the sources of inequality CC enumerated in Chapter 1 are easiest to eliminate, and which are likely to persist?*

27:2–28:1 The basic principle is old: those who work are entitled to the full proceeds of their labor and only work is a legitimate source of income. Excluded forms of income are rent, dividends, and interest.

CC do not say this here but another principle upheld by Marx and by CC is: It must be transparent to all how the economy works, especially how much surplus product there is and how it is disposed of.

28:2 These principles are capable of guiding not only the economy but an entire moral, legal and social order. People who exchange goods at equal labor times will also consider each other equal.

28:3–29:0 Marx quotes in favor of it. These labor certificates are not money, because there is no commodity production.

Question 72 *(p. 29) How do CC's labor certificates differ from money? Should CC's model be called market socialism?*

29:1 Difference between money and labor certificates: They do not circulate. They are not transferable. You cannot give me your labor certificates for me to spend. They are cancelled after a single use. The seller who gets them cannot turn around and spend them again. They can only be used to buy consumer goods. They have an expiration date, i.e., they are not a store of value. Instead of paper slips one should envision them as credits on your credit card.

People can still spend their weekends in the shopping centers spending their labor credits, but nevertheless CC's proposal is not market socialism.

Question 73 *(p. 29) The basic principles of the economy proposed by Cockshott and Cottrell go back to Marx. Briefly state these principles.*

29:2 Everybody is paid in labor credits for work done. Deductions are made for social needs. Goods are paid for in labor credits, but production is organized socially, with intermediate products never assuming the form of commodities.

Question 74 *(p. 29/30) What are the main objections that were raised against Marx's basic model of a socialist economy?*

29:3 *Capitalist:* Humans are not equal and it is neither just nor efficient to pay them equally. This objection will be examined in detail below.

29:4 *Capitalist:* Computing the labor content is too difficult. *Socialist:* computers are powerful enough to deal with this complexity.

30:1 *Capitalist:* labor prices would fail to fluctuate adequately, therefore supply would be insensitive to demand. This criticism will be addressed in ch. 8.

Benefits of Income Redistribution

30:3–31:0 Labor produced per hour (in '87 £) would be equivalent to £ 7.50. Deduced from British GNP

of '87: simply divide Net National Product by number of hours worked.

31:1–2 Forty-hour work week would average £ 300 per week (p/w). Some would be taken out to pay for education, health, etc. Taxes may be higher than today but they are used for democratically agreed purposes.

31:3 If you think this is modest then you either underestimate inflation or you have no idea how little most workers today are paid.

31:4–32:1 (Figure 2.1) Half of the female workers would see their pay more than doubled, another quarter rise by 50%. And between 50 and 75% of men would earn more too.

Question 75 (p. 31) *Don't CC introduce exploitation again through the back door with the high taxes they propose?*

Equality more effective than Growth

32:2 *Capitalist*: Instead of redistributing income the poor are helped more if one allows the overall economy to grow. The poor benefit by the trickle down effects. *Socialist*: Data show that this is a misconception.

32:3/o *Capitalist*: At a growth rate of 2.5%, which is the growth rate of Great Britain, it would take a woman at median income 30 years to get to £ 300.

33:1–2 *Capitalist*: Inequality is needed for growth to provide incentives.

Socialist: In Britain, policies to increase inequality have perhaps achieved an increase in the growth rate of 0.5%. At this rate it would take 150 years, 5 generations, to raise a women of median income to £ 300.

Question 76 (p. 32/33) *There is an oversight in CC's calculation that equality is more effective than growth.*

All this not even accounting for the fact that being poor means being excluded from society, presumably even after the growth.

Inequalities of Labor

33:3 So far, assumption had been made that all labor is equal, and therefore every hour of labor is economically the same. But of course this is not true.

Capitalist: People have different skills and different willingness to work hard, different abilities to cooperate, etc. These differences will always lead to class differences.

Socialist: There are two issues involved in this: (1) whether people with more skills or ability need to be paid more. (2) whether a socialist economy has to plan with different types of labor.

Question 77 (p. 33–35) *The labors of different individuals are very different. There are differences in ability (also the ability to cooperate etc.), differences in learned skills, and in the willingness to work hard. How should, according to CC, these differences be reflected in the workers' pay, and how in the planning procedure of the economy?*

Differential payment for education/skill

34:1–2 *Capitalist*: Wages should be unequal because people must be compensated for foregone wages while in college, otherwise there will be a shortage of skilled labor.

34:3 *Socialist*: Is going to school really a sacrifice? It is clean work, there are good social facilities and a rich cultural life. Is this an experience that demands financial compensation in later life?

34:3 *Socialist*: Furthermore, in socialism there would be free education and students would be paid because education is socially necessary work. If students were paid, they would not need to be compensated retroactively later in life.

Question 78 (p. 34) *Should workers with more education get more pay? How do CC propose to secure the livelihood of workers while they are at school? Which problems do you see with their scheme?*

34:4–35:2 Free education and equal pay affects people's self-image and expectations, and will slowly increase equality in education and culture which will allow more people to exercise their creativity and ingenuity—our ultimate resource.

Specific Labour Shortages

Question 79 (p. 35–37) *Sometimes certain skills are in short supply. Should those workers get paid more, or how should that be handled?*

35:3/o Under market conditions, labor shortages give rise to higher pay for those who can fulfill a specific role. This phenomenon is called a 'rent'.

36:1 Not all rents lead to an elimination of scarcity. An example is high doctor fees caused by AMA regulations concerning entry into the profession.

36:2 A socialist society will be able to predict upcoming labor shortages and fill most of them without creating unequal wages: a career in a wanted field

gives you a greater choice of work projects. Pay differentials would then only be a last resort.

Other nonmonetary incentives: the possibility of having more responsibility sooner, and more assurance that you can stay in your job.

36:3-4 Forced labor and incentives were very unpopular in the Soviet Union in the 30's and 40's, and such things will probably always be unpopular in socialism.

36:5/o Capitalism is not much better: it too has hidden coercive methods of forced labor. Unemployment offices force workers to take any available job. In the case of labor shortages, capitalism also pays incentives.

37:1 Due to planning, labor skills should be roughly in line with demand. But specific shortages may develop, which have to be dealt with in different ways. If there are not enough electrical technicians and all training facilities are full, then paying the technicians more will not have the desired effects, but building more training facilities will.

37:2 If there is a shortage of deep sea divers and the training facilities are not full, one may either pay the divers more, or make the social decision to produce less of those things which need such dangerous labor, or to automate the labor process.

37:3 Allowing people to accept this danger for more money is problematic. But if it is done, this premium should be paid out of a general tax, so that the labor money will not be devalued.

Question 80 (p. 37) *Should deep sea divers be paid more?*

Differential payment for 'personal qualities'?

38:1 How should different personal qualities like cooperativeness and aptitude be paid for?

38:2-3 To answer this question we have to speak about the extraction of surplus. Even in the absence of exploitation there is the necessity to transfer a "surplus" from the direct producers to the old, the children, the sick, etc. How do you ensure that everyone contributes to this surplus, i.e., works diligently enough that they produce more than they consume?

38:4/o Capitalist system is good at creating surpluses; it needs them to make profits. Workers create surpluses with hopes of being rewarded or out of fear of being fired.

39:1-2 Socialism removes the unemployment fear. One hope is that Socialism will instill the need to increase production for the 'good of the whole' or that one can motivate people by public praise. There

will still be some need to gear rewards to individual effort.

39:3-4 One way to reward individual effort is to grade workers as A, B, or C. C workers are workers who choose to work at a slower pace and therefore are content with lower pay. Grades are based on worker's productivity. Higher grades receive more labor tokens per hour. Total tokens rewarded would remain equal to total hours worked.

Is the grading based on productivity or on effort? CC write effort in the first sentence and productivity in the rest of the paragraph.

39:5/o There would be no stigma attached to lower grades because those who receive them would have chosen to work at a more leisurely pace and also to consume less.

Will it really not be a stigma to be a C worker?

Question 81 (p. 38-40) *Some workers work harder than their peers. Should they get more money for it?*

Question 82 (p. 42, 136) *Will the threat to be moved to a different job if one does not perform well enough at the old job be sufficient incentive to keep people working?*

Skilled labor as 'produced input'

40:1 Planners will know how many A, B, and C laborers there are and that a project that needs 1000 B workers can also be done with 800 A workers.

40:2 The skill mixture of the labor force is important and fixed in the short run, and the planners must have information about it.

40:3 In the longer run, workers can be retrained. The cost of production of training for a specific skill is therefore more important than the present distribution of skills.

40:4-41:0 Human skills are divided into 'simple labor' and 'skilled labor'. Simple labor only requires basic education. Skilled labor requires special education. It takes both simple and skilled labor to train others for more skilled labor.

41:1 One hour of skilled labor involved more than one hour of simple labor. Determining the value of the multiplier will be discussed in the remainder of the chapter.

41:2 In our computation of the value of skilled labor, it is assumed that the production of all kinds of skilled labor requires the same labor input.

41:3 In the case of inanimate means of production, the labor content of the means of production is distributed over the total volume of output to which those means contribute (depreciation allowance).

41:4 The skilled labor multiplier is computed analogously.

41:5/o The skilled labor multiplier ranges between 1.24 and 1.5.

42:2 The excess value is the additional cost to society of using skilled labor. The worker himself is not paid more. Society does not need to pay for this cost again because it already has paid for it by providing the education of the skilled labor. The skilled labor multiplier helps determine the total cost of projects.

Comparison with historically existing socialism

42:3-4 The work-point model was most closely replicated in China during the 60's and 70's but paper currency was kept in use.

42-43:1 The currency was used to make exchanges between various sections of the economy like the farm, urban, and government sectors.

43:2 The money was not functioning as money in some cases because the transfers made did not always involve a change of ownership. Example: The state compensated pharmaceuticals who supplied hospitals rather than hospitals exchanging work hours with the drug companies.

43-44:3-5 Money was used unnecessarily in the socialist economies evaluated.

44:1 The final exchange system for consumer goods reveals why the Marxist labor wage system did not succeed.=20 Bureaucracies received extra wages and perks that created inequality.

44:2 China's Cultural Revolution took steps to eliminate the bourgeois system but fell short of complete success.

44:4-45:3 Socialists have admitted that some differential payment levels are needed. The authors claim that differentials are exploitative and that equality is more important. People are different but difference does not justify differentials.

Illustrative Calculation of Skilled Labor Multiplier

This appendix explains in more detail the calculation of the skilled labor multiplier discussed in the text. We first illustrate the calculation of the total embodied labor content of skilled labor.

1. On the part of the student. Assume 4 years of study at 40 hours per week for 45 weeks per year.

Total: 7,200 hrs.

TH	Total number of hours used for education
SP	Proportion of TH that is skilled labor
AH	Annual hours worked by skilled laborer
D	Depreciation horizon of skill in years
R	Skill premium per hour of skilled labor

2. Classroom teaching. Assume 15 hrs. per week, 35 weeks per year, for 4 years, distributed across an average class size of 30 (average of large lecture classes and smaller labs, seminars etc.).

3. Tutorial work. Assume 2 hrs. per week, 30 weeks per year of one-on-one tutorials.

Over 4 yrs, total: 240 hrs.

4. Educational overheads. Let us suppose this amounts to a contribution equal to the classroom teaching labor.

Total: 70 hrs.

Total breakdown into skilled and simple labor. Student's contribution is simple. Teacher's contribution is skilled. Overhead contribution is 50/50.

Total: 7,600 hours consisting of 5% skilled labor.

If $SP = 0$ then education is good for the next D years, i.e., it will enhance $AH \cdot D$ hours worked:

$$R = \frac{TH}{AH \cdot D} \quad (2.1)$$

If $SP \neq 0$ it is more complicated:

$$\begin{aligned} R &= \frac{TH \cdot (1 - SP) + (1 + R) \cdot TH \cdot SP}{AH \cdot D} \\ &= \frac{TH + R \cdot TH \cdot SP}{AH \cdot D} \end{aligned}$$

which can be solved to give

$$R = \frac{TH}{AH \cdot D - TH \cdot SP} \quad (2.2)$$

2.3 Work, Time and Computers

48:1-3 This chapter argues that labor accounting not only abolishes exploitation (as was argued in Chapter 2), but also furthers technical progress, and is feasible.

Question 83 Which three reasons are put forward by CC why rational economic accounting should be based on labor time?

48:4 Importance of technical progress for socialism.

Economies of Time

49:1 The criterion for technical progress is to economize time. Socialism will be superior to capitalism only if it is more economical with time.

Neither of these claims is obviously true.

49:2 Although the purpose of technological change in capitalism is to reduce labor costs, it is a progressive system because it fosters technological improvements.

49:3 It is wrong to criticize capitalism for introducing too much technical change which then causes unemployment. The correct criticism of capitalism must be: capitalism does not introduce enough technical change because it keeps labor artificially cheap.

Question 84 Give examples where artificially cheap labor was an impediment to technical progress.

Example: antiquity did not develop its technology, although their science would have been able to do this, because they had slaves, and did not have to worry about labor time.

British railroads were built with same technology as Roman Aqueducts, only difference was the wheelbarrow.

20th century: loading docks had not changed since middle ages; containerization only after better wages were introduced.

1965 IBM had excess demand of core memories. Hand wiring in far East was cheaper than the fully automatic procedure in England.

Also in the socialist countries, cash wages were too low. Much of the wage was paid in housing and public services; firms did not have to pay for this, therefore they wasted labor. Some people proposed to raise wages and to lower the public wage. But the real solution is to calculate cost not by cash wages but by labor.

Objective social accounting

Question 85 Are market prices an objective, unbiased, and rational yardstick for making production decisions? What are their shortcomings, and how do CC propose to improve on them?

52/3 any one resource could be used to define efficiency, for instance energy might, but in the present historical period human labor is the one to use. See Chapter 5 about the environment.

Defining Labor Content

54 discusses how labor content can be computed. Nice example with round numbers, should be discussed in class, see my Table 2.1.

The Problem of Scale

Nove [Nov91, where?] cites someone's estimate that it takes the whole world's population 10 million years to compute an input-output table for the Ukraine. How about computers?

The Idea of Complexity

55 shows how to count how many discrete steps are needed to make a calculation.

Example that a bad sorting algorithm is of order n^2 , while a good one (using that the deck of cards has two digits each) is of order n .

Simplifying the Labor Value Problem

57 Inversion of a million by million matrix by Gaussian elimination, which has order n^3 , is too slow. Modern supercomputer needs 16 thousand years.

But it is a sparse matrix. Successive approximation which first only values labor inputs: instead of thousands of years you need a few minutes.

Question 86 Which mathematical property of the input-output matrix do CC exploit in order to make the calculation of labor values feasible?

High Tech and Intermediate Tech Solutions

58/9 Instead of supercomputers, how to do decentralized computation of labor inputs.

Question 87 Describe the four components of the intermediate tech solution to computing labor contents.

Question 88 Describe the intermediate technology solution for computing labor content. Which advantages does it have over a more centralized solution? Which advantages does it have over the market?

I should illustrate using Table 2.1 what the central computer does and what the local computer does.

Industry	Labor Input	Oil Input	Gross Output	Net Output
Bread	2,000 weeks	2,000 barrels	40,000 loaves	40,000 loaves
Oil	1,000 weeks	500 barrels	3,000 barrels	2,500 barrels

Table 2.1: CC's Table 3.2

2.4 Basic Concepts of Planning Capitalist Goals Second Order

p. 61–62:1 Introductory remarks, leave them out! CC defend their optimism in planning by saying (a) Soviet Union was technologically backward, and (b) it was engaged in an arms race with superior competitors.

Planning and Control

p. 62: They compare a primitive heating thermostat with a modern one which has a model of the system it controls and a schedule of goals to be met.

Question 89 (p. 62/3) *How does an “intelligent” central heating controller differ from a “crude” central heating controller?*

Question 90 (p. 64) *CC give two reasons why the market is not a good control device for the economy. What are they?*

The market acts like the primitive thermostat. In addition, the competing capitalists do not have a clearly defined goal, but the goal function is endogenous to the system itself. Money, which is like an intermediary goal, determines how the final goal function will be set. CC's example: as if the setting of the thermostat was determined or influenced by the fuel consumption of the heater.

The inconsistencies coming from the seeming irrationality of the control system lead to more exploitation, because humans do not see that this apparent irrationality has a purpose, and they are trying to compensate for it. For instance: government does not care about education, but the educators do, and therefore they make up with their extra work for what the state is lacking. On the other hand, they are forced to find new ways of conducting their courses, thus more productivity.

This endogenous goal function is more clearly defined in Marx: it is the self-valorisation of value. Dumenil's instability in dimensions has something to do with it.

Question 91 (p. 64/5) *Can capitalist government policies in a market economy take over the role of giving the economy a clear direction?*

(I guess this is their line on Market Socialism.) Answer: Since the market has what CC call an endogenous goal function, state can only play limited role because most of its policy goals are second-order goals. Not direct consumer welfare, but inflation and balance of payments. What do they say about unemployment? Apparently they say that reaching the goal of unemployment *contradicts* the goal of profitability. That is another point they do not really make: capitalist state does not *want* to pursue the goals which the population needs.

Growth is a first-order goal, but growth is an aggregate that can mean many different things.

This discussion of goals is important. Nobody in mainstream economics talks about this.

What would be first-order goals?

Question 92 (p. 65/6) *CC propose that the goals of a planned socialist economy should be decided democratically. From which menu would the population have to choose?*

Goals for planned economies:

(1) Crash industrialization. Planned economies are better than markets for that, he cites a reference.

66. Goals for highly industrialized planned economies.

Rise in cultural level and living standards of population, with special emphasis on working classes (as long as a “working class” continues to exist).

Instead of growth a long-term resource-constrained development path which does not store up intractable problems for the future due to resource-exhaustion or environmental destruction.

Real political and economic equality between the sexes.

Reduction of class, regional, and town/country inequalities.

Levels of Planning

Macroeconomic planning: value issues that have to be decided democratically, for instance how long the work day versus free time, and private consumer goods versus public provisioning versus investment/growth versus repayment of foreign debt or acquisition of foreign assets [or foreign aid, CC forget that here!]

Strategic planning: once the goals are set, this branch of planning develops an overall strategy how to best reach them. In which industries to invest in (nuclear power or not, what kinds of computer architecture and software). Environmental impact.

Detailed production planning: here it looks like CC want to plan everything down to the last screw.

Question 93 *What are the three levels of planning outlined by CC? To what extent are these types of planning also possible in a capitalist market economy?*

Capitalistic precedents:

They do some macroeconomic planning, but this depends on cooperation of industry and private citizens. Monetary policies cannot cause firms to invest if they don't want to. Can lead a horse to the water but cannot force it to drink. Tax breaks will not lead to more spending and therefore more consumer goods if people save instead of spending (paradox of thrift, the failure of the 1968 tax cut).

Strategic industrial planning had striking success with Japan's MITI (Ministry of International Trade and Industry). Requires cooperative relations between industry and government which are not given in the US.

2.5 Strategic Planning

2.5.1 Planning industrial structure

69/70 transportation is example where chain of individual decisions yields a bad social outcome.

Question 94 *Show how, in transportation, a sequence of rational individual decisions yields an overall irrational outcome.*

First cars were faster than public transportation, because they did not have to make scheduled stops. With more traffic, everything slowed down, but cars retained the relative speed advantage, i.e., it remained individually advantageous to go by car. Due to declining ridership of public transportation, their service became worse. End result: not only longer travel times, but dangerous and congested roads

(children can no longer play outside), air pollution, and little choice of an alternative to the car to those too young, too old, or too poor to drive. Yet, structure of industry and layout of cities geared to the car. Only a comprehensive strategic plan can lead us away from the car now.

Question 95 *Describe the relationship between strategic planning and technological innovation.*

70:2 New technologies. Waves very important in capitalism: Textiles, railroads, heavy engineering, chemicals, automobiles, consumer durables, electronics. Pretty much each wave in a different country.

Easy for planners to catch up by copying existing cutting-edge technologies. Much more difficult to restructure an already industrialized economy. Here read 70:4/o. CC want the planners to plan industrial waves. There is a lot involved: development of consumer demand and development of production knowhow. Even the big firms leave this kind of thing to the smaller firms! Do we need think tanks for that? How should that be done and organized?

71:1 Such restructuring must be done repeatedly. Only a few specialists [aided by some futurologists?] have enough knowledge to make intelligent forecasts where the economy might move. To make this a democratic process, they might draw up different scenarios which will then be publicly debated. Consumers would learn to expect innovation.

Question 96 *How do CC propose to "harness technical innovation" in their planned economies?*

71:2 Composition of strategic planning boards should change with planning horizon considered.

Question 97 (p. 71) *Who should be drawing up strategic plans? To what extent can it be done democratically?*

Question 98 (p. 71/2) *Which factors determine how much technical innovation an economy generates?*

The rate of technological innovation in an economy depends on a number of factors, and the question whether the economy is capitalist or socialist is not the most important one. Also not how free the markets are. Japan is quick, Britain is laggard.

What does matter? On the one hand imponderabilia like the attitude towards the new. On the other hand measurable factors like: quality of education system, how much of national income is spent to support research and development, how much of

this for civilian versus military. Are there institutions which can integrate all aspects of the development cycle from blue sky to finished product? (like the military, or MITI in Japan, or perhaps Bell Labs)? US and Europe put too little aspects on the production end, therefore outcompeted by Japan in consumer technology.

2.5.2 Environmental Considerations and Natural Resource Constraints

The following pro-market arguments originally from Mises, resurrected by [Lav85]: With labor values, natural resources are free. In a market system they have a cost which limits their use. This argument can be turned against markets. Rational use of natural resources is capitalism's weakest point. Growth by repeatedly shedding one's skin.

Question 99 *Where do natural resources get their price from in a market system?*

(1) In the market this cost is based on differential rent. I.e., the marginal resource is free; but the marginal resource is also depletable, and it is squandered.

Examples: exploitative agricultural practices (dust bowl) in USA (where marginal land had highest productivity—but what does CC mean by “marginal” then?), and cutting down of timber stolen from native peoples.

(2) This squandering can be prevented in a market economy if there are technically decreasing returns to scale at the margin, or if there is a land-owning class, backed by the state, which controls those marginal resources. (CC say the latter can occur only if the former does.) But often these marginal resources are owned by poor peasants or hunter-gatherers with little access to political power.

(3) On 74:1 second half and 74:2 they also bring in the discount rate (which brings in the time dimension, see next Section) as a factor determining this.

Question 100 *Why can, according to CC, markets not rationally preserve the world's finite resources?*

74:3/o The discount rate is insufficient because one-dimensional. Any one-dimensional criterion function is inadequate for ecological preservation. Imputed discount rate in Soviet Union was not better than the market discount rate in capitalism.

Environmental decisions must be qualitative political decisions. No guarantee that one will arrive at the

right conclusions. But under capitalism, these decisions are all biased in favor of commercial interests.

Examples: Brings protest against Lake Baikal as a good example, but here people in West say this is one of the worst environmental catastrophes. Perhaps this is why he writes next that there is no guarantee that right decisions will be reached.

Effort in Soviet Union to develop Fusion is another example. One of purposes of Soviet space program was to develop sun energy and to have mirrors divert the sun to illuminate arctic work sites.

Question 101 *How is the depletion of nonrenewable resources determined in a market economy? How do CC propose to make this determination in a socialist economy?*

2.5.3 Time dimension of production

In our discussion of labor values, we assumed that an hour today counts as much as an hour ten years hence (zero discount rate). This will lead to excessively capital intensive production. But high interest rates prevent reasonable projects (tidal power generation plus bridge, Severn barrage).

Question 102 *How is the time discount rate set in a capitalist economy? Should there be a nonzero discount rate in socialism, and if so, how should it be set?*

Yes, it should. One could set a discount rate: either from demand side by vote, or from supply side by setting it to the average rate of productivity growth. Makes more sense than the capitalistic setting by money market.

2.5.4 Market and Nonmarket Distribution

CC propose a fully planned allocation of producer goods and a market for most consumer goods. Principles where to draw the line:

Question 103 *Which criteria do CC apply to decide whether something should be distributed free of charge to everyone, or whether something should be paid for by the consumers?*

Rights of Citizenship

Health care, education, and child care. Later they will also say: TV's with voting machines attached. Looks like the rights = duties equality.

Question 104 *Why should, in CC's view, health care, education, and child care be provided without charge?*

Freedom of Choice

Food, drink, entertainment, books, clothing, holiday travel. These are goods where externalities are absent or not important.

Coping with Scarcity

Goods in excess supply where demand exceeds supply at zero prices. Expressways should be toll roads; people who do not want to pay the tolls should use public transportation.

Question 105 *In the view of CC, some things that are distributed free of charge in capitalism will have a charge in socialism. Give an example and the rationale why this should be so.*

Cost of Metering

Water, telephone, email.

2.5.5 Agriculture

80:1–81:0 How agriculture is organized in capitalism: Not as a free market!

Question 106 *Why is there usually no free market in agricultural goods in capitalism? Which system is used instead, and what are the consequences of this system?*

Why not? To ensure stability of supply for war Also because of the politically influential farming lobby.

What system instead? Price supports. This leads to overproduction: wetlands are brought into cultivation to produce food which then has to be destroyed. Because of subsidized prices, land is doused with chemicals.

81:1–2 Agriculture under socialism: Wide differences between the different countries. They argue it is not a matter of whether or not there is a market.

Question 107 *How should a country's system of food production and distribution be judged? Which criterion is commonly used although it is misleading?*

Question whether shops are full is misleading. Nutritional health of the population should be the criterion.

Production of food should be planned because we know what is needed, how much of which nutrients. Health of population in war time actually increased!

Due to the vagaries of the weather, farms should be able to bid for 3-year contracts.

2.6 Detailed Planning

84:1 After having set general objectives, now how much to produce in detail in order to meet the objectives. Down to the number of capacitors.

Question 108 *From where do the detailed plans, which determine how much of which part must be produced, get their objectives (the desired output numbers)?*

84:2/o This detailed planning gets its objectives not only from the strategic plans but also from marketing. But right now these objectives are assumed given.

85:1–90:0 How to determine the inputs once it is known what the final outputs should be?

85:1–86 Explanation of the concepts of an input/output table.

Question 109 *Explain the rows and columns of an input/output table. Given the table 6.1., how many barrels of oil were used during the year to produce trucks, and how much electricity was used to produce oil?*

87–88:1 The mathematics of getting the gross outputs for a given net output bundle.

88:2–90:0 Issues similar to those of computing labor inputs; Gaussian elimination is too costly, but iterative methods, which exploit sparsity, will work well. It can be done in half an hour.

2.6.1 Planning in the USSR

Question 110 *Which component of CC's planned economy was not available to the USSR for technical reasons, and what did the USSR have to do because of this inability?*

This section is not absolutely necessary. (1) amazing how well the USSR did early on without computers, and (2) why did they not use computers later?

Technology was not available until mid 80s, and at the time Soviet planners had already lost their faith in the possibility of planning. And they never worked back from final demand to materials requirements, but they decided how much steel they want to produce.

They did not have the telephones and the universal product code!

92:4 interesting: labor time accounting would immediately have raised the issue of the surplus product: how large it was and how it was spent. Bureaucracy did not want this issue raised this openly.

2.6.2 Detailed Planning and Stock Constraints

pp. 92–94 This is a problem because they advocate for the first time to work from the final demands backward.

Certain things, once we know how much of them will be required, we can schedule production to provide them. Other things, however, cannot be provided on demand; they are given in fixed supply that will change only over many years: labor power, power generating stations, etc.

If the plan remains within the overall available stocks, there may still be some need for reshuffling between industries or regions, which also has to be optimized.

If the capacity constraints are violated, then the plan has to be adjusted.

Importance of stock constraints depends on planning horizon. In the very short term, also inventories are important.

Question 111 *What is a stock constraint?*

2.6.3 A New Plan Balancing Algorithm

pp. 94–99 Their own algorithm, using neural network technology: how an output bundle should be modified in order to account for the input constraints.

If there are not enough resources to satisfy the plan as given, which plan goals should be cut by how much. Some things should be scaled down more than others etc. And on the other hand, if there are excess resources, which plan goals should be increased how much. They first set up a harmony function, which is 0 for the (perhaps not feasible) targeted output, and has diminishing marginal returns for excess, and becomes very negative for shortages. Then they have an algorithm which allocates the available resources so that this harmony function is maximized.

The total harmony is the sum of all harmony functions over all goods. One can judge certain goods more essential by just giving them more weight in the harmony function.

Question 112 *What is the difference between Cokshott's harmony function and a social welfare function?*

One does not first compute a social welfare function, and then maximize it subject to a constraint, but one first makes a plan, and then one builds a local welfare function whose maximum is the fulfillment of the plan. One uses the welfare function approach to modify the plan, but not to come up with those planned quantities in the first place.

2.6.4 Economic Cybernetics in Chile

99–101 [Bee81].

2.7 Macroeconomic Planning and Budgetary Policy

Concept of Macro Planning seems slightly different here than earlier in the book. It is no longer the basic decisions which have to be made democratically, but it is how to fit the different strategic goals together consistently.

This Chapter gives the calculations necessary to that the total number of labor hours which the consumers work is equal to the price sum of the consumer goods offered on the market, less the savings and taxes.

Question 113 (*p. 102*) *What are the three aspects of Macroeconomics?*

For macro planning, a coherent system of accounts is needed. Keynesian theory was basis for US accounts. Soviet accounts had a narrow interpretation of the distinction between productive and unproductive labor. CC propose a system of accounts based on labor time.

But I think CC's interpretation of all labor being materialized in the finished products is too wide. Some labor goes for instance into the planning apparatus etc.

All consumer goods priced at labor content. Total issue of labor tokens corresponds to price sum of net value product. I.e., even if laborers were to spend all labor tokens, there would still be resources left over which allow the replacement of previously produced means of production.

In their equations it is misleading that they use the word "depreciation" for all value transfers. And they assume all labor is materialized in commodities. By not making this distinction they overestimate the

labor content of the goods, and obscure the amount of labor used for planning etc. I would like to go as follows:

Value of all goods produced (gross product) = current labor materialized in commodities + value of intermediate goods and depreciation transferred to commodities. This is their equation (1). This is an economic fact.

Then their equation (2) is a definition which makes sense: net product is that part of the product which is not re-used for production; it is what comes out of the production machinery instead of staying in it:

Net product = gross product - intermediate goods used in the production of the gross product.

I myself would add here the term - value of intermediate goods and depreciation used but not transferred to any goods.

Putting these two equations together gives the equation which they give after (3):

Now the following is my amendment, this is not in the book: All current labor token issued = current labor hours materialized in commodities + current labor hours not materialized in commodities.

Value of all depreciation and intermediate goods used up = value transferred in production to other goods

Question 114 (p. 103/4) *Define the net product. There is a simple formula for the value of the net product. What are the 4 components of the net product?*

[This measure is invariant against how large one considers the production site to be. But maybe the question what is productive and what is unproductive labor is not invariant here!]

Net Value Product = Personal consumption + social provision + accumulation + trade.

Furthermore, personal consumption includes consumption by non-workers.

Therefore part of the workers' wages must be taxed away (and workers may decide to save part of their wages too).

Question 115 *Draw up the sources and uses of funds equations for the household sector and the state sector. How do you know it is a consistent system of accounts?*

106:1 State prints labor token in proportion to work performed, and it must make sure that it taxes enough so that purchasing power equals the part of the net product earmarked for personal consumption.

Question 116 *In what sense must the state "balance its budget" in CC's brand of socialism? What happens if it does not?*

2.7.1 Household Saving and Credit

Question 117 *Why do people save in capitalism? Would these savings motives be weakened in socialism?*

107:1 Saving for bigger consumer goods (car, bicycle, holiday), saving for retirement (weakened if state pensions are upgraded), saving for educational trusts (weakened if public education is upgraded, even if private education is not proscribed), saving for one's children's inheritance (weakened if general life chances improve and there is no chance they can live off property income anyway).

107:2 Saving for unemployment, (weakened if there is full employment and steady economic growth), saving for illness or early death of breadwinner (weakened if health care is free and there is a social safety net for such cases), saving "faute de mieux."

The "weakened" additions given in 107:3-4

Question 118 *Why do people go into debt in capitalism, and how will those motivations change with the advent of socialism?*

Buy consumer goods on installment credit instead of saving for them; buy houses. (will be reduced as loan-pushing is reduced and with a good apartment rental market).

Motivations will be reduced, but will not disappear.

Question 119 (p. 108) *How is saving on an individual level different from saving on a social level?*

Question 120 (p. 110) *Which two savings instruments do CC propose, and what is the state to do with the savings deposits?*

Exchange current labor tokens for retirement assets, i.e., annuities payable by a certain date or contingency. State should use the deposits for increasing long term investment over the socially decided accumulation rate.

Exchange current labor tokens for consumer savings (vacation, consumer durables). State should use deposits to finance consumer credit. Terms of such credit may be varied in order to have balance. Therefore no change in the overall investment rate, only individual reshuffling. But see Question 122 and 112:1 if there is not enough credit demand.

[But all this makes labor tokens more like money again!]

Question 121 *Why do labor credits have an expiration date?*

To prevent saving by hoarding of labor credits, which disrupts the planning.

Question 122 *What should be done if there are more deposits in the consumer savings accounts than withdrawals or requests for consumer credit?*

More investment; but this may require that the liquidity of the savings accounts be limited.

Question 123 *What should be done if there are more requests for consumer credit than net deposits on consumer savings accounts?*

Some may be financed from a surplus in the retirement savings system, because the debtors agree to voluntarily restrict their future consumption; and credit may be rationed.

Question 124 *Will savings deposits earn interest?*

Their purchasing power will increase with increasing productivity; no interest other than this is required.

Tax Policy

Taxes have important role in balancing the macro plan.

Question 125 *Why is an USSR type turnover tax (wedge between prices paid by buyers and sellers) inconsistent with the principles of CC's economy?*

Question 126 (p. 113/4) *Which kind of tax do CC propose: turnover tax, excise tax, progressive income tax, proportional income tax, flat tax per head, differential ground rent? How do they justify their choice?*

Flat tax per head (with income equality the case for progressive income tax falls, unless you say those working and consuming so much also use up the natural resources more?), differential ground rent, and excise tax.

114:2 Flat tax carries the message: everybody is required to put in their share of work. Those willing to put in extra work are allowed to benefit from the full extent of this work. [If someone wants to contribute to society, they must do it by the quality of their work, not the quantity.]

114:4/o Contrast with Green's minimum guaranteed income (i.e., a negative flat tax.) Pro: it is feasible and removes the "poverty trap". Con: it accepts

inevitability of unemployment. CC say unemployment can be removed [but individuals may still be unemployed because they want to do something different with their lives?]. Green's proposal is disincentive to work, requires high rate of income tax, will be resented by those who work.

[Maybe in the first times a flat tax is desirable, then later we can go to other schemes.]

Ground Rent

Question 127 *The price of a home in CC's economy is determined differently than in capitalism. Explain.*

Purchase price only depends on the state of the building; amenity of location must be paid in form of ground rent to the state.

Excise Tax

Yes, on selected goods in order to discourage consumption of alcohol, tobacco, etc.

[CC do not say this but excise taxes should be computed by the cost of smoking or alcoholism, etc. In this way it is not a moralistic Gängelung but people are allowed to do it if they are willing to pay the full cost. How about negative excise tax on healthy foods, tofu etc.?)

Taxation and Accumulation

Accumulation paid out of taxes. Accumulation levels determined by plebiscite, and then the state has the authority to levy the taxes to finance this.

2.8 The Marketing of Consumer Goods

CC's economy is responsive to consumer demand! This remedies many things the Soviet economy has been criticized for.

118/19 All products are *marked* with their labor content. But *actual prices* are market clearing prices, and those things which sell at prices above their labor content should be produced more.

Question 128 *What is the rationale of CC's proposal to adjust output in such a way that the market clearing price converges towards the labor content? How does it differ from the functioning of a market in capitalism?*

Market-clearing Prices

Market clearing prices means: no rationing (formal or informal by waiting lines), and no long-term subsidized prices.

Question 129 *Is it desirable to have market clearing prices that are equal to the labor content? Shouldn't one have rationing in some cases? Shouldn't one have prices in some cases which are systematically lower or higher than the labor content? Are there other solutions?*

Answer depends on income distribution.

If there is income inequality and not enough food, then formal rationing instead of raising the prices prevents the rich from cornering the market.

If there is enough food, but some do not have enough income to buy the food, then subsidies (food-stamps) are better than lowering the prices of food in general. Overall they say: if the income distribution is level, then labor tokens are good measures. How about rationing scarce goods?

Consumer Goods and the Macro Plan

Question 130 *What is the difference between Token Consumption and Consumption?*

Complications due to the fact that the actual expenditure on consumption (Token Consumption) is not equal to the labor hours devoted to the consumer goods (Consumption, careful: unintuitive names!). Ratio of Token Consumption to Consumption can be considered a kind of aggregate price level.

Also one should not put the whole burden of adjustment on prices, variations in inventories and output can do some of it too!

Comparison with Capitalist Markets

Question 131 *CC argue that the analogy that consumers vote with their pocketbooks has more validity in their system than under capitalism. What are the differences?*

First objection that in capitalism some people have much more income than others. In CC's economy, incomes are equal, therefore consumer choice has more validity. And the criterion is not profit, which requires factor markets and exploitation, but on labor hours.

2.9 Planning and Information

Their proposed plan has large information requirements, because they must be able to simulate the economy!

Question 132 *Which two issues must be resolved in order to meet the large information requirements of an economy of the type proposed by CC?*

Two issues: (1) can it be done technically?

(2) can it be done socially such that it will be in the interest of people to supply accurate information.

In my view, there is a third issue: difference between conscious, verbalized, and unconscious information! I am not able to plan my time but I still live somehow.

Information and Property

Telecommunications system able to transmit digital information exists. Firms have the data on their computers, but these data are considered private property, and firms are not equipped to exchange those data. All available software must be redesigned.

Requirements of a Statistical Service

Question 133 *Which kinds of information are needed, and is this information already being collected in capitalism?*

Product coding

Already exists. Only detail to change is: identical products produced by different firms presently have different bar codes. But this can be changed.

Unified Stock Control

Info must be available how much stock is where. Can be done by adding location identifiers to the unified product codes. This is necessary so that they can reallocate goods unambiguously.

Standardized message format

Protocol is needed for exchange of economic information, as they have it now for exchange of text and pictures.

Obtaining Technical Coefficients

Immense task, but firms already collect this information for internal purposes. Small firms have it in spreadsheets. One would need spreadsheet packages which can automatically email that information to the central planning authority.

Information: Social Problems

Question 134 (*p. 130/1*) *How do CC propose to solve the problem that firms tend to overestimate their input requirements in order to have an easy life? Would their solution work? How are these tendencies kept in check in capitalism?*

In 130:4–131:1 CC notice an inconsistency: managers understate productivity in order to have easy day to day operations, and overstate expected productivity of their investments so that they can do empire building. Therefore they propose to combine this somehow, use the same data for investment decision and for production.

There is a deeper issue: how make people responsible for their investment plans? Or in general how make the planners, the theoreticians, responsible?

Information, Performance Measures, and Incentives

131:2 They start the paragraph with the words: “To take the issue further,” but they really start a new thread of thinking about this:

In capitalism, competition from other firms [or takeovers!] will penalize a firm which makes its life too easy. And financing costs will penalize investment (although serious investment errors are nevertheless frequent in capitalism).

Evaluating the Performance of Enterprises

CC say that the success criterion of a high ratio of market price over labor content will penalize firms which overstate their costs. If they want to continue producing what they are presently producing, they have to produce efficiently. Unfortunately this can be done directly only for consumer goods.

Statistical Assessment of Producer Goods Enterprises

This can also be done indirectly for producer goods, but then IMHO it is much more tenuous.

Against Monopoly

Another mechanism would be competition.

How about peer review?

How about: the firms which get deliveries from these suppliers can compare different suppliers?

Rewards and Sanctions?

Question 135 *Should there be bonus payments for good performance or sanctions for bad performance?*

No; success is its own reward because it means expansion of the firm, opportunities of advancement. Sanctions: workers should have the right to employment, but not the right to employment in a given firm!

2.10 Foreign Trade

137:1–3 Since they understand themselves as an application of the LTV, they go back to Ricardo’s comparative advantage to theorize foreign trade.

137:4/o Verbal description of comparative advantage with cars in Germany and garments in CHina.

138:1 Bring in relative prices, the labor content of cars and garments.

139:1 Explanation of Figure 10.1. Steep line is the production possibility frontier of Germany, flat line China, broken line is world.

139:2 Description of point MW_{xy} . x is blouses, y for cars, and MW for maximum world. This is the point described in Ricardo quote 137:1.

139:3/o important: international trade allows increase in production as the result of specialization. Allows a profit that is not the result of direct exploitation of workers in either country.

140:1–2 What is the price?

140:1 says: the relative price of cars in terms of blouses should not fall below that in Germany nor rise above the one in China.

140:2 says: the equilibrium price is the relative price in the country which is not specialized.

140:3/o introduces specie-flow mechanism into this.

141:1 This argument is also valid for regional trade. But nowadays the banks will just transfer the extra liquidity out of the region.

141:2 Abstracts from credit. Last sentence leads over to next sentence: idea of comparative advantage tells us little if we don’t know how this comparative advantage arises.

2.10.1 Technological Development the Primary Determinant of Trade Patterns

141:3 Situation in which comparative advantage is appropriate theoretical framework: Saudi Arabia exporting oil and Greece exporting olive oil.

141:4/o But C.A. cannot explain why computer chips are manufactured in Japan and Jumbo Jets are not manufactured in Indonesia.

Structure of trade among industrialized countries is largely determined by their areas of their technological expertise.

Therefore there is a twofold benefit from technology: (1) raises general productivity of labor (2) provides specialized products which the country can export to obtain products which it is less able to produce. Technological labor is therefore important for international exchange value.

142:1 Technological advance is unstable; so the leading countries are in the lead with many different products in a sequence.

2.10.2 Competition between Low Wage and High Wage Economies

Side issue.

142:2 Decline of the traditional industries in the leading countries in the face of competition with the newly industrialized countries. In 30s, the leading countries protected their markets, but now they are pushing for freer trade, and the unions are protectionist.

143:1 Ricardian theory says: if relative prices are the same, then there should not even be trade between low wage and high wage countries. But capitalists in low wage country have higher profits.

143:2 The only thing that can cause trade here is if the currency of the high wage country is overvalued. But there is no direct connection between level of wages and exchange rate.

143:3 Different issue that the low wage countries use different technology and therefore have different prices. (This may be the explanation of Marx's mysterious statement).

143:4 So far we abstracted from capital movements. If there are capital movements, then capital will flow from the high wage to the low wage country.

143:5/o The repatriation of those profits allows the high wage country to import. Capital flight causes loss of jobs and more imports, and people think erroneously that the job loss is caused by the imports.

Therefore specialists should be much more concerned about movements of capital, but not be protectionist in terms of movements of commodities.

2.10.3 Advantages of Trade Deficits

Also a side note:

144:1 Quote from classical economist against mercantilism.

144:2 Classical economists want to go beneath the veil of money, in order to be able to argue against mercantilists.

144:3 By now nowadays this mercantilist sentiment is back again: trade surpluses are considered to be good.

145:1 This cannot only be an illusion. What are the forces causing countries to want trade surpluses?

145:2 In the case of debtor nations, it is plain they have to pay the interest on foreign debt.

145:3 With creditor nations they have the arithmetic which ways that trade surplus allows more profits. [But I think the realization of profits is important.]

2.10.4 International Trade in the Context of Socialism

145:4/o distinguish between international trade and inter-state trade.

146:1 Trade of a socialist with a capitalist nation may be beneficial due to comparative advantage.

146:2 Should a socialist state seek trade surplus, deficit, or balanced trade? Balance on bilateral or multilateral basis? Foreign exchange policy? What is the meaning of foreign exchange.

146:3 Socialist states need capitalist currency, often went at great lengths to get it.

147:1 One can get it through exports, tourism, or loans. Socialist countries all this controlled by the state.

147:2 Since import controls can be very disruptive, many states (Poland, Hungary) relied on loans during 1970s, and these became crippling burdens, turning state into agent of capitalist exploitation.

147:3 In the light of this, Mao Zedong's recommendation to have balanced trade makes sense.

Sources and Uses of Foreign Exchange

147:4/o Soviet model was to maintain an inconvertible currency at home and use convertible currencies for foreign exchange. British government 40-60s did something similar.

148:1 Thier proposal is to do it the other way around: labor credits, which are not allowed to circulate inside the country, are allowed to circulate overseas. And outlaw import of foreign currencies. [Someone who wants to get hold of more labor credits needs foreign currencies. Black market of foreign currencies from tourists.]

148:2 There will be demand for labor credits overseas, because that allows the holder to export things from the socialist commonwealth. But socialist commonwealth does not have to be involved in setting exchange rates; that will be set by the market.

148:3/o For the planning apparatus, trade is just a special branch of production that produces imports and consumes exports. Decisions as to what to import and export are taken such that the imported goods must represent more labor tokens than the exported goods. This simulates how the market would do it and gives comparative advantage.

149:2 Therefore in terms of labor credits there will always be a trade deficit, see Table 10.1. [But this is not the right way to measure it anyway.]

149:2/o This is a highly volatile industry. Computer chips example.

150:1 Planning agency must use long term price trends instead of momentary prices for its import and export decision. [In this way it does better than the market and overcomes some of the shortcomings of comparative advantage.]

2.10.5 Exchange rate policy, tourism and black markets

150:2 This striking phenomenon for visitors of the Soviet Union created a bad reputation, and created inside the Soviet Union a layer of semi-criminal petty capitalists.

150:3/o Black market implies: domestic currencies is overvalued, i.e., private citizens want to pay more for foreign currencies than the state. Second implication: private citizens want foreign currency. Why? Because of the special shops which accept foreign currency, which were in part set up for domestic citizens. State created these two conditions: it created black market and oaked up the black market holdings.

151:2 That is price discrimination: tourists have to buy the necessities (low elasticity) at official exchange rate, and luxuries (high elasticity) at lower prices. [Also shows how perverse the market functions.]

May have been acceptable as long as long as tourism was low, but with higher tourism this is quite disruptive.

151:1 Another use of this currency is for smuggling. Drug smuggling has not yet made lots of inroads.

152:2 Every socialist government coming to power in a capitalist country will have to deal with the fact that part of the population is addicted with drugs.

153/o In order to get a handle on this, the socialist commonwealth should prohibit the import of foreign currencies, so that stolen gold is the only means by which the addition can be paid for.

153:1: Another legitimate reason for citizens to hold foreign currencies is travel abroad. But here the fact that the labor tokens circulate outside comes in handy. The Small print: citizens can obtain some foreign currency in exchange for their labor tokens, but they cannot exchange them back but they can also not bring them back into the country.

2.10.6 ?

153:2 How can balanced trade be ensured? The socialist commonwealth does not hold foreign exchange! It carries out foreign trade in its domestic currency just like the US did. Wishful thinking!

153:3 Dollar was overvalued, and its excessive issue caused its devaluation from Mark and Yen. This is the argument from the specie flow mechanism. Too many dollars made things too expensive in the US, therefore imports, which means lower prices in US, higher prices overseas, that should balance trade balance, but it does not go far enough because of capital flows.

151:1 But in absence of capital movements the adjustment should be quick. Make list of all possible conversions of labor tokens into foreign currency. They have producer goods imports, consumer good imports, exports, earnings from tourism, and tourist expenditures by citizens abroad. Much uncertainty, nevertheless plans have to improvise.

154:2 Two ways in which the plans might be wrong.

Unsolved exports

154:3/o If there is a shortfall of exports, then cut down in imports or cut down tourism.

155:1-2

If oil prices rise and export surplus, the oil-producing country impoverishes itself by exporting too much; therefore they should reduce exports and increase imports, or buy consumer goods overseas and resell them at discount prices. Another option: government accepts foreign exchange for its exports and holds these currencies temporarily.

2.11 Trade Between Socialist Countries

157:1–4 In long run, socialist countries should not be separate entities with trade between them, but productive resources and products belong to international organization. As in 1936 Soviet constitution.

157:5/o Principles of Ricardian comparative advantage still apply, they are independent of economic system. But this division of labor differs from the market one in several respects.

158:1 (1) Exchange between nations need not be based on world-market prices (but as long as capitalist world market exists, these prices should also not be ignored).

158:2 (2) Equal wages (or much more equalized wages) are possible.

158:3 (3) Backward regions can be developed without having to borrow.

159:1 Caveat: this does not mean the political will is there to do this development.

159:2–3 A little off the topic: Trotsky versus Stalin about socialism in one country.

159:4 In any rate, Trotsky had appealed to the same idealism that backward countries will be helped. How realistic is that?

160:1 Reasons for a capitalist country to help developing nations: 1. to exploit cheap labor available in LDCs. Irrelevant for socialists 2. source of raw materials and primary products. Also interest for socialist country. 3. markets for products in metropolitan country. Irrelevant for socialists, they will not have overproduction. 4. real efforts to “develop” (but marginal practical impact). Also relevant for socialists.

160:2/o I added about socialist countries above.

161:1 USSR boasted that they helped the Central Asian areas without the exploitation. But Uzbekistan became monoculture in cotton, they drained the Aral Sea for irrigation, ecologically reckless.

161:2 Help backward countries? Also being done by regional policy in social democratic countries. Is publicly more acceptable within the same state, even if it is as large and diverse as the USSR.

161:3/o But after the breakup of the USSR, the Baltic Republics resented having had to support other areas.

Postwar socialist states lacked unified national plans, but their economies related to each other as distinct national entities. Twofold disadvantage compared to capitalist nations: 1. can only have bilateral, not multilateral relations. 2. They don't have transnational corporations.

2.11.1 What we advocate

162:2 Different socialist countries should subject their economies to an international planning system.

162:3/o Strong pull towards international communities in capitalist world.

163:1 In contrast socialist politicians much less willing to subordinate their national economies to a single planned system. Why?

163:2–4 Socialist politicians have a drop in income if they drop out of politics; capitalist politicians often get higher income after they get out of politics. Therefore socialist politicians cling to their positions, and since these positions are entirely based on the national state, they are not concerned about or motivated to do internationalism.

163:5/o Working class internationalism existed in socialist countries: Cuba.

164:1 Another factor: economic union without political union is not possible in socialist countries.

2.11.2 Significance of national sovereignty

Main national right is choice whether to be capitalist or socialist.

164:2 Even small countries can go socialist; but they should not go it alone but should apply for political union with other socialist countries.

2.12 The Commune

164:1 Community is dead; it only lives for the children, with an echo to their mothers.

164:2 This leads to individualistic values. Socialism needs community roots. It needs communities in which people get used to cooperating and working for the common good.

164:3/o Most ambitious project was Chinese communes, 30,000 members and more. Agriculture, industry, education, health care, militias.

Purpose: replace system of domestic economy in agriculture. (Land improvement programmes and social provisioning beyond the scope of the farm.) Marked advance in position of women.

165:1 In industrialized countries this concept must be modified considerably.

2.12.1 The activities of urban communes

165:2 Purpose is: replace the economic roles of the family.

165:3 Should not be compulsory.

165:4 Activities: Housing, food preparation, child care, some leisure activities, helping senior citizens.

165:5 Size: 50–200 adults.

Housing

167:1 instead of a housing co-op, by which they apparently mean something like a condominium, which provides a series of individual houses for the households, CC envision accommodation for individual members within a larger communal home. But in this way there is not space for the families to interact with each other as families, away from the rest of the others!

167:2 Communal flats in USSR were small and not purpose-built.

167:3 Cohousing book has not as tight a community as they envisage.

food preparation

167:4/o Two principles for cooking: on a rotating basis, or hire some community member full time.

Child care

168:1 Should be large enough to accommodate at least a childcare center or a primary school. (This makes it more than 200 adults).

Some leisure activities

Could afford swimming pool, small gym, and ponies. Sail boats. Hous in the countryside for members to use.

Helping senior citizens

Especially if cooking and laundry services are provided.

2.12.2 Basic rationale in terms of efficiency

Economies of scale in childcare for instance,

direct labor: cooking, childcare. means of production: one needs fewer toilets per head. small internal phone exchange with fewer outside lines computers, photocopiers.

Question: what is the minimum size in which all economies of scale are exhausted?

But they ignore the other question: how large so that you can get to know everybody?

2.12.3 System of payments and external trade

170:1 China: Everybody gets work-units as payment for work performed, and then at harvest time the crop is distributed in terms of these work units.

2.13 On Democracy

177:1 Outline of radically democratic constitution.

2.13.1 Democracy and Parliamentarism

177:2 Ballot should not be considered the hallmark of democracy.

177:3 Original meaning of democracy is not rule by the people but rule by the *common* people, and a parliamentary system is that exactly not.

177:4–178:4 Astounding quotes from Aristotle: selection by lot is democratic, by vote aristocratic.

178:5–7 Capitalist states are plutocratic oligarchies (rule by the few in the service of capital).

178:8–179:5 Elections do not do away with wage labor. At best they convert the oligarchy into an aristocracy or meritocracy

179:6–8 In Communist Manifesto Democracy is used in the Aristotelian meaning: rule by the proletariat.

179:9–180:4 What did Marx and Engels mean by dictatorship of the proletariat? Answer: a democracy unconstrained by laws.

2.13.2 Direct Democracy or Soviet Democracy?

180:5 Two other forms of rule: soviets and dictatorship of the Communist Party. The latter collapsed and had few advocates in the West anyway, but sentimental attachment to the former. But most of those advocating Soviets would also go with parliamentary democracy.

180:6–181:2 Debunks soviets, they can only be transitory state organs.

181:3–182:1 State and Revolution wanted to make the armed proletariat into the government. Then, paraphrasing Trotsky, party substituted itself for the proletariat, central committee for the party, and supreme leader for central committee. Today most accept Lenin's *State and Revolution* and blame circumstances or personalities for the bad outcomes. One must however show how the inner logic of the

model in *State and Revolution* led to the Soviet Union.

Some Contrary Views Reconsidered

Market Socialism

Some people might be more comfortable calling it a market economy. As long as they can go to the shopping center at the weekend, they are satisfied.

Chapter 3

Notes about Albert and Hahnel's Looking Forward [AH91a], [AH91b], and [Alp]

Question 136 (p. 9) *Albert and Hahnel argue that what existed in the USSR was certainly not socialism, yet both sides in the cold war called it that (and most of the world was educated that this was socialism). What was in it for each side to perpetrate this view?*

Question 137 *What is coordinatorism?*

3.1 Work Without Hierarchy

Human Labor

15:3–16:0 There is a healthy diversity in human characteristics, skills, and talents. Despite this diversity, all people are equally capable of making responsible decisions about social issues. However, skills and responsibility are helped or hindered by the type of work situation people find themselves in.

16:1 In non-participatory economies, work enhances or dissipates the skills of the workers in three ways:

16:2–4 Work produces human qualities. A worker forced to complete rote, boring, or dangerous work will experience a dampening of skills and reduced self-esteem. Conversely, exciting and challenging work develops skills and raises self-esteem.

16:5–6 The skills and characteristics acquired at work affect how many responsibilities workers are capable of taking on and their level of success in workplace decision making.

16:7–17:0 Any economy that produces class divisions forces a differentiation between workers by building confidence in some and passivity in others. A participatory economy on the other hand welcomes

all workers and creates job complexes that develop skills and confidence of all.

Question 138 (p. 16) *Which three points do Albert and Hahnel make about the effect of work on skills and leadership roles?*

Workplace Organization

18:1 Three methods are needed to eliminate workplace hierarchy:

Workers Councils

18:2–3 Small workers councils of all relevant workers deal with small issues concerning individual workers or small work groups. Larger councils would deal with problems concerning departments or multiple work groups. Even larger councils would deal with perhaps that entire firm. Federations of councils from all firms would make decisions concerning an entire industry. Every layer contributes to the decisions made in the layers above.

But such democratic decision making alone will not remove the differences between jobs.

Job Rotation

18:4–19:3 Job rotation tries to eliminate workplace inequity by rotating all workers through diverse tasks. For example: a neurosurgeon would clean some office windows once a week. Although this may promote some mutual understanding, it is not sufficient to eliminate the hierarchy.

Participatory Job Complexes

19:4 The implementation of Job Complexes aims to provide all workers with a set schedule of diverse and fulfilling tasks that are equal to all other workers' complexes. Each worker would complete the same level of boring tasks as they complete creative and stimulating tasks. If one workplace is simply more desirable than the one next door, then the workers would spend some time fulfilling tasks at both plants in order to maintain an equal balance of tasks with all in the industry.

Workplace Decision Making

21:1 This sums up the idea behind chapter 1. In order for a workplace to be considered equitable and participatory, it must allow democratic worker's councils, efficiently use some job rotation, and have balanced job complexes.

Question 139 (*p. 18–20*) *What are the three keys they put forward to building new types of jobs? The first two have frequently been offered before in the literature on building socialism—what do Albert and Hahnel see as the limitations of these (i.e., they see them as necessary, but not sufficient—why?)*

3.2 Participatory Workplaces

Book Publishing: capitalist publishing

27:3 Capitalists use two criteria for determining how they assign tasks to workers: the maintenance of the hierarchy and profitability.

28:3 In this system, worker's skills are being stifled; they are forced to work "down" to some of their given assignments. Creativity and emotional passion dissipates over time, leaving a once capable worker a tool of the immoral super-structure.

Participatory Publishing: Northstart Press

28:4 This is a hypothetical example of a publishing company that uses job complexes and the like to create a participatory and equitable workplace. Tech allows workers to have access to all inter-office information regarding finance, proposed changes, budget data, etc. Job complexes will balance rote with creative tasks, councils would be set up to bid and vote for certain projects to maintain efficiency and leaders of small teams and large teams would be equitably rotated.

Proving Efficiency of Northstart Press

34:1 Fragmentation of work. Having many diverse tasks would make the job interesting and fulfilling. If fragmentation did occur the councils would vote to change the job complexes and eliminate the problem.

34:3 Because everyone would be required to do some rote work, there would be an increased incentive from all workers to automate and innovate to reduce the overall amount of rote work, thereby increasing efficiency.

35:1 Time consuming training. Training workers to do multiple tasks instead of one will take more time, but the advantages of having a diversely skilled, motivated workforce and the increase in morale will outweigh any training costs.

Question 140 *Won't there be a tremendous loss in efficiency, due to the need to train so many people to do so many things?*

35:3 Ineffectiveness of leadership. You don't need a fixed hierarchy in order to have leaders that will be considered legitimate. Since the workers, through democratic means, have the opportunity to be leaders of small teams, projects, etc., they have motivation and peer pressure to respect the "leaders" as they would like to be respected when it is their turn. This system also eliminates detrimental impediments to leadership such as class hostilities.

Question 141 (*p. 32*) *Do Albert and Hahnel intend to do away with leadership?*

Question 142 (*p. 32*) *In Albert and Hahnel's system, can a person be fired if they will not or cannot do a job?*

3: Egalitarian Consumption

46:1 Consumption in a capitalist system ignores the consideration of other consumers, producers, and the environment. Egalitarian consumption attempts to change unequal consumption

47:1 An example of a close-knit family unit provides a small scale example of how consumption should work. The family takes into consideration the needs of the other members before consuming and allows this to be a framework for determining the overall consumption. No purchases in the family are considered entirely private. Purchases of instruments, food, cigars, etc. do affect the other members of the family.

Consumption Norms

47:3 Consumption reintroduces the concept of “externalities”. All consumption at least affects the individual consumer and the producer.

47:4 There needs to be an allocation system (to be discussed later) that allows communication to exist between consumers, producers, and all other actors.

Consumption Councils

48:1 Collective consumption will be decided by derived councils. Budget allocations to all council members would be decided subjectively by the collective. Individual consumption would be open to public criticism, meanwhile all liberties and privacy rights would remain intact.

Participatory Policies

49:2 Individuals requesting to consume more than what is deemed to be their share would be subject to give reason for such request; illness, special needs, etc.

49:3 Anyone who made unreasonable consumption requests would be asked to modify the request. To maintain privacy, the inquiries would be anonymous.

49:4 Even though personal choice is of utmost importance, if such consumption endangers others or entices other detrimental externalities, the collective has the right to adjudicate such requests.

50:2 Regulating consumption is the delicate balance between the producer and the consumer. This balance, if met, seeks to eliminate excess and shortage of goods. Communication is imperative in this respect.

51:2 In a participatory economy, one must attempt to balance the amount of personal consumption with the amount of production effort. More production effort equals more consumption capacity.

4: Participatory Consumption

Collective Consumption

The Capitalist Case

53:3 Public goods are what compose “collective consumption”

54:1 In a capitalist system, the government decides what public goods are to be allowed and allocates taxes to do so. However, special interest groups and wealthy lobbies use their monetary influence to sway public officials so that even so called “public goods”

are sometimes only provided for upper class members of society. For example, roads and traffic lights get serviced in rich neighborhoods, and toxic waste dumps are always located in socio-economically deprived areas.

The participatory case

55:1 Decisions involving collective consumption are made by neighborhood councils, and the like. Meetings of these councils of different areas, counties, etc., are accessible to all. It makes consumption decisions between options such as hospitals, swimming pools, rec centers, and construction.

55:4 The larger county councils decide between competing agendas and alternatives through communication with representatives of all other smaller councils.

Individual Consumption

The Capitalist Case

56:4 Consumers know and care little about the producers of the goods they buy and are only constrained by their personal budget, availability, and desire.

56:5 Determining availability. Motives of owners restrict consumer options. Advertising is deceitful. Wages, and other forms of income are grossly unequal and result in “status consumption”. These force individuals to be defined by personal consumption, and only perpetuates the sexism, racism, militarism, and socio-economic repression that define capitalism.

The Participatory Case

58:2 Individuals would collectively be settled into “co-housing communities” in which everyone would share resources and responsibilities equally. Within these small collectives, members enjoy the element of security, stability, and the reduction of waste by not always having to use personal consumption allowances on that which could be consumed more efficiently, cheaply, and ecologically when shared by the entire collective.

58:3 The individual consumer must make personal consumption decisions based on the already determined collective consumption plan.

60:1 Planning consumption doesn’t indicate that changes to one’s preferences or consumption plan cannot be altered to fit changing circumstances.

Question 143 (p. 59, 61) *Given that individuals are to be free to consume what they want within their budget (provided it is not injurious to others), which*

sounds just like individual consumption under capitalism, what are the key two differences in individual consumption in a participatory economy?

5: Allocation Without Hierarchy

Arguments Against Equity, Variety, and Participation

Inequality or Coercion

65:1 Economists claim that there are certain factors that define why people work. (A) If hard work leads to prosperity. "Work hard to enjoy!" (B) When society pays low wages for rote work, some must work for basic survival. "Work hard or suffer!" (C) Threatening non-compliance from a central authority. "Work hard or else!" Economists claim that coercion of some sort is a necessary incentive to get people to work.

66:3 Economists also assert that only two forms of allocation exist: bureaucratic or market.

66:4 Another claim: decision making must be left only to expert economists that utilize quantitative criteria.

67:1 If we accepted this inhumane abstract of society, we would have no hope for ever achieving economic equality, and be condemned to a hell unlike any other seen on reruns of Melrose Place.

Question 144 (p. 67) *What do Albert and Hahnel refer to as the "fallacy of 'unimaginative projection'," and what role do they see it playing in modern economic theory?*

Contours of Economic Allocation

Participatory Communication

68:6 When determining allocation, one must consider the "opportunity cost" of any decision.

Measuring Work Expended

71:3 If workers overwork to allow themselves additional consumption power, this may not evolve into class differences. It would be restricted if the additional hours of work desired had a negative effect on the industry or workers within.

Question 145 (p. 68 ff) *What three types of information do Albert and Hahnel put forward as needed for allocation decisions by participatory workers?*

6: Participatory Allocation

74:1 Participatory allocation involves all levels of councils in a process that tries to accurately pinpoint the desired consumption requests in advance. They do this by adding up all proposed individual, community, county, etc., requests for consumption. When combined, either community or industry consumption desires become submitted proposals which get compared with other communities, industries, and producers proposals.

75:1 In nearly all circumstances, the first proposal for all consumers will exceed the capabilities of production. This in turn initiates bargaining and compromising that eventually leads to the development of the final plan that is within the bounds of realistic production and meets the needs of personal, collective, and industry consumption.

Preparing First Proposals

75:4 Councils can use data from previous years, and the resulting outcomes of those years to determine more accurately what they should initially propose as desired consumption.

Going From One Proposal to Another

77:3 After the initial proposals have been determined in excess, information will be provided about how much all consumers requested and how much is available to be allocated. This in turn aids in the redetermination of what and how much to compromise.

Updating a Settled Plan

79:4 Sometimes, as the year evolves, needs of consumers change. If the change in one area offsets the change in another, then no production would be effected. If there is a general increase in demand for consumption of a particular good or goods, then the producers of the good would be made aware of the new demand and if possible, they would increase production at that time to meet the demand.

80:6 Since the increase in production would require the increase in inputs, this may or may not impact other industries. Some situations would balance, others would require shifting workers from one industry to another. Collective determination would decide whether to meet these changed demands.

Converging

82:2 Remember that there is no single correct way to operate a participatory economy. A number of factors are contingent on the wills of the workers, producers, consumers, and councils.

Question 146 *What is the key aspect to the process of forming plans.*

Allocation Alternatives

87:1 Will participatory economics lead to efficiency and equality? In light of the options of central planning and markets, and the gross inequity they propagate, it justifies the attempt to change.

7: Workplace Decision Making

95:1 This chapter takes a look into the hypothetical participatory publishing company mentioned earlier. Now we must pretend that participatory economics have been in place for years in order to analyze what decision making would look like in practice.

Planning at “Northstart”: Last year at Northstart

95:2 Before beginning the task of yearly planning, workers must review the prior year’s plan, the consumption amounts, and any deviations from that plan, or adjustments that were made to consumption after implementation.

Northstart Innovations

97:3 Before planning, plant organization and technology should be taken into account. Each worker should determine the types of innovations or changes in plant operations they would like to request. Workers are allowed to place requests for investments, and for an increase in the quality of “work life”. These requests are considered by the whole (inter-office and industry) and approved if deemed desirable.

The First Planning Iteration

100:1 A worker develops a proposal that outlines the types of investments, changes, etc., they would like to see. Computer programs that can perform necessary calculations are readily accessible and user friendly. The worker plugs in variables into the program such as investment amounts, inputs, outputs, number of employees and worked hours, the end result being a

complete proposal with quantitative and qualitative estimates.

The Second Planning Iteration

101:2 All proposals from all workers in the company are consolidated into a “planning data bank,” in which the information regarding total demand and supply is compiled and made available to workers. Worker can then access the proposals of all other industries that would supply the goods that their industry or firm is demanding and adjust their initial proposals taking into account the new information provided by their immediate plant and other industries.

The Third Planning Iteration

102:2 Unlike earlier proposals, the third would be formulated individually, but with some influence from collective discussion. Modifications are made from updates in industry proposals, (likely final), and the collective ideas.

The Fourth, Fifth, and Sixth Planning Iterations

103:1 The proposals from here on out will not be individual, they would be made together. Small groups toss around ideas and aspects of individual proposals. Small groups combine until a unified proposal is developed. This one is absent any individual requests and simply reflects the summation of the plants demand for consumption. This is achieved by democratic voting for a final proposal.

The Seventh Planning Iteration

104:2 After the group proposals are turned in to a higher council from the production side and the consumption side, the industry and national councils consider all data and create five plans that best serve the interests of the planning units and the consumption units. The “society” then has the opportunity to vote on one of the five proposals. The chosen proposal in the end determines the production and consumption for the up and coming year for all industries, and all other sects of society.

8: Consumption Planning

114:1 This is a hypothetical picture of the different levels of consumption planning outside of the workplace.

Determining County-level Collective Consumption

114:2 This consumption planning begins with the highest level and works down. From large collective projects to individual consumption, the end result is the an entire collective consumption package that, of course, is voted on.

114:3 Just like the workplace, data from the previous year is available to every individual. The county councils and facilitation boards design proposals that individuals in each living unit discuss, change if needed and weigh it against what their desired amount of personal consumption is vs. the social good of the community proposal.

115:5 After receiving feedback on the proposals from all the different households, the community facilitation board (CFB) narrows them all down to four new consolidated proposals and takes a democratic vote.

Determining Personal Consumption Proposals

116:4 An individual analyzes the appropriate data, including the result of community wide consumption preferences and then formulates his own proposal for his personal goods. Included is types of things he wants: clothes, toys, food, shoes, CD's, etc. He does not have to specify specific types, colors, models, and so forth.

118:2 Consumers will behave in the interest of the society as a whole because they realize that every consumption decision they make will inevitably change their own labor requirements into perhaps more undesirable work complexes.

118:3 All proposals are coordinated and processed and put through the same planning iterations that all other consumption plans are required to go through, negotiations, revisions, and so forth.

119:1 All consumers are trained to act in the interest of others simply by taking into consideration their interests. Acting in this responsible manner begins to become human nature and cooperative behavior is propagated.

9: Allocation Decision Making

Developing Initial Data

121:1 Since long run projects are determined before all other planning, and all economic actors are provided with information. The way this is accomplished

is explained here.

Long Run Plans

122:2 This discusses what long and short-run investment projects are feasible and desirable. Long run investment usually is determined before all other large and small consumption propositions in order to make sure that the needed amount of resources are allocated to those projects first. Changes to these investments can be made when needed by utilizing the same processes as is used in proposal formulation.

122:5 Unlike it's market counterpart, participatory planning can accurately determine the social costs and benefits of each investment. It also will take into consideration the impact on the other industries in society. The investment aims to increase the quality of life for all workers and consumers not just the elites.

Preparing Data for the First Round of Planning

123:2 This section looks at how the data is developed, consolidated, and whether or not any individuals can unduly influence the outcome of the data.

123:2 Through the use of computers and tech, previous year's data is accessed. Iteration Facilitation Boards (IFB's) can tell what inputs produced what outputs and what the final indicative prices were.

123:3 Data is modified to estimate future incomes and changes in population (sex, race, numbers, etc.). They then make educated guesses on the future production capacity of the workers.

123:6 Undue influence over information would be irrelevant, the board member could not possibly gain anything from bias data.

124:1 Society determines the flexibility of the techniques used by the facilitation boards, not the board members.

124:2 Any calculations would be open to the public for review and supervision

124:3 Any projections made by facilitators are only used as guidelines to help other actors make decisions.

Working at a Facilitation Board

127:1 Having a job such as a board member is coordinated just like any other job in the economy. It would consist of a job complex of diverse tasks. Because there may be more than average empowerment in this job, it would most likely be rotated.

Qualitative Information

127:2 It is important that producers and consumer understand the qualitative implications of their choices. Therefore, information is necessary in order to educate the populace. (A) a data bank system with all quantitative and qualitative information accessible. (B) The information should be aggregated from smaller units into federation level summations.

128:1 This information system would not be a burden on time or resources when you consider how many resources are needlessly wasted on such destructive activities as advertising.

The Logic of Participatory Planning

128:5 All economies must have a plan for allocating resources.

128:6 If one wants to avoid an elite-friendly superstructure and the possible genocide of the socio-economically oppressed, and cares not to see so-called “experts” forcing the subordination of the wills of many, then participatory planning is a rational way to alleviate destructive trends that occur in traditional economic endeavors.

Gar Alperovitz

Good that they lay out the ideal of the Left. Hans doesn't like that they call it an “ideal,” it is almost a necessity, something that not only the Left should want, but there is also some openness.

Sees the following problems: Ecology, what would ensure that the best would be done for future generations, and: for long term investments you need long term commitments, and: how can those in large industry be induced to share their benefits with the whole community.

What is someone does not want to go along, they do not have the option to bid up prices, will this therefore mean litigation?

Unclear where he is coming from, small community involvement?

Leslie Cagan

Counts quotations and says: 90 quotes total, but only 9 from women, 4 from African Americans, 7 from Latinos.

Main benefit of the book is the space it opens up.

Ward Churchill

Many of Albert and Hahnel's ideas were realized in Indian tribes; question of size and density of population is very important, people must be convinced to have a highly negative birthrate for 5 generations.

Ann Ferguson

Accuses the Eastern Block of Imperialism.

Does not see a path from modern capitalism to such a society. She says that for such a transition market socialism is necessary.

She also thinks that there must be private enterprises, since Americans want that because of their entrepreneurial spirit.

And how will they construct the consumption plans in year One.

Seems to me she is groping for arguments to throw a bad light on it without coming out with her real conviction, she does not seem to think capitalism is that bad.

But here is stuff which I like: A/H ignore the feminist issues, leave out housework, female sensitivity should be taught to males, child care workers and school teachers should get pay comparable to university professors, doctors, and psychiatrists.

Strong affirmative action for disadvantaged minorities.

Nancy Folbre

Capitalists and coordinators are not the only group of self-aggrandizing individuals.

How to protect the minority if the majority makes the wrong decisions. And sometimes they don't want to pay the taxes for necessary things but which do not benefit them.

Something is wrong with this enthusiasm for participation;

(1) dictatorship of the sociable; they like to talk and decide at the meetings but they are not necessarily the ones who carry out the decisions.

(2) let's not piss anybody off principle.

People should have the right to specialize; they should have the right not to be part of any collective. People should have the right to buy and sell most types of products and labor.

Realizes how much she likes the ideals of social democracy.

Mark Hager

Howard Hawkins

Book is good because it does not embrace the market, it is an alternative to both the market and the state.

A double federation of workplaces and communities organizing from below has its pedigree in anarchism and council communism.

A/H give a plausible description of feasible participatory socialism.

His criticism: he wants to subordinate the workers' council on the workplace to the consumers' council in the communities. The economic struggle on the workplace he wants separated from the political struggle, it should be an arm of the community based struggle for participatory democracy. Emphasis on workplace is too one-sided.

He says: paid workers get two votes in the planning process: one on the production site, one on the consumption site. Nonworkers only get one vote on the consumption site.

(2) it is not clear how the members on the various facilitation boards are to be selected. They should be elected by the community.

He wants to decentralize the economy not only socially but also physically. More local production can use resources more efficiently. This would heighten the transparency of economic relations and the relations between economy and environment, and give more freedom to the communities.

Andrew Kopkind

Book is bravely Utopian, and that is what we need. New social orders are not built piece by piece, but they happen in explosive spurts when the old system breaks down or blows up, and an alternative becomes not only attractive but necessary.

Wants to look to the Sixties' War on Poverty programs like Head Start, which originally were participatory, in order to form real participatory habits.

Jason Pramas

Founder of New Liberation News Service. ex SWP member for 5 years.

Anarchist council communist crowd ignores economics, therefore they hope participatory democracy will spontaneously bring about a non-hierarchical economics. A/H address this economic dimension, but they don't tell us how to get from here to there.

Book is not naive and not utopian, but in its own way it is quite practical. Does not like the long dialogs.

Markus Raskin

Their research about economics brings us back into the right ballpark, because this puts into focus the economic perspective of all the other things which we are concerned with, like crime etc.

The physicist Wolfgang Pauli was once asked about a theory of a fellow physicist. Pauli said that "he is not even wrong."

Raskin thinks there is some human empathy which prevents the present system from self-destructing. I think that is right. I myself have had this idea that capitalism wouldn't work if everyone would act like a utility-maximizing individuals. There are many who refuse to do this, who cannot go along with it. This is why the ruthlessness of the others can be so successful. That is this ruthlessness coefficient.

Raskin is good: he also says that most social sciences are based on the experience of exploitation and state power parading as "evidence". How do you overcome that? My answer is: we have to better understand exploitation and state power.

And another question they have is: what good does it do that they give a justification in the economic paradigm. Isn't it better to say like Herman that economics is bankrupt, to give up on that paradigm, not to bother with it, instead of trying to make better economics. I think this is a relevant question here.

Another question they are asking is: aren't those personality traits and those behaviors which A/H want suppressed the most nowadays? There I can say:

(A) my theory is that capitalism only works because not everyone does it like this, and those who are the victims must speak up and assert themselves, and say that what they are doing is not faulty, although it has the disastrous consequences of them being exploited.

If those participatory behaviors are not fostered in capitalism, they are necessary to fight against capitalism, because this is ultimately the stronger behavior, although right now it does not seem so.

Sheila Rowbotham

Socialist feminist, on Greater London Council 1983–6.

I guess one point in all those answers is that it is good to have an utopia, although they don't say why.

Sheila cites Stephen Bodington of the Institute of Workers' Control, Mike Cooley from Lukas Aerospace Workers Combine Committee, Temma Caplan about communal action around consumption, Latin American scholars like Elizabeth Jelin on contemporary movements of poor women, or the implications of changing the domestic life by Dolores Hayden, Ursula Huws about emphasis of Lucas Aerospace on products.

Women's experience should be central to the project. Gives feminist sources about that stuff.

Then she says: is not just the matter of extending control over what exists, but redefining what is assumed to be significant. Wants to bring in the experience of poor Third World women. In this way she would create something which is not only attractive for affluent America.

The knowledge and skill of many manual workers about how London actually functioned was barely recognized as a vital resource.

Then bits and pieces:

Seem too unquestioning about humans being desirous to participate. Active citizenship is all right and well, but not as a way of life for most people.

Juliet Schor

Harvard economist. Irony that socialism crumbled and capitalism was victorious at a time when it was so obvious how bad capitalism itself was, and the market triumphed at a time when we are approaching environmental catastrophe.

One wonders if the current ideological onslaught is a desperate rearguard action for a theory which appears increasingly inappropriate even on its own terms. Radical economics's embrace of the market is a sign of its weakness, that it never took its critique of economics very far. Her view is that markets may have a limited role to play, but not in the provision of basic necessities: food, housing, medical care, etc.

Power is maintained more and more not by physical but by intellectual capital, and commends Albert and Hahnel for addressing this issue squarely.

Don't quite like her last paragraph: what we need is explore new ways of being, not institutions. But how can you have those ways of being?

Daniel Singer

Says: they dispense with the problem of fading socialism by saying, it was not socialism, so that they can start fresh. But at least they give a concrete utopia

how it is going to be, egalitarian not only in income but also in work to be performed.

Publishing house is best, not only because of the authors' experience but also because the number of people involved is small. Steelwork is less convincing, and questions like how many resources should be used in education must be decided nationally.

Central problem is how to transform central planning into a self-organizing society.

How to get there, what kinds of democratic coercion, maybe this is his word for the dictatorship of the proletariat, is necessary?

They are too sectarian by lumping Lenin and Trotsky together with Stalin, and trying to rally Luxemburg and Gramsci for Bakunin.

Bill Tabb

Unconvinced. Their participatory planning is procedurally wasteful and inefficient, unreasonably time consuming, and finally apolitical.

They want to make too many decisions which would be better legislated on the basis of principle politics and delegated to specialized coordinators.

A/H require that each agent has data about everything. all inputs and all outputs of his activity. It should not be Larry's decision whether dangerous work methods are used for the goods he is consuming, but that should be a principled social decision.

Something strangely apolitical in= their faith in computer summaries being unambiguously sufficient for the lone voter sitting at his or her computer to create society by selecting from menu items.

But at the end he says: they spend endless effort replicating information the market could provide.

[Instead of the market between them, people have computers between them, which isolates them again.](#)

Brian Tokar

it is too mechanical, Earth centered economists like Herman Daly, Susan Meeker-Lowry, E. F. Schumacher say ecology and ethics must be at the center of the economy, far outweighing efficiency. They should reject the notion that social life is to be primarily shaped by economic relations.

[Very good. Those who deny that the economy nowadays determines everything will through their denial guarantee that the economy continues to determine everything. We want a society which gets away from it.](#)

They overestimate computers. Economic modeling
is never an exact science.

Chapter 4

Schweickart's "Against Capitalism" [Sch93]

Part of this is a student's summary with my comments.

Preface

ix:1-3 Collapse of socialist governments is usually taken as a proof that capitalism has no viable alternative. This book argues that this general understanding is wrong.

ix:4 The book makes an even stronger argument: a superior alternative to capitalism is available, and that the only reason we don't have it is that those who most profit from capitalism are too powerful.

ix:5/o The argument will not be as in a mathematical proof but as in a court proceeding.

x:1 But there are two differences between the arguments in this book and a court proceeding:

x:1 First difference: we will not only argue that capitalism is bad but also that there is a better alternative.

x:2 Second difference: we will not use rhetorical tricks but try to establish a sound argument.

4.1 Noncomparative Justifications

(Explanation of the title will be given in 3:2)

1:1 How has capitalism been justified?

1:2 Self-interest, despite doubtful moral virtues, was considered useful for society when harnessed to a free market.

1:3 But Marx says this market masks an exploitative relationship. Marx based this theory of exploitation on the then mainstream labor theory of value.

1:4 Marx's underlying value theory is a weakness, defeated by mainstream economics which switched

from labor theory of value to marginal utility theory,

It could also be considered a retreat by the mainstream. Not only mainstream economics but all of mainstream social sciences are seriously handicapped because they are not allowed to tell the truth about exploitation in capitalism.

1:5 The intellectual victory of neoclassical economics did not prevent Russian revolution.

What a stupid transition!

Thumbnail sketch of the history of the ideological justifications of capitalism:

For a decade or so the economic mainstream tried to prove the impossibility of socialism. Later they invoked the fact-value distinction, that it was not up to the economists to judge the ethics of capitalism; but they argued economically that capitalism is more efficient than socialism, more conducive to economic growth. They also used human nature arguments to exploit the parallelism between innate egoism and free enterprise profit motives.

As a response to stalinism they tried to identify capitalism with freedom. Since this was untenable because of many very dictatorial capitalist regimes (Schweickart's formulation "ruthless authoritarian" is an euphemism) they claimed that socialism was intrinsically connected with totalitarianism.

2:1 More recent developments: 1989 was widely proclaimed to be the death of socialism, but there is a lot of suffering in capitalism. Again Schweickart uses an euphemism: "so much pain, so much despair."

2:3/o Also theoretically a lack of consensus: Marxists, neo-marxists, institutionalists, neo-Keynesians reject the neoclassical model.

3:1 Philosophers John Rawls and Robert Nozick defended capitalism, but critics of capitalism are prominent in almost all academic disciplines.

3:2 Distinction between comparative and noncom-

parative argument.

3:3/o Comparative arguments are more important, but in this Chapter we will do noncomparative arguments.

4:1 To the charge that capitalism is exploitative (I would not call this a "Marxian" charge, many people see this or feel it), the mainstream answers that the capitalists are entitled to their income because of productive contribution, risk, sacrifice, and liberty.

4:2 Definition of capitalism: Means of production privately owned, goods of produced for market, and labor power is a commodity.

4:3 examples of societies which satisfied only 1 or 2 of these conditions.

4.1.1 Marginal Product as Contribution

5:1 John Bates Clark and Hayek say that Capitalism is just, because it returns to each individual the value he produces, value defined as the benefits others derive from his productivity. Nozik disagrees only because of inheritances, gifts, and charity.

5:2/3 Schweickart sees another, more central flaw in this argument: can income derived from ownership of means of production be legitimized in this way? This is relevant because the workers are usually not the owners of the means of production.

5:3 How can one distinguish between the contribution of the instrument and that of the operator?

Here is a non-answer: defining the contribution by what the market returns to each would be begging the question.

5:4/o Marx's answer: only labor creates value, machine transfers value. (But Marx also distinguishes between value and use value, something which Schweickart muddles in these first pages.)

6:1-7:1 Neoclassical solution: "begins with a concept, adds a couple of definitions, and then invokes a mathematical theorem".

6:1 Concept is that of a production function.

6:2 Given a production function one can define the marginal product. (Fn 17: Schweickart disregards here the Cambridge controversy).

6:3 Mathematical result: marginal product can be approximated by the partial derivative. (I personally would define the marginal product as the contribution of the last infinitesimal increment in the factor divided by the size of that increment).

6:4/o Mathematical result is the so-called adding-up theorem.

7:1 And one needs the result that in perfect competition every factor receives his or her marginal prod-

uct.

7:2-8:2 2 quotes by Clark emphasizing that this is a just result.

8:3 Schweickart begins to argue that the notion of marginal product is not an *ethically* appropriate definition of "contribution."

8:4 If two workers quit then the product declines by more than the sum of their wages, due to diminishing returns.

8:5-10:1 Illustration of marginal product with first increasing then decreasing marginal productivity. Although S does not pursue this strand of the argument, this alone shows that the definition of the marginal product as the contribution of the *last* worker seems to understate the contributions of the workers.

10:2 Schweickart latches on a different aspect: what is the marginal productivity of land?

(1) Is it the quantity of land that would have been produced without any laborers? No.

(2) Is it the amount that would have been produced had the landlords themselves tilled the soil? No.

(3) Is it the amount that must be set aside for seed or plowed back to replenish fertility? No.

It is the amount by which production would decline if 1 acre were taken out of cultivation.

10:3-11:1 S's third attempt to shake this definition: Clark claims that one can create worth by working, providing capital, or by coordinating labor and capital. S agrees with working and coordinating, but not with providing capital. Providing is simply allowing it to be used, and that is not a productive activity. Cites Cohen for that.

11:2-3 Also the counterfactual arguments from noncapitalist production: Feudal lord who owns far more land than his peasants can till would not be creating any wealth by providing his land, because the marginal product of his last acre is zero.

And in modern times: if means of production are confiscated by the government and gvt. demands a use fee, this would not be considered reward for a productive activity. Here one sees what is going on: the capitalists monopolize the means of production, it is as if the government had confiscated the means of production that originally belong to the workers.

11:4 Schweickart declares victory: Clark's argument collapses.

11:5-12:3 Also many neoclassical economists criticize Clark's argument on different grounds, which however muddle the issue. Interesting passage.

12:4-13:1 S summarizes his argument again: the technical contribution of land should not be considered the contribution of its owner. From 13:1: "In a technologically fixed perfectly competitive world,

capitalists qua capitalists take no risks, do not innovate, do not sacrifice, do not engage in anything that could be called productive activity.”

4.1.2 Capitalist Contribution as Entrepreneurial Activity

13:2–14:0 *Capitalist*: capitalists contribute by innovating. (Schumpeter).

14:1 *Socialist*: I must agree that an increase in productivity is a contribution.

14:2 *Capitalist*: Assume for example that under traditional procedures, 10 people produce 1500 bushels of corn on a given piece of land. Now the land owner reorganizes production so that afterwards 2000 bushels are produced. The extra 500 bushels is his contribution.

14:3 *Socialist*: Agreed, but there is a hitch: the capitalist gets more than 500 bushels, because already before the innovation he made a profit, and the 500 is an increase in his profit.

14:4/o *Capitalist*: let us change the thought experiment so that the capitalist is only innovator and not also land owner. Assume land is free and plentiful, and a person can produce 150 bushels of corn a year. The capitalist saves up 1500 bushels, hires 10 people at 150 bushels a year, and directs their production (usign a new plow) so that they produce together 2000 bushels.

(Marx has a concept which applies here: the social productive powers of labor. The capitalist appropriates them.)

15:1 *Socialist*: There is still a hitch: these 500 bushels can be considered the reward for capitalist’s contribution in the first year, but his reward is repeated, although in the second year the capitalist no longer contributes.

15:2 *Socialist*: Actually, it is arbitrary that I chose a year here. There is no natural time interval beyond which the contribution of the innovator becomes that of the workers. The life time of the innovator comes to mind, but this has nothing to do with production.

15:3/o *Socialist*: If you want to justify capitalist profits by productive contribution, then you get the inequity that the contribution of the laborer ceases after the laborer has produced, but the contribution of the capitalist remains.

16:1–2 *Socialist*: You can only convince me of your case if you start with a definition of contribution, demonstrate its ethical significance, and show that capitalism does in fact reward according to that definition.

If “contribution” is defined as the increase effected

over time, then this cannot be justified ethically, since one has perpetual contributions.

16:3–17:1 income on investment or savings has the character of a perpetual reward.

17:2 *Capitalist*: There are perpetual rewards because there are certain contributions which are so perpetual that they deserve a perpetual reward. For instance Einstein’s contribution.

17:3 *Socialist*: The Einstein argument does not apply to the capitalist because he probably did not make that new plow himself but had an engineer design it.

17:4 *Capitalist*: Well, the capitalist provides capital.

Socialist: we have already argued earlier that providing capital is not a productive activity.

17:5 *Capitalist*: is not capital vital to growth, is supplying it not productive? Many countries give incentives to attract capital. Is this irrational?

17:6 *Socialist*: In fact it may be irrational. Economists speak about “development of underdevelopment.”

17:7/o *Socialist*: But in order to answer your question whether the capitalist contributes capital we must first be able to define: what is capital? Marx says capital is a social relation, but modern economists treat it more as either a productive thing or money for investment.

Things can be productive, but the act of providing those things is not a productive activity by the owner.

18:1–3 How about money to invest? The money is not a contribution, because the things already exist before the money was spent to bring them together.

(This seems a weak argument. I think money is necessary because of the private property of means of production, which is an institution which prevents the factors of production from coming together. The capitalists use their monopoly of the means of production to gain income.

19:1 *Socialist*: It is also clear that money makes no contribution because it is so easy for the government to print more money. (I think Schweickart is here on the wrong track.)

19:2–4 Quote of Keynes, he sympathizes with the notion of labor as the only source of wealth. Note that Marx does not say this: Marx says that labor is the only source of *value*, but wealth, i.e., use values, has labor as its father and the earth as its mother.

19:4–20:0 Re-summarizes earlier arguments.

20:1–4 *Socialist*: Your innovation justification also falls down because entrepreneurs are not coextensive with the capitalists.

Socialist: Finally, innovation is becoming easier and easier.

4.1.3 Interest as Time Preference

20:5–21:3 *Socialist*: the basic justification problem of capitalism is not profit but interest. Why should I get interest on a savings deposit in the bank? "My account is federally insured, so I take no risk. I can withdraw my money whenever I want, so I am not inconvenienced. I have not the slightest idea what is done with my deposit, so I can hardly claim to be exercising some socially useful entrepreneurial judgment.

21:4–22:1 *Capitalist*: But interest can be defended on the basis of time preference theory.

22:2–3 *Capitalist*: Money lending, the exchange of money now for more money later, is no different than the exchange of any other two goods, because money now and money later are two different things.

23:2 *Socialist*: This is not true. Someone who trades his apples for your oranges makes a completely different transaction than someone who loans 100 dollar under the condition that you repay him 110.

23:3 *Socialist*: There are three differences. In the first case, two commodities are involved, in the second only one which is not even a direct use value. In the first case, both parties have something, in the second he has something but you don't. In the first case, there is equality and in the second inequality: he has more than you have now, and he will get back more than he gives.

23:4 *Capitalist*: The essence in every exchange is the satisfaction of mutually complementary desires.

23:5 *Capitalist*: In the exchange of goods I prefer your apples to my oranges and you prefer my oranges to your apples. This is an example of mutually complementary desires.

23:6/o *Capitalist*: The loan satisfies mutually complementary desires as well. Some people are more impatient than others, they will want to consume now rather than later, and others prefer to consume later when they get interest in the meanwhile.

24:1 *Socialist*: Your story is perhaps plausible when people of equal incomes loan to each other.

24:2 *Socialist*: But imagine an impoverished artisan and a rich merchant. The artisan does not choose between more consumption now but less later, but if there is no consumption now then there won't be a later.

24:3/o *Socialist*: And the merchant does not choose between consuming his excess savings versus loaning them out, but between keeping them under his mattress versus loaning them out. Ergo: time preference does not explain this transaction.

25:1–3 *Capitalist*: Well, this is an example from a pre-capitalist era, I am not surprised that it fails.

Socialist: Then let us look at a contemporary example. A capitalist borrowing from a bank does not borrow in order to consume more today. He borrows because he knows that he can use his funds to produce something which is worth more than his advanced capital.

25:4–26:0 *Socialist*: The motivation of the capitalist is not time preference but accumulation of wealth for its own sake.

H: What is wrong with that. if this induces the capitalist to lend his money to someone who needs the loan. You stick too much to the surface: you accept everything and question only one aspect at a time instead of questioning the whole totality. The totality is that the neediness of the one who needs the loan comes from the monopolisation of the means of production, and capital ownership is rewarded with interest exactly because capital is monopolized.

26:1–2 *Capitalist*: In addition we should not forget that the capitalist qua capitalist makes an essential contribution to production: he is the supplier of time.

26:3 *Socialist*: Are you kidding? I could perhaps believe that the worker supplies his time, but the capitalist?

26:4/o *Capitalist*: Production takes time. More effective production requires more capital goods, the production of which takes time that might otherwise be devoted to the production of consumer goods. The capitalist uses his money not for consumption but for the purchase of these new capital goods. Therefore he may be regarded as the supplier of that commodity without which productivity would not increase: time.

27:1–28:0 *Socialist*: I don't buy this. Let us look at it in detail.

27:2 *Socialist*: Assume a steady-state economy with two sectors, one produces corn, the other plows. 10 workers make plows and 90 use these plows to grow corn. Annual harvest is 1000 bushels, each worker gets 9 bushels and the capitalist gets a profit of 100 bushels.

27:3 Now the capitalist uses part of his 100 bushels to pay premiums to the workers who switch from corn growing to plow making, with the effect that now 20 workers produce plows and 80 produce corn.

27:4 In the year of the switch, less corn is produced, say 900 bushels, because the workforce in agriculture has declined, but the extra plows have not yet come on line. But starting with the next year, production will increase to 1100 bushels.

27:5/o The capitalist does not supply time: he only uses his income to induce the workers to change jobs. Since the total product at the end is only 900 bushels, the workers will not be able to consume as much as

before.

H: But what if I change the scenario into: the capitalist does not consume his 100 bushels of corn at all, so that the workers in the first year can receive as high wages as in the other years. And the capitalist simply transfers the workers from corn production to plow production.

28:2 *Socialist*: Here is another argument. The link between saving and investment is very tenuous. If I put \$100 into the bank, the bank may not lend this money out. Or the bank may give it as a consumer loan, which does not increase productive capacity. Even if they give a loan to a producer, the producer may use the money to buy out another existing company instead of making new investment.

Since the money saved does not necessarily show up as investment, I cannot say that saving is a productive contribution.

Capitalist: But saving is a productive contribution because you are selecting the investment channel and in this way make a socially important and beneficial judgment which entitles you to a reward.

29:2 *Socialist*: I don't have to think much; all deposits are federally insured.

29:3 And if you say that interest is a reward for my deliberation, then more interest must be the reward for more deliberation. But this is not true in the real world. Investing 10 times as much money does not require 10 times as much deliberation.

29:4 S makes a distinction between "some members of society consume less for a period *than they could if the deployment of society's labor and other resources were unchanged,*" and "certain members must consume less *than they are entitled.*" It is not very clear what he means.

4.1.4 Interest as reward for waiting

29:5–30:2 *Capitalist*: By not consuming their capital but allowing it to be used for production the capitalists commit a sacrifice and deserve a reward for this. Production not only involves labor, but it also involves waiting on the part of the suppliers of the means of production. Waiting creates value.

30:4 *Socialist*: It is ludicrous to say that a mine owner sacrifices more than a miner or a GM stockholder more than an autoworker.

30:3 *Socialist*: You are conflating the means of production with their owners. The means of production do not sacrifice, the owners do. The means of production contribute to production, their owners do not.

30:5/o *Socialist*: To make your case you must convince me that the capitalist really sacrifices, come

up with a quantitative measure of that sacrifice, and show that the reward of the capitalist depends on how much he sacrifices using this measurement.

31:1 *Capitalist*: The capitalist sacrifices because a person usually finds it painful to defer gratification.

31:2 *Capitalist*: I can also easily quantify it: by the amount of money this person is willing to pay in order not to have to wait. If the interest is 6%, then this means that this 6% number persuades as many people to defer consumption as there are people willing to pay this interest in order not to have to wait.

Socialist: But only the last dollar saved requires the interest rate to be 6%; earlier dollars would have been saved even if the interest rate was lower. Therefore as a whole the money owners are overcompensated for their sacrifice. Some rich money owners have no use for their money; they should pay the bank for storing it rather than drawing interest.

32:1–2 *Socialist*: And if you look at modern capitalism, only the richest 10 percent are net savers; other income classes save as much as they borrow. Therefore the people who you say are sacrificing are the rich who lead a jolly life along with their sacrifices.

32:3/o *Capitalist*: Whatever you think of their sacrifice, by this sacrifice they contribute to production. You cannot work without means of production. These means of production exist only because others have saved.

33:1 *Socialist*: neither waiting nor saving is necessary for production.

33:2–34:1 You need waiting and saving only for an increase in capital, not for capital per se. This waiting and saving for innovations will be rewarded by higher productivity.

34:1–3 The word "saving" is used for different practices: holding in-kind reserves for emergencies, for hoarding money in the mattress, and one can also bring one's savings to the bank. Only the third kind has implications for production.

34:4/o ties into the two-sector example.

35:1 *Capitalist*: We know from experience that not only workers but also capitalists benefit from improved technology, due to a "trickle-down" effect.

Socialist: But there is still a big difference: the capitalist chooses to wait, whereas the decline in workers' consumption is involuntary, and the capitalist gets the reward for waiting as a matter of right, whereas the worker must hope that it will trickle down.

Socialist: The individual decisions are just the component parts of a social process determining the composition and extent of production.

35:2 *Socialist*: We are getting confused here if we

think that saving is a productive activity. Savint is a market signal just like a purchasing decision.

(It is a perverse market signal, because it really means lower consumption, the so-called paradox of thrift).

4.1.5 Profit as Reward for Risk

36:2–3 *Capitalist*: Profit is justified because it is the reward for risk.

Socialist: This is the most popular justification of capitalism. It is not without a reasonable core.

36:3 *Socialist*: But it certainly cannot explain risk free interest.

Capitalist: granted, but it is a good justification of profits.

36:4/o *Socialist*: Not everybody who takes risk is rewarded, some of the risk takers lose their money.

37:1 *Capitalist*: Well, this is the nature of risk taking: the reward is only a statistical reward. But the rules of the game how to get this reward are fair, and this is what counts.

37:2 *Socialist*: How can it be a fair game if not everyone can play?

37:3 *Capitalist*: Nobody is legally excluded from playing.

Socialist: This is theory. If you look, you will discover that only 25 million out of 225 million Americans own appreciable amounts of stocks.

37:4–38:1 *Socialist*: Moreover, among those who are able to play, the chances of success of large investors are better than those of small investors, since they don't go bankrupt as easily, and they can afford better professional help.

38:2 *Capitalist*: The players have no reason to complain because nobody forces them to play.

38:3–39:1 *Socialist*: Your argument would be justified if it would be a zero-sum game or a negative-sum game; But it is a positive-sum game, therefore those who are excluded from the game are disadvantaged.

39:2–3 *Capitalist*: Are you sure it is a positive-sum game?

Socialist: Yes, if you include not only profit but interest it certainly is.

39:4–40:0 *Socialist*: I say therefore that large investors have better chances than small investors, but all of them gain at the expense of those who are excluded.

40:1 *Capitalist*: On what basis can you say that those who invest benefit at the expense of those who do not?

40:2–41:1 *Socialist*: To answer this question first a detour: the entrepreneurs make a productive contri-

bution but they do not risk anything. The investors risk but they do not make a productive contribution.

41:2 *Socialist*: And now you get your answer: The investors get something for nothing because those who produce the goods and services get less than their productive contributions.

42:1–2 *Capitalist*: The reward to risk therefore comes from this unpaid labor, but by bearing the risk, the investors allow the entrepreneurs to contribute to society. The game may not be fair but it serves a socially useful function.

42:3–4 *Socialist*: This is only a valid defense of capitalism if there is no better alternative. The risk defense of capitalist profits is therefore a comparative defense, which belongs into Chapter 2.

4.2 Terms of Comparison

48:1 The non-comparative arguments Supporting capitalism have been disproven. 1. contribution of capital or time isn't productive. 2. many capitalists don't have to "sacrifice." 3. risk has been eliminated by structure of capitalist system.

your point 3 is a misunderstanding. S says risk is not a justification because the investment game transfers wealth from the workers to the capitalists anyway.

also: this is only a summary of Chapter 1. There is no need to summarize it again. Simply say: Chapter 1 refuted the non-comparative arguments supporting capitalism. Then go over to the second paragraph which carries the argument forward.

48:2 These arguments are all grounded on one specific ethical value. *S makes here an important argument but you did not quite get it. P says now: granted that capitalism has its flaws, but it also has its good sides, which cannot be had without these flaws. And now we can use your text:*

without the profit motive an entrepreneurial class, giving us innovations, could not develop. Without interest there wouykd be insufficient savings to finance investment. Without profit there would be no risk takers, and if you abolish capitalism you will abolish liberty.

48:3/o *Capitalist*: In short, capitalism gives the greatest balance of good and bad in comparison to other economic systems.

Socialist: You are making a sweeping claim here. How can I prove you wrong? I will proceed as follows: I will concretely identify capitalism's weaknesses. (what is good what is bad and why) and then I will give you concrete counterexamples showing that these weaknesses are not necessary, but that we can do without them.

49:1 *Socialist*: Not many Marxists argue this way. Marx avoided trying to answer the question how to best achieve a utopian society. *This may have been appropriate in his time when such a society was still in the future, but it is no longer appropriate now because socialism is possible now.* (Actually A does not say this but he makes a much more defensive and, I think, misguided argument:)

49:2 *Socialist*: We have to pose the question how to build socialism because too many socialist experiments have failed. The abolition of private property usually has meant the loss of free elections and other civil liberties, their liberties were less than those of most capitalist countries.

Here is a misunderstanding again, Julius. You write: Yet there is much more to capitalist democracy than what is laid out in rudimentary definitions. But S wanted to say exactly the opposite: capitalist democracy is far less democratic than the impression one gets when reading a civics text book.

49:3 Another set of reasons why one should discuss the modalities of socialism now is: we now know much more than Marx or Engels did. Many different economic systems have been tried. We have seen what works and what what doesn't

50:1 *Socialist*: *A third reason to have this discussion now is:* alternative economic systems are desperately needed. Capitalism succeeded only in the first world and most of the Earth's population lives in the third world.

50:2 What is capitalism? Capitalism is a free-market economy with privately owned means of production, and wage labor.. But this definition is not enough. We want to define what the best capitalism which we could imagine should look like, because we do not want to compare a flawed real-life capitalism with a shining idealized socialism.

50:3/o Capitalism advocates are not unanimous in opinion of what they think is best either. - certain key contrasting models must be compared against one another.

CONSERVATISM VS. LIBERALISM -these are problematic, ambiguous terms.

LIBERAL = intellectual and political tradition of liberty and laissez faire.

-yet these are elements of contemporary conservatism. -sometimes liberal is used to mean the non-socialist welfare system that is opposition to modern conservatism.

51:1 CONSERVATIVE is an ambiguous term. -it connotes resistance to change. -yet some conservatives promote revolution. -non-socialist opposition to this conservatism known as MODERN LIBER-

ALISM -conservatism is actually CLASSICAL LIBERALISM - the names and their meanings change depending on who is using them and why.

51:2/o Contemporary conservatives are heirs of Adam Smith. - they want no government interference with the market. - they're critical of welfare programs, labor unions, and Keynesian deficit spending. -they see GOVERNMENT REGULATION AS THE MAIN PROBLEM.

52:1 Conservative economists are proponents of the neoclassical paradigm. Milton Friedman and Friederich Hayek are the two most famous economists from this school of thought. Friedman most influential economist from mid 60's to mid 80's

52:2 Robert Nozick is the most prominent of the conservative philosophers. They support a strong commitment to: -liberty -questioning equality -aversion to government control (be it democratic or not) -the rights of the individual over the authority of the state.

52:3 Within modern liberalism there is a divide over the fruitfulness of neoclassical economics. - Classical Liberalism embraces the neoclassical heritage without reservation. Many modern liberals support neoclassical economics also. Old-fashioned liberals from the Franklin Roosevelt - Lyndon Johnson era are "Keynesian Liberals" The supporters of "Keynesian Liberalism" are opposed by "post-Keynesian Liberalism." Within post-Keynesian Liberalism there is the earlier post-Keynesianism and the more recent "new liberal." We are most concerned with the NEW LIBERAL variant.

53:1 From the Great Depression to the Early 70's Classical Liberalism gave way to Keynesian Liberalism. -in 1960's Keynesian Liberalism was the most popular school of economics. - this was "new economics." -In the 70's Keynesian liberal policies came into trouble. -there was a split between the left and the right.

53:2 Keynesian Liberalism holds to the main tenets of neoclassical analysis. -a free market with government control, -unemployment is a major concern.

53:4/o The Keynesian / Post-Keynesian split is more undefined in philosophy. - most philosophers are modern liberals and are opposed to classical liberals. - they value liberty and equality - unlike socialists, they don't think a radical restructuring of capitalism is necessary.

54:1 John Rawls is a Keynesian liberal philosopher. He promotes "fair capitalism."

54:2 Post-Keynesians are sympathetic to much of Keynes' work. Yet they disagree strongly to his suggestion that neoclassical theory comes into its' own

when the government acts to secure full employment. Post-Keynesianism has two versions too.

54:3 EARLY -they believe large corporations and organized labor render neoclassical "perfect competition" useless.

55:1 LATE -they have the conviction that neoclassical categories impede an understanding of the world. They see the focus shifting from the national to international level because of foreign trade and multi-national corporations.

55:2 Lester Thurow is a prominent Post-Keynesian theorist

55:3 WE NOW ARE GOING TO COMPARE ECONOMIC DEMOCRACY (SOCIALISM) AND CLASSICAL LIBERALISM'S LAISSEZ FAIRE IDEAL (CAPITALISM)

4.2.1 Capitalism: Laissez Faire

55:4/o -no classical liberal is an advocate of total laissez faire -yet they do believe the economy should run itself.

56:1-3 How can such a complex economy run itself? Adam Smith's "Invisible Hand" theory! Greed is balanced by Competition. Supply is balanced by Demand.

56:4 in complete Laissez Faire the "invisible hand" controls everything : stocks, land usage, consumer goods, etc.

56:5/o Classical Liberalism believes in: Liberty Laissez Faire "the government which governs least governs best."

57:1-2 Laissez Faire not only promotes liberty but also is claimed to be very efficient.

57:3-4 In neoclassical Laissez Faire the consumer is King The entrepreneur is there to serve the consumer, they produce what is demanded.

57:5 Under Laissez Faire the consumer is also considered to be an owner of the factors of production (land, labor, capital)

57:6 Ideally, such an economy circulates without government intervention.

57:7/o How to define efficiency? -utilitarian optimality was discarded as a means of judging how people are best served economically. It was thought to be unscientific. Under Pareto Optimality some people may be better off than others but no one can be made better off without making someone else worse off, (If everything belongs to one person, this is Pareto optimal).

58:1 For Pareto efficiency to hold competition must be perfect (no monopolies).

58:2 Pareto Optimality means: there is no dead-weight inefficiency.

58:3 A monopolist renders Pareto-optimality ineffective. He can be made better off while making others worse off.

58:4/o If a Pareto-optimal system were begun with an unequal initial distribution of resources, then a perfect competition equilibrium would be reached if everyone receives as much or more goods than they began with. -some will get even more.

59:1 EXAMPLE

PERFECT COMPETITION

FIRM A FIRM B

5 5 begin

10 10 end

-if firm A were to act as a monopolist it could obtain 12 and firm B might fall to 6 -this is not Pareto-optimal because by firm A acting monopolistically it gets more but firm B gets less. Not only does B lose two units to A, two units are completely lost.

59:3-60:2 Three basic claims in support of Laissez Faire are 1. Liberty 2. Efficiency 3. dynamism, initiative, growth. Not even Marx denied the dynamic nature of capitalism.

60:3 THE GRAND COMPARATIVE ARGUMENT FOR CAPITALISM IS: 1. It is more compatible with liberty 2. It is efficient 3. It is dynamic

4.2.2 Socialism: Economic Democracy

60:5/o We will discuss various socialist experiments, learn positive and negative lessons from them.

Yugoslavia

61:1 First a Socialist so-called Failure: Yugoslavia in 1948-49 was boycotted by the Soviet Union. - Yugoslavia began a decentralized socialist economy with worker self-management of factories.

61:5 For a long time this had impressive results: from 1952-60 Yugoslavian economy grew fastest in the world

62:1 The standard of living there improved dramatically, was also the freest of all Communist states.

62:2-4 In the '80's the Yugoslavian economy collapsed -Unemployment was high In the 90s ethnic war broke out

62:5 Why did this happen? (the answer will come in later chapters of this book)

Japan

62:6/o After WWII social reforms were instituted in Japan - female suffrage -organized labor - liberal education - abolition of autocratic government -democratized economy (no monopolies) - a wealth tax -land reform

63:1-2 Because of the threat of Communist China this path was abandoned and Japan was turned into a large capitalist economy that could fend off the threat of communism and fund defense spending.

63:3 Japan actually started its' economic redevelopment back in the late 1800's by beginning to industrialize.

63:4-7 **CENTRAL FEATURES OF THE JAPANESE ECONOMY** 1. Large scale state intervention 2. A dual economy (A few big corporations and lots of small businesses) 3.Lifetime Employment -worker bonuses -worker participation in decision making

64:1 Japan now accounts for 10% of the world's economy, but this comes with a price. -People are slaves to school and work their whole life!

69:2-70:3 (2) The socialist economy is a market economy -the market makes the alignment of personal and social interests rapid and efficient.

69:3 -prices are set by the market.

70:2 -enterprises in the economy strive to make a profit. -that is, they strive to maximize the difference between total sales and total non-labor costs -labor is not another factor of production (people are not treated as a commodity)

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Plan

Plan

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Mondragon

63:4-64:1 The co-op system started in the Basque city of Mondragon.

64:2/o A priest started a school system that flourished and turned into a co-op -Mondragon is now huge!

65:1 Mondragon firms are more successful than capitalist firms

65:2 Mondragon is run with a democratic system. Workers have a say in what happens.

65:4-66:4 Mondragon built a network of schools and universities to provide their firms with skilled workers. This is one of the keys to their success.

The Socialist Model of Economic Democracy

66:5 has features of the three forementioned systems (Yugoslavia, Japan, Mondragon)

-Economic Democracy is worker managed market socialism -Our model will be more democratic than either Yugoslav socialism or Western capitalism

67:2-68:3 This model has 3 basic features: 1. each productive enterprise is managed democratically by its' workers. 2. the day-to-day economy is a market economy. 3. New investment is socially controlled.

68:4-69:1 (1) Workers manage the firms, but they do not own the means of production. -it is collectively owned property of the society.

Chapter 5

Nove's Theory of Feasible Socialism Revisited [Nov91]

5.2 Socialism and the Soviet Experience

Most of the 15 Sections (or are they Chapters?) in Part 2 address centrally important issues in thinking about socialism.

- A. Introduction
- B. Externalities and 'Internalities'
- C. Shortages and the Seller's Market
- D. Planning Indicators and the Evaluation of Performance
- E. The 'Curse of Scale', Innovation, and Bureaucratic Fragmentation.
- F. Is it Planning?
- G. Class Structure, Labor, Wages, and Trade Unions.
- H. Agriculture and the Peasants.
- I. Investment Decisions and Criteria in Theory and Practice.
- J. Mathematical Methods and Programming.
- K. Growth and Full Employment.
- L. Foreign Trade.
- M. The Cost of What is Missing.
- N. Conclusion: Centralized Planning and Democratic Socialism.
- O. A Short Digression on 'Ideology.'

Introduction

71:2 Part 2 discusses traditional centralized system, while Part 4 will deal with attempts to reform this system.

72:2 How to approach this issue. We can look at it historically: war communism, NEP, theoretical controversies of the 20s. Or compare the reality in the Soviet Union with what Nove calls the Marxian prophecy; not only criticize it from Marx's point of

view but also how this experience criticizes Marx. Or look at planning as a technique. Or look at it from standpoint of the rights of the working masses: how much control do they have over their leaders, over the means of production, over the disposal of the product? If this is done realistically without falling into utopian criteria we can learn from the Soviet experience about what kinds of relationships *could* exist in socialism. Or look at it from the question of economic laws under socialism (look at minority views).

Question 147 *Why (and how) look at the soviet economy and its performance?*

Question 148 (73) *The political economy of the USSR can be interpreted from a number of different perspectives. Under which perspective will, in Nove's view, a socialist theorist approach the issue?*

Question 149 *Around which general problem areas might one structure an overview over the Soviet Socialist experience?*

74:1 The following discussion cannot be all these books. It can also not give all the facts on which it is based.

Externalities and 'Internalities'

Nove uses this as an example how he will proceed.

Question 150 (74-6) *In one sentence of plain English, what is the important issue that Nove discusses under the heading "Externalities and 'Internalities'?" In a single second sentence, give his position on overcoming the basic problem.*

Question 151 *Which is the big catchword which maintains that in capitalism, individual interest and general interest are aligned?*

Question 152 *Can one reconcile the particular interest and the general interest in politics?*

Question 153 *Consensus decision making is an alternative to democracy in reconciling the general and particular interest. Explain its principles.*

74:2–3 Can externalities be overcome? Is it possible under socialism to internalize externalities, that is, to decide by reference to the general interest? Far more difficult than one might think. This is not merely the issue of private property of means of production, but that of the separation of decision making units. Can also happen in classroom allocations or timetables.

Question 154 *What is the main problem with externalities according to mainstream economics, according to Marxist economics, and according to Nove?*

74:4 Departmentalism or localism obstacle to internalizing externalities.

75:1 Examples: decisionmakers neglect the interests of different areas; strong tendencies to self supply.

75:2 it is a problem of sheer size: to consider everything in the context of everything else is plainly an impossible task.

75:3 We can learn from the Soviet example: the drawing of the right boundary lines of responsibility is important.

Now Nove makes one of his digressions lashing out against Marxists: New left argues Soviet experience is irrelevant, because there are differences of interest between workers, managers, planners, between leaders and led.

74:5/o Back to the subject, the picking of the right boundary lines, which mitigates the problem. In SU they considered putting agricultural machine design and production and also storage and transport of farm products under one organizational framework together with agriculture.

According to Nove, this does not eliminate the boundary problem but merely changes the boundary. But some boundaries are much better than others! The selection of the boundary is therefore very relevant. When Nove says that every boundary is imposed and bad, he ignores that there are real boundaries.

Question 155 *(2 Points) How can externalities be mitigated by changing boundary lines of responsibility?*

Then he brings another point: shortages, which come from emphasis on growth.

Shortages and the Sellers' Market

76:1 Tries to distinguish between scarcity (if “raw” demand, i.e., demand not qualified by either price or rationing, exceeds supply) and shortages (legitimate claims on resources cannot be filled).

Question 156 *Nove distinguishes between shortages and scarcity. How are they different?*

Regarding scarcity, he does not talk about any intrinsic limits to demand. Regarding shortages: here I like the word “legitimate,” but then he continues: even though they have the money, as if money makes a claim legitimate.

Question 157 *How can shortages arise?*

Nove first gives as reasons why shortages can arise: natural causes (drought), unforeseen circumstances (events abroad), imperfect foresight (demand was underestimated). By implication he says here: a planned economy cannot work because one cannot know the future. Further reasons are deliberate policy (retail prices are not increased although demand is known to exceed supply—here his bias shows through: not using a market solution is deliberate mismanagement!), or because of an overambitious plan for “mobilization” purposes).

Question 158 *(3 Points) Why did the “classical” planned economies have so many shortages?*

Question 159 *Define what it means for a plan and the economy to be taut. Can that be avoided under planning?*

76:2 Kornai and Bauer say that overtight plans, are in principle not necessary but are generated by certain social and political forces. Nove adds in the real world with unsatiated human demands there will always be this pressure.

Question 160 *What is wrong with “tight” planning?*

Question 161 *If there is economic democracy, does this mean consumerism will reign?*

It can be shown that full employment must entail shortages, because there are unforeseen elements which cannot be accommodated if everything is fully employed.

This is the same thing as Bhaskar saying that a world packed with positivity cannot have change.

Nove argues that unemployment has a good side effect.

In 77:1 he argues furthermore that insufficient demand has good side effects, because a seller’s market has undesirable features.

Question 162 *Does it hurt economic performance if buyers (consumers as buyers of finished goods and factories as buyers of inputs) cannot choose who to buy from?*

77:2 If there is a seller's market, sellers can neglect the requirements of the buyer and find that it is beneficial to do so. Buyers have the right to refuse substandard goods but rarely do so.

People are too nice to each other, they do not want to criticize each other. Mao's liberalism.

Question 163 (2 Points) *Why are sellers' markets undesirable?*

77:3 When there are shortages, people hoard, which exacerbates the shortages.

Question 164 *How are shortages self-reinforcing?*

77:4/o Shortages are consequences of what he calls Soviet-type inflation, i.e., repressed inflation: too many dollars chasing too few goods and prices are not allowed to rise. Output is below plan, therefore people's incomes are too high, or investment projects are too ambitious. People have savings accounts and rapidly rising prices in private farmers markets.

Question 165 *Describe what Nove calls the Soviet version of inflation. Why does he call it that?*

78:1 Urged to cut cost, firms, instead of eliminating waste, pass on their cost to the consumer. Install machines but do not service them, or have customers waiting in line.

Planning Indicators and the Evaluation of Performance

Question 166 *Profits serve as a measure of performance of an enterprise in a market. What does Nove see as a reasonable alternative for measuring performance of an enterprise? Give an example of a success indicator that has been used, and a possible economic problem the use of that indicator could lead to. What are two key problems he discusses for (most all) indicators? (excepting homogeneous goods especially for one of these problems.)*

Question 167 *What are the two basic problems with success indicators?*

78:2/o There are 12 million different products, but only 48000 planned positions. Therefore there is aggregation 250:1, and any aggregation invites misuse.

Question 168 (3 Points) *Give examples how aggregation in planning invites misuse.*

79:1 Very well known and much studied problem.

79:2 Also the *enforcement* of quality, as opposed to quantity, is difficult. Nove can be forced to give 50 lectures, but not to give 50 good lectures. And: who says the product is good? this cannot be the planner, must be the user.

79:3/o This is called the success indicator problem.

80:1 Solution must be horizontal relations between suppliers and consumers. (horizontal = direct = not through the planning authorities).

He says this is the market approach, but horizontal integration can be achieved by non-market means as well.

Question 169 (80) *What is the key that Nove puts forward for guaranteeing that the consumer gets what she wants, and what misnomer does he apply to that concept that confuses the debate?*

80:2 Two examples where the success indicator problem does not exist: completely homogeneous products like electricity, and where the center itself is the consumer (armaments).

Regarding electricity: kilowatt-hours cannot be the only measurement. If they have interruptions, if the voltage is low or variable. I guess there is not just one number but several numbers together will allow a pretty good evaluation of the output.

Question 170 (3 Points) *Give examples of the success indicator problem, and situations where there is no such problem.*

Is Nove's answer that one must rely on profits?

The Curse of Scale: Innovation and Bureaucratic Fragmentation

This is a polemic title. He really starts with Bureaucratic Fragmentation, then innovation. These are among the things that were economically absurd in the former USSR. Then he says it is due to scale, which implies that every socialist economy has these problems.

Nove brings out all the arguments that have ever been used against a non market economy. That is the great value of this book- though Nove considers himself (at least when he wrote this book) some sort of socialist (specifically, a market socialist), he brings up most all the arguments in defence of markets that any precapitalist theoretician would bring

up. It is important that we understand these arguments, regardless of if one is for markets or against them. What is difficult about Nove is that he just strings together all the anecdotes and issues that he knows people have talked about for years, but he is very sloppy on making his logic clear- he first brings up an issue, then jumps around for some theoretical base, then on to another, then jumping again, and so on. The 2nd and 3d paragraphs on pg 83 are good examples of this. He has finished another list of things the USSR did wrong, and now he is looking for a reason. He opens the 2nd full paragraph by saying the problems are intrinsic to being at a big scale. (He comes back to this a page later, the end of the 1st full Para. on p 84, after an excursion to another point.) But then in the middle of the same paragraph on p 83 he switches to another theme he often returns to, lack of markets is the root of all problems, a theme he repeats in the next paragraph. (Note he specifically says it is not a lack of democracy and too much despotism, as Albert and Hahnel would put forward (or myself, for that matter), but it is a lack of markets that must lead to the problems they had in the USSR. Of course for him, the one follows from the other- lack of markets must lead to a "one party type of hierarchical organized despotism." (83) But the lack of markets is the key, and the lack of democracy just follows, in Nove's vision.

Question 171 (83-4) *Nove feels that in order to get a model free of the endless list of problems he has given for the USSR, what is it that is absolutely and centrally needed?*

Question 172 (82, 83) *What role does scale play in Nove's thinking, and how important is it?*

80:3/o Important distinction between longer term plan and the current operational plan (adresnyi)

81:1 Offices allocating the materials are different offices than those issuing the production plans. Input-output techniques of limited use (a) because they are still aggregated, (b) because product categories not the same as the administrative units.

Question 173 *Why can modern input-output economics not solve the problems of planning in a socialist society?*

81:2 Multitude of other plan objectives, which contradict each other. If a plan is changed, not all of its components are changed.

81:3 production units hoard inputs, and they do not want to perform too well, because then too much will be expected of them.

81:4/o Technical change like any change is very difficult.

82:1 Diffusion of technical change a problem, not a problem in capitalism.

82:2 Capitalist monopolies are much more enterprising than socialist monopolies, because they have to fight for their monopoly positions. If they make excess profits or quality declines they may attract competitors.

Question 174 *How does the behavior of capitalist monopolies differ from that of socialist monopolies?*

82:3 Fragmentation of machinery production, lack of standardization. No idea why.

82:4/o Plan instructions are contradictory, ambiguous, often the plans are written by their recipients (which should in principle not be a bad thing.)

83:2 The fundamental problem in all this is scale. It is not bureaucracy or lack of democracy: this would put the cart before the horse.

83:3/o This highly complex centralized planning mechanism calls for the undemocratic party leadership, because it does not want to be disturbed by this democracy. If a leftist would say something like that it would be called the crudest technological reductionism. Nove argues for direct interaction between producers and consumers, but equates that with the market!

84:1 This need of horizontal relations is then satisfied by self-supply and unofficial horizontal links between enterprises.

Question 175 *What are vertical and what are horizontal relations in a planned economy?*

84:2 Gyorgy Markus calls this the third economy, in addition to the second which is the private enterprises.

84:3 Producers would not even be able to act in the general interest if they wanted to, they don't have the information!

In the bargaining process, the largest most centralized units win.

84:4/o In the absence of terror and a despot, the nominal command economy turns into a bargaining economy. Which seems to me: in the absence of an overriding purpose. They try to make it like a machine, rather than a self-directed activity. Pavlov's dog.

85:1 Contradiction between organization by region and by industry.

Question 176 *Nove feels that because of the size of the economy one must divide up responsibilities.*

Which principles were used to divide the economy into sectors, and give advantages and disadvantages of each.

Question 177 *How good was, in the view of Nove and many Soviet commentators, the coordination and cooperation between these sectors?*

Question 178 *Describe the advantages and disadvantages of organization by region versus organization by industry.*

85:2 Same products are produced in enterprises under a number of different ministries.

Is it Planning?

The question is too abstract. We need to know planning for what?

Question 179 (3 Points) *Some people argue that the Soviet economy was not a planned economy. List as many arguments as you can muster for or against, and give your own opinion.*

86:1 Plans are usually unfulfilled by a wide margin, and even if fulfilled, outcomes often diverge from intentions of authors. False information. Nove says this means it is bad planning, but still planning. Instructions subject to bargaining, inconsistencies, goals altered within period when they apply, in order to justify the claim that they were fulfilled. These are better arguments that it is not planning.

[My answer: it is not a yes-or-no proposition but it is a process.]

Question 180 *Very briefly give the 3 different arguments by Zaleski, Wilhelm, and Ticktin that the USSR did not have a planned economy, and simple counter arguments.*

Get Eugene Zaleski's book from notes on p. 125.

How do individuals do intentional activity? They want to do certain things, but they don't foresee everything. Much of their planning is not conscious! Indeed Freud said that the most important decisions are and should be made unconsciously.

The scale problem means you cannot do it from scratch at every instance. You somehow have to do it incrementally. This is also what real markets are doing. Nove may be suffering under the illusion that the economy is a Walrasian system.

Wilhelm sees some positives in the fact that it is not planning: this is how it can be affected by consumer demand and base itself on the actual achieved levels.

Wants to go back to Lenin.

Nove's disagreement with Xaleski: most of what happens happens because of a plan, that is why you have to call it a planned economy. These are two different things.

86:5 About J. Wilhelm.

87:2 Never explains how non market non-bureaucratic planned economy would work.

Class Structure, Labour, Wages, and Trade Unions

87:2 The we/they distinction is real, necessarily created by the hierarchy inherent in a central plan. Workers are not co-owners. The planning hierarchy, nomenklatura, defines an army-like power structure. The ones in the upper echelons define the privileges which go along with it and can prevent discussion. Everyone know about the special shops for the higher officials, but nothing written in any publication because of censorship. This changed with glasnost after 1986.

Question 181 (p. 87) *What kinds of privileges did the ruling elite have in the Soviet Union?*

87:3/o Who rules? Everyone is identifiable by a rank, but with which rank does the ruling class begin? This is again a methodological individualist view of society.

Question 182 (88) *"Is the very existence of a distinction between rulers and ruled already evidence of the non-socialist nature of the Soviet Union? Should industrial managers, planning officials, chief engineers, ships' captains, newspaper editors, be elected, and if so, by whom?"*

88:1 Category mistake confusion between decision making and exercise of power.

88:2/o Interesting: Soviet firms were hierarchically organized, unlike the Yugoslav model. That had its reasons, there was not much the workers could decide, the firm had to fulfill the plan. On the other hand, the workers had a lot of influence, because there was labor shortage: goslovs, absenteeism, drunkenness, petty pilfering. Workers are free to resign and go elsewhere.

Question 183 *Why were firms in the Soviet Union organized hierarchically? Why did this hierarchy in the firms not work very well?*

Question 184 (89) *The picture presented in the West for 60 years was of a terrorized population that*

did whatever the authorities demanded, out of blind fear. What does Nove say was the actual situation of the Soviet workforce in relation to their employer, the state? Specifically what was their situation as far as the ability to change jobs if they felt like it?

89:1/o Wage determination. “To each according to his work” should reflect skills, responsibility, and the burdensomeness and unpleasant nature of the work.” I disagree. Neither skill nor responsibility should be factors increasing the wages. Albert and Hahnel solved this by making job complexes uniform and then just paying by the time. Without this maybe one can institute some kind of effort, saying some work is harder than others and should be paid more. It can be harder because it is digging ditches and you sweat a lot, or it can be harder because it is highly taxing skilled job, like a psychotherapist. Then Nove says it is still difficult to quantify differences. I would agree yes it is difficult, and will never be fair, but one can work on it. Cubans tried to do this over the years: have a uniform wage scale. Nove: under conditions of labor shortage one has to set the wage such that one gets enough people, or make the job more attractive by evading regulations, etc., which is easier in some situations than in others. I: Yes, these should be temporary deviations from the uniform wage. Nove: Relaxation of control over the wage bill in 1988 led swiftly to a wage explosion.

90:1 Material incentives are needed, it is either inducement or compulsion. The third alternative, to convince people that this is what should be done and voluntary cooperation, is not included in there, not even as a tendential goal. One has to modify the system somehow that it moves in that direction; it is not a static issue.

Question 185 *Nove argues: (p. 90) “Soviet experience suggests that material incentives (by which is meant paying one job more than another) are needed.” How could opponents of market socialism answer this claim by Nove?*

Question 186 *(90) A part of the equality that is an essential part of most socialist visions is equality for women. How did the USSR do in this regard?*

90:2 Women as much underpaid in USSR as in West, not surprisingly taking the cultural attitudes of workers towards women (in a state in which workers become the bosses). Nove puts up a straw man when he says Marxists think women’s oppression comes from capitalism. This type of argument shows that Nove has a secret agenda: he wants to prove Marxism wrong by the experiences of the Socialist countries.

90:3/o Trade unions have dual function: protect workers and being connecting rod to the masses. Nove does not ask whether it is possible that the same organization has those two functions. Lenin said: yes workers need protection in a workers’ state; state can have bureaucratic deformations, and management may disregard workers’ rights—i.e., I guess this follows from the authoritarian structure inside the plants. [McA69] shows that the unions protected somewhat. But Poland 1980 and USSR 1989 show that the workers bypassed the official unions in their strikes.

Question 187 *(2 Points) What were the two functions of trade unions in the Soviet Union?*

91:1–2 Interesting question: should socialism have militant unions fighting for the workers’ demands? We will always have scarcity, and the problem of sectional interests poses a real dilemma.

Question 188 *Should socialism have militant unions fighting for the workers’ demands?*

Question 189 *(90-1) Trade unions were seen in the USSR to perform several things. Did Nove think that unions in the USSR did protect workers against management, and what did he see as the main role they played?*

Question 190 *(91) Give the argument Nove puts forward (and opposes) as to why trade unions will not be needed under socialism, and give the basic reason why Nove thinks they will always be needed under socialism.*

Agriculture and the Peasants

Al: On page 92 he makes two claims that are basically wrong, at a minimum they must be said to be misleading. The Bolshevik party did not consider itself to be “engaged in transforming society against the will of the majority.” Lenin wrote extensively on the position of the peasantry, and his views on this were the official party position. Among individuals in the party, there was a wide spectrum of different views, from those who did think one had to change society against the will of the peasantry, to those who were for essentially reestablishing at least full markets for the peasants (Bukharin, Kamenev, etc). But his claim on the official position is basically wrong, until Stalin took over (Stalin did indeed think it was necessary to change the position of the peasants against their will- but again, before that, this was never accepted as a policy by any leaders, including Trotsky

and the so called left who indeed were for picking up the pace of transformation in the countryside, but never involuntarily.) Second, the claim that Trotsky was for "less democracy" in the party is very misleading- he was for less debate and "closing ranks" in the middle of a war (as many leaders in the US have often called for), but he was not for a principle of less democracy in the party in general to stamp out petty- bourgeois influences, as Nove implies.

92:1 Important question: should one industrialize a country at the expense and against the will of a majority of its inhabitants?

92:2/o Agricultural cooperation is not the same as Soviet-type collectivization. The latter was not voluntary, and did not have self-government. It was more like serfdom again, with farmers receiving the residual income, and often only able to survive because of the private plot and livestock. Deportation of Kulaks was disastrous and nobody else copied this from the Soviet Union. Here compare also 124:2 about ideological underpinnings of this planned collectivization.

Question 191 (92) *What does Nove put forward as the two key differences between agricultural cooperation and soviet-style collectivization? What would proponents of socialist collectivization argue, in regards to these two differences, should occur with socialist collectivization?*

NOTE on this, Nove points out p 92 that in theory state farms were democratically controlled by their members, just as in theory factories were (in fact maybe more so in theory), but in practice there was no democracy in the USSR- I would argue the problem here is the rise of Stalinism once again, not anything intrinsic to collectivization, or at least I would argue that socialist collectivization was not tried in the USSR.

NOTE also the further points Nove makes about the collectives, first that they only got residual revenue after the state took its share, unlike the factories, and that in practice they ended up being much worse paid than factory workers, a breach of the socialist idea of equality, and something that lead to a lack of desire to work on the collective. This is not just an issue of a slightly worse pay, but some estimates of the number that starved (above all in the countryside, when the forced collectivization was first implemented by Stalin) go into the millions. NOTE that those who did survive did so from what they could produce off their private plots. Thus in some ways this one aspect of the system looked on the surface something like the old feudal system, where you

were obliged by law and force to work on the lord's land, from which he got the full product, and you supported yourself from your work on a small piece of land allotted to you.

93:1 After 1960, farm incomes increased a lot. Farmers used to say: why work, we won't get paid anyway; now they say: why work, we will get paid anyway.

93:2 Productivity in agriculture disappointing. Why?

93:3 Bernstein argued that large scale capitalist production showed diseconomies of scale.

94:1 Farms in Soviet Union very large: labor force of 500 or more, scattered in several villages. Supervision problem: shoddy work can go unnoticed (careless ploughing can cause bad harvests but remain unattributed). Soviet author: "to kill the peasant's love of private property we had to kill his love for the land." Incentive give perverse results. Weather and other chance results disqualify output as a success criterion.

Question 192 (3 Points) *Why were the large farms in the Soviet Union inefficient?*

Question 193 (93) *What does Nove indicate as the two most central reasons that soviet agricultural performance was not better? (94-97) What does he propose concerning each of these problems?*

94:2 Lack of commitment of peasants for their work necessitates disruptive annual mobilizations for the harvest. 1979 exceeded 15 million, which was 2.4 times more than 1970.

Give examples of diseconomies of scale in agriculture.

94:3/o Marx, Kautsky, Lenin grossly overestimated the economies of scale and ignored diseconomies of scale in agriculture. [Ell81] and [Wäd82]. Exacerbated by interference with farm management by party and state authorities. Examples.

95:2/o Problems in the coordination between agriculture and industrial supplies and equipment. Suppliers maximize output in roubles rather than harvest yields. Examples. Could not be solved by forming an agri-industrial complex which was dissolved in 1989.

96:1 For a long time peasants did not get internal passports, therefore could not change their residence.

96:2 Private plots have higher yields, but it is not 8:1 as it it sometimes claimed.

96:3/o Private production also has many handicaps. Nove is talking about institutional obstacles, not intrinsic handicaps.

97:1 Planning difficult because of the many local peculiarities. Hungarian experience was much better and was not against socialism.

Investment Decisions and Criteria in Theory and Practice

97:2/o Several questions.

Question 194 (97) *Investment planning is a complex issue. Nove enumerates several aspects that must be thought about. Each of these aspects can be formulated as a question. Write down these questions, and also very briefly give possible answers to these questions.*

How much to invest (percentage of GNP or so), what to invest in, criteria which investments are appropriate, who decides it, democratic inputs, making sure investment goods are produced.

Nove stresses (bottom, 100) that economic theories about investment in the West are neither complete nor satisfactory. On p 102 he brings up another issue we discussed in A&H, the point that different investment decisions should be made at different levels- in particular, some locally and some nationally. Then there arises the issue of who decides which are to be made where, and again on what criteria?

98:1? Regarding investment goals and criteria, the pathbreaking debate about development strategies in the 1920s.

98:3-99:1 Stalinist overinvestment and disruptions caused by it.

99:2 What drives the political leadership to overinvest. Pyramid complex?

99:3/o Emphasis on the big and spectacular is part of the success indicator problem. Economies of scale, large units are easier to plan. Disadvantages: certain specialized tasks are advantageously produced by small productive units. Large firms are alienating. [I don't see the necessity of this.]

Question 195 (102) *What is "gigantomania," its causes, and its effects?*

100:1 Minor but essential investments, auxiliary tasks, are often neglected.

100:2 Among the criteria how to invest they decided on the shortest payoff period. But some important investments do not fit in this, have low payoff, for instance energy.

100:3/o Western investment criteria neither satisfactory nor complete. Conflict between rate of return calculations and material balance calculations. How about flexibility, universality?

101:1 Nove does not mean to underestimate prices. But prices cannot be the only landmark for investment decisions.

101:2 Even if one uses Soviet prices, since they are arbitrary and do not measure what they "ought" to be measuring one gets arbitrary outcomes. The underlying issue which Nove does not address is whether a one-dimensional price can be a non-arbitrary measure for the issues at hand.

101:3 Nove doubts that one can make nonarbitrary rational decisions in the absence of prices. But he says that he will come back to this. Let's see where that is.

101:4 Who decides investments: It is the engineers who have to cost out the different investment projects, and what are their criteria? If planning goals are measured in rubles, they are likely to opt for too expensive variants.

102:1 Investment projects are decided at various levels of the hierarchy (not all of them are decided centrally) and they depend on the interests of the individual in charge.

102:2 All those investment projects decided below center do not see the full picture and can therefore not take into account all externalities.

Question 196 *How is the investment decision affected by who makes the decision?*

102:3 Empire building or people genuinely interested in their specialty all cause a push for too much investment.

Question 197 *Most economists both within and outside the USSR argued that the USSR invested too high a percent of its national income. Nove said this came both from national level decisions for too much investment, and local decisions. What does Nove argue is the central national reason this is done, and what does he argue is the central local reason?*

102:4?/o There is no cost against which to balance investments. Especially if it is financed by government grants, but even if it is interest-bearing loans (because of the soft budget constraint). If investment turns out to be a failure, then nobody can really be made responsible; when this becomes apparent then there will often already be a new director.

Question 198 (3 Points) *Why was it difficult to make decisionmakers accountable if there was misinvestment in the USSR and Yugoslavia?*

103:1 Problem that too many investment projects are started and then dragged out and not finished.

103:2 “Trade cycles” due to overinvestment.

103:3 Example: USSR chemical industry in the 50s. Was below need and Western standard, but structural change can only be initiated from the top, because it affects vested interests, and the very busy managers at the top perceive it only when it is very urgent. That happened with chemical industry: Khrushchev started a campaign leading to overinvestment after the underinvestment.

104:1 Make sure that structural change is not delayed by centralization.

Question 199 *Explain how centralization can get into the way of structural change.*

104:2 Proposes separation of powers, to make sure that decisions are not interfered with by interests.

104:3 In competition for resources, victory will go to those already in power.

104:4 Overambitious investment plans lead to shortages. I guess this is the definition of “overambitions”: those which lead to shortages.

104:5 On the positive side: planned investment can anticipate future needs and direct the economy down a rational path.

Prices in Theory and Practice

My view: prices are important; they must be consistent, otherwise they are misleading. One needs economic accounting.

104:6/o Introductory paragraph ridicules those who want to do away with market-determined prices as ultra-leftists. Ridicules those who say the product in the SU is not a commodity and the pay the workers get is not a wage.

105:1 The question is: What role should commodity relations play in a soviet-type system?

105:2–106:0 Debates about economic laws in socialism. Especially the law of value in socialism. Efforts to fix prices at values. [I should put that into my paper: how real is value?] [How about single-purpose money: food stamps, educational vouchers?]

Prices would help identify and prevent waste, but for this they must be rational.

106:1 Starts the paragraph by saying prices are only then rational when they “reflect relative scarcity, utility and demand.”

Many intertemporal decisions can only be done on the basis of prices. I am asking: what about input-output calculations?

Prices also necessary for decentralized decision-making.

Question 200 *What does Nove have in mind when he calls for “market-type prices?”*

106:2–107:0 Planned production implies an a-priori valuation done by the planners, which is undemocratic. Consumer should have some say in determining the value too. The only way out is that the consumer vote with a ruble.

Question 201 *One of the criticisms of planning is that it is not possible ex ante to determine the value (in use) of things, because one cannot tell if the consumers really wanted what you made. Is there some reason why one can’t run planning through a process of constant adjustments to inventory buildup or decline?*

Question 202 *What does Nove think about this possibility of constant adjustment of prices to inventory change signals? (109, 110)*

107:1 cites some literature in Russian. Book title: the measurement of costs and results. Criticizes prices based on cost, which disregards results, utility, and effectiveness.

One needs feedback!

Question 203 *What is wrong with prices based on costs?*

[His use of the term “cost based” is confused- he refers to it in the place just quoted as costs reflecting relative scarcities, but at the top of the same page he refers to Marx’s theory as cost based- Marx’s theory of prices of production did not take into account “relative scarcity” at all, so he is using cost in some different way apparently- he correctly points out that Marx’s POP theory was an equilibrium theory, which means that supply equals demand, which is why no considerations of demand are necessary, no considerations of “relative scarcity” are necessary because there is none, supply equals demand in the theory (it being “long term” or “center of gravity theory”). So Nove’s usage of “cost” bases of prices is confused, you should ignore that if you are confused, and just keep in mind that Nove is for prices adjusting according to relative scarcity. NOTE: This is key to why markets are good in his opinion.]

107:2 Coalition of dogmatists and traditional planners attacked this because it looked too much like the marginalist theory of subjective value.

107:3/o If prices are set by political considerations, instead of reflecting relative scarcity, then they can be misleading for decisions how to consume cheaply or how to produce effectively.

Question 204 (107-8) *If prices do not adjust to clear markets, as was the case in the USSR, what will be the result?*

Argument against market-clearing prices is that this prices the lower-income people out of the market.

108:1 But he says that the higher strata always find backstairs means to get scarce goods. Therefore low prices are not really fairer.

Question 205 *Is rationing fairer than market-clearing prices?*

108:2–109:2 Centralized production is in contradiction with atomized consumption. As long as there is no automatic feedback between the market shortages and the production apparatus, the resolution of this contradiction must go through the intervention of the central apparatus.

[This contradiction between social production and individual consumption is also around in a market economy; Marx's third conundrum in Chapter 2.]

109:3 Another point: there are upwards of 12 million prices. Administratively impossible to control them all. General price reviews only done at long intervals: 1955, 67, 81. Prices become quickly outdated. Also customer and supplier unable to negotiate a price which suits the circumstance of the case.

109:4/o This excessive number of prices is overlooked by the Lange model of socialist planning. But Nove asserts that it is not possible to have socialism without prices.

110:1 Price control also leads to evasion by changing product mix.

Mathematical Methods and Programming

110:2–111:0 Mathematical Programming and Input-Output Methods seem appropriate for planning, and Russians are good at that.

111:1 But there is no clearly defined objective function to put into that linear program.

111:2 More than one actor with conflicting goals. To me this looks like methodological individualist approach. We want to construct social structures, not determine individual courses of action. We want to enable the individual to decide. This is not possible as long as we distrust the individual's motives!

Kantorovitch has his "objectively determined valuations" which I should look at! Scarcities with respect to a plan. Once you have a plan you can set prices. Then Nove says he thinks it is the same as "planner's preference prices."

112:2/o If the center really exactly knew what is needed then one would not need prices. But they don't have enough information.

113:1 Multi-level linear programs are still not flexible enough for practical application.

113:2 As of now, mathematical socialism is not feasible, but this may change in the future.

Question 206 *What is "mathematical socialism," and what are its status and its prospects?*

Growth and Full Employment

113:3/o Central planning is justifiable in crude first stages of industrialization, but not in a later more complex economy.

114:1 Lifting oneself up by one's bootstraps without the wasteful accessories of capitalism (like import of consumer goods for the capitalists).

114:2 But industrialization of a country under siege has nothing to do with socialism. I would object to some degree: it is an attempt to take the social structure into one's hands.

114:3 Growth rates have been exaggerated, Soviet Union still low in terms of infant mortality, telephones, and paper per capita.

Question 207 *Some people argue that an efficient planned economy can only exist in an advanced economy, in line with the ideas of Marx. Other people argue exactly the opposite—that a non market economy can do better than a planned economy only in a backwards economy, where the number of decisions the central planner have to make is much smaller. Still others say that a planned economy can never do better than a market economy. What position does Nove seem to take (he is not crystal clear) in this section?*

Question 208 (p. 115) *Nove argues it is difficult to measure growth in the USSR. Why can't one just look at the total value in roubles from one year to the next and calculate growth? (We will assume no inflation, that is not the main issue.)*

Foreign Trade

Al: Nove says here, "this whole controversy on trade and prices can be regarded as a special case of the wider issue of the role of markets and the price mechanism," So in this section he brings up the same issues he has brought up before on prices and markets, but in a different context, so it is interesting. But we will have no questions on this section specifically, to try to keep down the number of questions.

115:2 Unnecessary paragraph that Marx wrote nothing about foreign trade between socialist countries, even his capitalist Weltmarkt book remained unwritten.

115:2 USSR, Chechoslovakia, China, Cuba etc traded with each other and also with the West.

115:4/o But there was no joint planning. Weak agreements on specialization. Obstacle was shortages and fear that domestic needs would get priority.

116:1 Another obstacle was the bilateralism implied by the coordination of plans; multilateralism too complicated here.

116:2 Trade at what prices?

116:3 Used capitalist world market prices. These world market prices are not related to anything in these countries, therefore undesirable effects.

Question 209 *What are some of the difficulties if different socialist countries trade with each other?*

No joint planning, but bilateral (not multilateral) agreements. Use capitalist world market prices.

The Cost of What is Missing

Question 210 (117) *One of the Sections in Nove is called: "The Cost of What is Missing." What is he talking about in this section—what is it that he is concerned about the cost of its absence?*

117:4 Elimination of small-scale enterprise and absence of small-scale traders.

117:5–119 Private entrepreneurs should be allowed to fill in the gaps of the plan and benefit from it; this would not harm anyone.

119:2 Power of the state both too big and too small: were able to eliminate private entrepreneurs but could not replace them, since their own plan assumed omniscience and omnipotence. Bhaskar calls this the "cognitive triumphalism"

Soviet planning system projects by its nature a very rosy picture of capitalism, just as capitalism projects a negative picture of socialism.

Conclusion: Centralized planning and Democratic Socialism

120:1 No Marxist should be surprised that (again a phrase which shows his secret agenda: rub the Marxists' nose in the failure of Soviet-Union type socialism) centralized planning is conducive to authoritarian political structure. Dissidents could be controlled very effectively by depriving them of employment.

120:2 Apparent perversity of some decisions: they preferred state farms over collective farms over private farms, although productivity was just the other way around.

Question 211 *Why did Soviet planners prefer state farms over collective farms over private farms, although productivity was just the other way around?*

120:3/o Had negative effects for scientific research, grass roots innovations in any field, quality of leading personnel.

Question 212 *Give examples of the detrimental effects of an oligarchy which claims dominance in politics, economics, and in thought.*

121:1 Many such negative effects became more widespread even before Gorbachev.

121:2 Important to learn how to avoid overconcentration of power, overcentralization of management, diseconomies of scale.

121:3/o Gorbachev tried to reform the system but was unsuccessful.

A Short Digression on Ideology

122:1 Very anti-communist leadin: why don't they do the reasonable thing? Because of ideology. Nove himself and his anti-communist readers of course do not have ideologies.

Ideology very important in their decisions. But not quite clear what their ideology was.

122:2 Their ideology was in contradiction with Marx and Lenin because Marx and Lenin started with unrealistic assumptions:

Question 213 (p. 122) *Which aspects of Soviet ideology were in contradiction with Marx and Lenin?*

Division of labor did not show signs of withering away; planning is done by centralized bureaucracy and not by associated producers. One can also say the following realities were in conflict with Marxist theory: Russian nationalism, refusal to allow free trade unions, preservation of capital punishment, strict press censorship, pseudo-'elections', one-party state. Depite proletarian internationalism, Stalin did not permit marriages with foreigners.

122:3–4 Dont deduce their ideology from their actions, this is circular.

123:1 Also the great-power interest of the Soviet Union.

123:2–124:2 Stalin's forced collectivization:

Question 214 *Which ideological elements were apparent in Stalin's forced collectivization of agriculture?*

Belief in planning (Nove apparently means: as opposed to market socialism, but it was also in contradiction with participatory socialism). Negative gut reaction to the market, view that petty-bourgeois is class enemy, equation of planning with tight state control of production and distribution, faith in economies of scale in agriculture.

124:5 Ideology is a set of blinkers which causes the wearer to reject certain solutions which might otherwise be possible.

5.3 Reform Models and Experiences

Some 'Revisionist' Critiques

127:1–128:2 How Nove would criticize Marx if he were a Marxist.

127:1 Essentials of Marxism consist of a method of analysis (Lukács).

127:2 Should put aside the Utopian, 19th century romantic aspects of Marxist thought [this is just the opposite of Bhaskar].

Point out inconsistencies in Marx. [Har81, vol. II]: in 48-50 he advocated strengthening state power, but in 1872 (*Civil War in France*) wanted to smash state machine and replace it by decentralized self-governing associations. This contradiction echoed in Lenin's *State and Revolution*.

Or redefine: only the mechanisms of class dominations wither away, the state's many other functions don't.

127:3/o Selucky: economic model was highly centralized, political model highly decentralized. Can such political superstructure rest on such an economic base? [Nove is disregarding that the base/superstructure paradigm may no longer be applicable. Another tack of criticism goes through Marx's cognitive triumphalism: you do not need centralization, but you need that the economy is shot through with communications.]

128:1 Soviet reference to contradictions in Marx.

128:2 Accepting these criticisms does not mean refuting Marxism or socialism.

128:3–129:1 Critique of Oscar Lange's model. (Example of a Marxist model).

Nove applauds everything that was similar to capitalism and critiqued what deviated from capitalism.

Lange himself in post war Poland said it had no practical application.

Division between consumer goods and investment goods is dubious.

One cannot have a market for ends without also a market for means.

Firms must be free to respond to supply shortages with investment (which is not provided for in the Lange model).

Lange wrote letter to Hayek that price fixing of the central planning board was just a methodological device, prices would in fact be determined by the market.

Model ignores external economies and diseconomies.

Model cannot cope with increasing returns.

Why would the managers act as Lange prescribes?

[This is a valid criticism. You cannot build socialism on the paradigm: you act as if so and so. People have to be free to pursue reasonable goals and not Micey-Mouse goals, and they need the right information. I can only see it grow out of capitalism. Instead of bringing a blueprint for socialism you have to bring blueprints for transitions, because that system itself works on the premise that if A is motivated, then it will pay for B to be motivated, etc. But you cannot assume that everyone will be motivated. You have to release categories of decision making from the market constraints, as people demonstrate that their motivations can carry it (better than the market).]

Question 215 (128 ff) *In Lange's model from the 1930s, was there a market for consumer goods? for investment goods? What did Nove think about Lange's treatment of these two issues? How were prices set in the consumer goods market? What does Nove think were particularly important questions that arise from Lange's model that Lange did not address?*

129:1–131:0 Ota Sik (Czechoslovakia) and Wlodimierz Brus. Marxist market socialists. Brus was important influence on Nove's views. He also criticized commodity fetishism. [Bru75], [Bru72], [Bru80], [Sik79].

131:1 Bahro wants to overcome division of labor with job rotation. Hegedus.

131:2 Others. Even Trotsky, whose modern followers say markets are the invention of the devil, talked about combination of plan, market, and democracy in transitional epoch.

Opinion in Eastern Europe has swung towards capitalism.

They say: socialism is unreformable. Relevant

question: are such planned economies (Cuba) unreformable?

The Hungarian Reform

131:3 One has to abstract from adverse terms of trade after 1973, and complications from failure of Hungary's comecon partners to adopt similar reforms.

Question 216 *Which "extraneous" events make it hard to fairly judge the success of the Hungarian Reform Model?*

132:1 1968 New Economic Model in Hungary. Domestic prices partially decontrolled and linked with those on world market. Enterprise managers could buy and sell across borders, managers' bonuses linked to profits. Much of investments financed by interest-bearing credits. Small-scale private enterprise was allowed. Central planning confined to macro magnitudes and quinquennial plan targets (indicative, not obligatory) for specific products.

Question 217 *Enumerate the main aspects of the Hungarian Reforms.*

132:2 Not consistently applied, zigzag, but question is: could this overcome the defects of the Soviet-Style central planning.

132:2/o Kornai: Did have some positive results, but the following strains:

Principles of efficiency versus socialist ethics because incentives mean inequality.

Exacerbated by the fact that profit and loss may be totally unconnected with effort. Therefore state lobbying has to compensate for that.

Economic leader cannot lose a lot but also cannot gain a lot, the leveling of incomes involves leveling of performance. [Nove thinks those outrageous executive salaries are justified.]

133:1 Contradiction between solidarity and competition.

[If you unleash the profit motive, you cannot soften competition; that is what makes the profit motive socially beneficial.]

Contradiction between full employment and efficiency.

Employment security leads to an easy-going and lazy attitude.

Externalities, especially in investment (but centralized investment decisions are far from perfect either).

Question 218 *(p. 132) There is an argument, here presented by Kornai, that there is an incompatibility between efficiency and "socialist ethics." Present this*

position in its simplest form. How would an advocate of socialism without markets answer this claim?

133:2 There is no solution which can cure all ills, you just have to make do with some of the weaknesses.

133:3/o Some contradictions are self-defeating: one cannot rely on profit motive if prices are uninfluenced by use value and demand; one cannot relax price controls if there is a seller's market.

It is important for the How Real is Value thing: without unemployment and buyers' market, capitalist economies would not work!

134:1 Hungarian model showed that the elimination of excess demand by unpopular price rises was politically possible.

134:2/o How should prices be determined? Hungary wanted prices internally free but aligned to world market prices. This is not possible, it will lead to balance of payment difficulties (which Nove calls an external cause; I think it is intrinsic).

Informal price controls: very large profits were viewed with disfavor, and management had enough to fear that the informal controls had considerable effect.

135:1 Some central interference is not necessarily wrong: they have the larger picture, and look at the longer run, but they see the detail less clearly.

Question 219 *Could the central government influence management decisions in the Hungarian model, and how? Was this good?*

135:2 Hungarians apparently licked the investment problem quite well: half was done by government, other half by firms, usually financed by banks, and government could influence it by announcing that certain investments would get funded.

Question 220 *How did the Hungarians regulate investment, and did it work?*

135:3/o Competition: necessary in market socialism, but against socialist ethics (he says "ideology"), and also inconsistent with the interests of those who do not win [which is a completely different individualistic point of view: the question is: did those who did not win do something that they deserved it?], and it creates undesirable monopolies especially in a small country, calling for state regulation.

Question 221 *(p. 135) Is competition necessary in a market socialist economy? Give advantages and disadvantages.*

Question 222 (*p. 135*) *Does Nove, who advocates markets in socialism, think that markets should always be allowed to do whatever they do, in the name of efficiency? What standard questions arise immediately out of Nove's position?*

136:1 There were considerable inequalities in Hungary, but there were also in the Soviet Union, and since there was no excess demand, one of the perks (access to rationed goods at the low official prices) was not there.

136:2/o Income and wages policy in Hungary: workers got much lower incentive bonuses than managers, which created lots of dissatisfaction. Joke about "the rest of the money."

137:1 This comes from the need to avoid a wage explosion, since there was full employment.

137:2 Workers protected from having to switch jobs (not just a guarantee of a job but of their job).

137:3/o Large income inequalities, especially in the private sector, with lots of moonlighting. How to deal with it? Nove says: one should have producers' preferences, graduate income tax, and competition from other profiteers instead of calling the police.

[I think these market people are parasites on the social structure of production which the plan people are trying to put in place. They take away on an everyone for himself basis from what the plan people want to build up jointly.]

Question 223 (*3 Points*) *Was there workers' self management and were there militant trade unions in the Hungarian model? (Which other socialist country is famous for workers self-management, and which is famous for its militant trade unions?)*

138:1 Answer is no. They did not have strikes and unrest because there was no widespread unemployment.

138:2/o Was it a success? Hard to say.

139:1-2 Economic growth unaffected, but maybe the things which were produced were better liked by the consumers.

Question 224 (*2 Points*) *Why is it misleading to judge the success of the Hungarian reform model by looking at economic growth rates?*

139:3 Situation of consumer compared with USSR overwhelming advantages. Not a seller's market, shopping time no greater than in capitalist countries.

139:5/o Prices were very high, which upset some people, but Nove argues that benefits of not having excess supply outweighed the disadvantages.

Question 225 *Did the Hungarian reforms succeed in eliminating the "sellers' market" that Nove attributed many of the problems of a USSR type economy to? (139) What does it mean in terms of supply and demand to "eliminate a sellers' market?"*

140:1-2 Difficulties to measure performance by prices if the goods sold are not the things which the consumers want.

140:3 Importance of second economy means that there are gaps in the plan, but he says this is unavoidable.

141:1 Weaknesses of reform model strengthened the hands of those who wanted to tighten control over production and prices.

141:2-142:2 Hungarian cooperative agriculture was a success, peasants incomes rose more than productivity, food prices were high. They loved it. All the advantages he brings are the advantages of an ideal competitive market.

140:2 This was the view of the early eighties. Since then: foreign debt mounted, slow growth turned into stagnation, real wages fell, inflation rose, more and more people had to take two jobs. Therefore much more radical marketization.

Yugoslavia and Workers' Self-Management

Question 226 *What is the particular aspect of the Yugoslav economy that stands out most visibly, in relation to other non capitalist economies?*

Question 227 *Which specific factors have to be kept in mind in order to fairly evaluate the Yugoslav experience?*

142:3/o Wide disparities in income, productivity, and culture between North and South. Serious divisions between different nationalities.

143:1 Lots of literature, some very theoretical, on difference in goals between a worker managed and a regular firm.

Question 228 *How were powers of the workers' councils limited in Yugoslavia?*

143:2 Answer: state regulation, including regulation of prices, political intervention through the party.

143:3/o Main tension: payment by commercial results, payment in relation to productivity, payment by effort.

144:1 That tension is greater in large firms.

144:2–3 This tension creates endogenous tendency to increase wages and invest by borrowing, unless there are state regulations against it.

Question 229 (2 Points) *Can one say that the workers in Yugoslavia owned their firms?*

144:4/o Answer: No. Did not contribute to the initial capital of the enterprise or the decision to bring it in existence. Share in income only as long as they work for it (and there was a lot of turnover). When they switch firms or retire they have nothing to sell.

145:1 Nobody can be held responsible for faulty investment decisions. Present workers or managers may have little to do with the decision. It is not always the manager but may be a vote of the workers' council.

145:2 Investment misdirected because: artificial interference with prices, artificial exchange rate, low rate of interest which sometimes was 1/4 of rate of inflation. No capital charge.

Question 230 *Compare the investment procedures between Yugoslavia and Hungary.*

145:3/o Most workers are simply not interested in management and doing the homework necessary for it. Interested in income distribution and clean towels in the washroom.

[This is also important for Albert and Hahnel's participatory stuff.]

Question 231 *In Yugoslavian and Hungarian workers' self-management, what sort of decisions did workers participate in extensively, and what type very little, and why so little—in Nove's view, and in your own?*

146:2/o Yugoslavia is an overreaction to centralization. Ignores external economies or diseconomies, complementarities and indivisibilities, myopia. There *can* be a difference between private and general interest. True socialism must be amalgam of planning and market.

147:1 Far too little done to equalize regional imbalances. Agricultural fertility much higher in the North.

147:2–148:1 Unemployment:

147:3 They maximize income per worker and therefore don't want to hire additional workers. (But they also don't vote to shed workers).

147:4/o Size limit of 10 employees for private enterprises forced them into capital intensive investment.

148:1 Also wide local variations, indicating that other factors are in play.

Question 232 *Why was there unemployment in Yugoslavia?*

148:2 Local authorities lead to regionalism at expense of the society at large. Small local protected markets (148:1).

148:3/o Tried to make Dinar convertible but had an overvalued Dinar. Large BOP deficits and foreign debt.

148:1 Only small part of investment determined by the state: grave error in view of the regional inequalities.

149:2 System very contradictory and unworkable: no planning but instead intervention.

149:3/o Since Tito's death central government too weak to intervene and fix it, galloping inflation.

150:1 Nevertheless worker management model important: we have to learn from it.

Private Agriculture in Yugoslavia and Poland: Peasants and Farmers

150:2 Y and P both not very successful with private agriculture.

150:3 Polish farmers did not produce enough meat or grain.

150:4 Therefore: are both small private farms and state farms not the right way?

150:5/o Those farms were too small. Fears that big farms would lead to prosperous kulaks.

151:1 State controlled purchase prices were disincentive to production.

Question 233 *Which two reasons does Nove give for the poor performance of the private agricultural sectors in Poland and Yugoslavia.*

151:2 Size, technology, climate, question whether farmers live in villages or isolated farms, etc., differ widely between countries and affect possibilities of cooperation.

151:3–152:1 Even in the West markets are not free (cobweb). In USSR prices were initially artificially low to get surplus out of the peasants. That is not longer the case, but still anomalies.

152:2 Polish peasants undersupplied with inputs, sales prices too low, lacked confidence in apparently unsympathetic regime.

152:3 Forced collectivization bad, but voluntary (Kibbutz) good.

152:4/o Nove: private, collective, and state farms should coexist. Producers' preference.

153:1 It may depend very much on what they produce.

153:2 There should be differential land tax.

Question 234 (2 Points) *Why does Nove propose differential land taxes for farms? Did the Soviet Union have this or anything similar?*

Because of fertility. Soviet Union did not have it, but they paid lower prices to farms in fertile areas.

153:3/o Defines producer's preference.

Question 235 *What does Nove understand by producer's preference? Is it in conflict with consumer's preference?*

If the outcome is not affected by it, people should produce under arrangements they want to.

154:1 More about self-management in Part V.

The Polish Experience: The Road to Catastrophe

Al: This section is mostly history. It is short and worth reading, but only background to the theoretical issues we are concerned with.

Question 236 *What was "Solidarity," in theory and in reality?*

154:2 Which lessons to be drawn from catastrophe 1980–82?

Question 237 *Which particular circumstances should one be aware of to fairly judge the Polish experience?*

154:3 They had 3 distinguished socialist economists: Lange, Kalecki, Lilpinsky. But no consistent reform program.

Catholic and anti-Russian, communist leadership isolated and unpopular.

Exceptionally unsound policies for investment, prices, and income.

154:4/o Prices too low and could not rise because of riots. Successive periods of overinvestment and underinvestment.

155:1–4 Economic catastrophe, no clear political leadership, incoherent policy.

156:1 1981 Jaruzelsky's martial law, party apparatus pushed aside.

156:2 Unlike Hungary and Czechoslovakia, opposition in Poland was based on working class, which confused the communists.

156:3–5 Wild fluctuations ravaged the country like a war.

156:6 Therefore now anti-socialist marketization reform.

China: Leap Forward, Cultural Revolution, and Reform

156:7/o Bettelheim used to think China is good because of primacy of politics, but he changed his mind.

156:2 What can we learn?

156:3 1949–57 Soviet style planning, supported by Soviet Union. Former factory owners often stayed on as managers, because of scarcity of managerial skills. Farm collectivization fairly successful, because party was based in rural areas.

157:4 Production rose rapidly, because after 100 years there was finally order.

157:5/o 1958 Great Leap Forward very ambitious growth plans, comparable to Stalin's industrialization 1929–32. Break with Soviet Union.

Diversion of attention away from agriculture led to famines at an even greater scale than the Soviet famine in 1933.

Extreme people's communes.

1959 Leap abandoned, Liu-Sau Chi and Chou-en-Lai become more powerful. Resumed progress with intensive state control of production.

158:1/o Then Cultural Revolution: attempt of Mao to recover his position and to defeat Liu. Mobilized radical mass movement against Liu and party machine for being capitalist roaders.

Vicious attack on culture, 10-year gap in education and technological training. Attacks on management, revival of anti-private-plot measures.

159:1 Much more political and historical detail left out.

159:2 After Mao's death first hopes for rapid industrialization with imports. This was shattered, re-emphasis on agriculture and light industry.

159:3 In 1980's complete reprivatization of agriculture.

159:4/o Since little was to be gained from mechanization, privatization seems to be the way to go. But Chinese conditions may not be relevant to other countries. Danger of neglect of dams and irrigation channels. Substantial income differentials among peasants (since there are no land rents). Weakened social security systems by the communes. Revival of killing of girl babies. After 1987 serious shortfall in production and sales of rice and wheat.

160:1–2 Industrial liberalization resulted in high growth, but also corruption and demand for political change.

160:3/o China has longest continuous history of any has its own character, but many of the problems are the same.

Chapter 6

Transformation and Struggle [HK90]

6.1 The Cuban Rectification: Safeguarding the Revolution While Building the Future

by Max Azicri

3:1 The rectification process initiated in 1986 is a turning point. Will Cuba, in its fourth decade of socialism, return to the idealists and centralized decision making of the 60's; or will it build upon the pragmatic practices of the 70's and 80's?

3:2 Some see rectification as another proof of Castro's inability to delegate decision-making; others consider it a pragmatic and appropriate response to correct past political and economic errors under difficult domestic and international economic conditions.

3:3/o The Cuban rectification process is at odds with the Soviet Union's glasnost and perestroika. The West, which in the past often criticized Cuba for following the Soviet Union too much, now criticizes Cuba for following the Soviet Union not enough.

4:1-2 Cuba's attempt to build socialism must be judged on its own terms; it has different conditions than other nations and what is right in Moscow need not be right in Budapest, Warsaw, or Havana. However, this does not entail that Cuba should not compare the structural reforms that has taken place in these countries, and use this information for future policies decisions.

6.1.1 A History of Rectifications

4:3-5:0 This is not the first rectification, i.e., reform of the regime as it moves on. The pragmatic policies 1976-85, which are being rectified now, had themselves been conceived as a rectification of the mistaken earlier ideological policies.

4:4/o Some past rectifications campaigns were mainly political, others were both political and eco-

nomie.

Example of an early political rectification: attempts to establish the first political party, the Integrated Revolutionary Organization (ORI), were at first too sectarian. Escalante had appointed his buddies from Cuba's Communist Party before the revolution which had been called *Popular Socialist Party* (PSP) to high party posts. To rectify this, 1962 Castro sought to integrate the three major revolutionary parties. After an experiment with the *United Party of the Socialist Revolution* (PURS), the present *Cuban Communist Party* (PCC) was formed in 1965.

5:1-2 Recruits into the PCC are not accepted by top party officials but based on their background and behavior, along with recommendations received from the assembly of fellow workers. Some of the conflicts erupting during the unification of the parties came from the fact that some old Communist leaders had problems accepting Castro and his Sierra Maestra guerrillas (who were not experienced communist cadres) as the leader—although they were the ones who had made the revolution.

Question 238 *What important procedure was introduced in the Cuban Communist Party in the 60s as a result of the two Escalante affairs to help prevent the bureaucratization of the Party?*

The Ten Million Tons Campaign and Its Aftermath

5:3-6:1 The most visible effect of the failure to reach a 10 million ton goal of sugar production in 1970 was a greater institutionalization of the revolution. Many important labor and economic measures took place in the early 70's. During this period trade unions and other mass organizations were reorganized, norms for work and salary productions were established—emphasizing quantity over quality, and some heretofore free services costed money now.

6:2 The ten million ton failure showed that a major political and economic overhaul in the planning and decision making process was necessary. Decentralization of the political structure to overcome the structural deficiencies of the early phase of the Cuban socialist economy.

6:3 In 1976 the System of Economic Management and Planning (SDPE) was implemented, setting production targets, labor bonuses and gross economic production output as its goals. Under the new plan, deficits would not be covered by the state but economic enterprises should make a profit—but the measures the firms introduced to achieve these goals (such as, emphasis on quantity over quality) made the 1986 rectification necessary.

6:4 On February 24, 1976, the first socialist constitution was approved; eight months later the first national elections were held.

6:5/o The PCC was redefined and its close involvement in administrative tasks ended. The government bureaucratic structure was responsible for enforcing and managing policy, but this policy still was made in the party's highest bodies: Secretariat, Politburo, and Central Committee.

7:1–3 New political roles had to be learned across the country. The *Organs of People's Power* (OPP) at the local and national levels were filled with popular elected delegates. Dilemma to what extent the OPPs would be dominated by the PCC. At the local level participatory democracy was a qualified success, while at the national level the OPP's were dominated by the PCC.

7:4/o Cuba's capability for rapid mobilization on a given policy has been a valuable asset (organic integration of the political system), it has compensated for its lack of material and human resources. This allows the system to achieve many objectives. However, it lacks a self control mechanism that can stop it from committing itself to flawed policies.

8:1–2 Many still believe Cuba's biggest weakness is that it is still too centralized and ignores the advice from lower level technical sources: The ten million ton campaign is an important case and the 1986 closing of the free farmers' markets are blunders that could have been avoided.

8:3 Not only overcentralization but also the actions by the United States have complicated the solutions of modernization. However, the rectification process does seem to be a plausible source for correction of flawed policies.

8:4 Despite its return to moral incentives, *conciencia* (consciousness), and voluntary work, rectification process exhibits principled pragmatism rather than

narrow ideology.

6.1.2 Dynamics of the Rectification Process

8:5/o Origins of the 1986 rectification campaign go back to the 1970's. Many 1967–70 policies were reversed because they had been proven wrong. For one, the amount of wages and social salary was not supported by production levels. Policy makers had underestimated the communist consciousness and maturity of the population. The more pragmatic policies of the 70's were meant to rectify these idealistic mistakes of the 60's.

9:1 However, from 1975 to 1986, the policies became too pragmatic. New problems arose from the midst of scarcity, and the recession of '82–'83: communist values were eroded, consumerism and corruption grew; and a lopsided distribution of income appeared, causing serious dislocations for the egalitarian society.

9:2–4 Castro favored the revolutionary values, but the question for the rectification process was: should the populace be motivated with material or moral incentives?

10:1–2 However, the prevalence of shortages and the suppression of the price mechanism in a centrally planned economy greatly reduces the effectiveness of material incentives. Therefore a campaign of moral exhortation was implemented, asking the population to commit itself back to revolutionary values. Cuba also launched several new policies: they made efforts to increase productivity; they increased public transportation fares, consumer utility costs, and prices in selected parallel markets, while cutting expenditures for high ranking officials.

10:3 Cuba had four choices to solve its predicament: (1) the Soviet model (pre or post Gorbachev); (2) the Hungarian model (more liberal and pragmatic than Cuba's); (3) the Rumanian model (more strict and rigid); and (4) the Bulgarian model (more middle of the road)

10:4/o From a different perspective, however, other choices existed under four different categories, with different outcomes: (1) release central controls making room for the price mechanism and private activities to operate; (2) create new incentives and structures of non-material (i.e. coercion, internal incentives and moral incentives); (3) continue the economic situation as it stands; and (4) combine any of these features.

11:1–2 The present strategy is to overcome present economic problems by basically staying the course

while correcting past mistakes and bringing moral incentives more to the fore again.

11:3 Rectification was not a propaganda campaign, it existed to avoid falling into new errors. As Castro believed that it would be bad while rectify errors to fall back into idealism. The main logic was that main features of the process would remain, while others were curtailed.

11:4–12:1 In the political arena personal and institutional changes matched economic reforms. Everybody was accountable for their actions, especially with performance. An affirmative action policy was also instituted elevating women, blacks and youth to higher positions. A shift of assignments and new institutional arrangement took place in the party hierarchy.

6.1.3 A More Critical Cuban Mass Media

12:2–3 A central component of the rectification process was a more critical role of the national media. As Castro stated, “Just and timely criticism is mightier than a state, mightier than a party.” For Castro the media could call attention to the mistakes, so that they could be changed. He also believed that the media served the revolution, and the construction of socialism.

12–14:4 One article listed many of the problems the rectification process sought to rectify:

- Workers receiving high wages, even though their production was low
- Sailors who never left Cuban waters were paid in dollars
- Efficiency was measured by profit rates, but no thought was given to costs
- Inventory control lacked documentation
- Shortages existed, even though it could be obtained on the black market
- Quantity over Quality
- State enterprises refused to make many items the public demanded
- Corruption within state agencies
- Free Farmer’s market decreased cooperatives, due to profitability of farming a single plot of land

- Internal economic disorders coincided with a prolonged drought that damaged agricultural production
- Difficulty with meeting credit obligations New economic, political, and social measures
- Reducing dollar imports
- Reviving the minibrigade
- Attempted to bring medical attention closer to the people
- Strengthening the Communist Party, with exemplary behavior
- Reduced the passing grade for students
- Opening public debate through media coverage

14:1–2 Although, most journalist took advantage of the new information policy, others felt that Cuba was not ready to completely open up and were protective of socialism.

14:1–15:3 Critics of the Cuban revolution have used the new information policy in their reports on Cuba’s performance. Radio Marti (a US. propaganda radio station broadcasting over Cuba) reported the information put out by Cuban press.

6.1.4 Improvements Under the Rectification Process

15:2–4 The use of mini brigades decreased costs of building many public works projects. Castro admits to the mistakes of idealism, and mistakes made by trying to correct idealism. But the rectification process was necessary, and mistakes were slowly being corrected.

Question 239 *What were the minibrigades and what was their theoretical (to the theory of socialism) importance?*

15:5/o Castro was defensive and thoughtful, with many of the mistakes coming from his leadership. However, he had guided Cuba through three decades of revolution, with both successes and failures. Cuba’s experience has laid the ground work for other third world socialist countries to follow.

16:1 The mini brigades had been successful, organizing labor and allowing workers to work 60–70 hours a week if they choose, it changed the mind set of quantity over quality. Workers also were allowed to solve disputes among themselves, rather than through an enforcement agency.

16:2 The rectification process increased vigor and dedication, providing a solid stage for Cuba's socialism. The regime must seek to channel this energy into production and administrative work, while maintaining decentralized structures along with centralized planning, for its success to continue.

6.1.5 Castro's and Gorbachev's Different Paths

16:3 Successful Cuban diplomacy allowed Castro to attend several political inaugurations in Latin America. Castro was often asked why Cuba was not following the same reforms as the Soviet Union. Castro replied by saying that different countries have different needs, and that Cuba was often criticized for following Soviet policies in the past; and now they are criticized for making their own decisions.

17:1 However, glasnost and perestroika have aroused the interest of Cubans, even to the extent that the sale of the Spanish translation of the *Moscow News* was banned. But the main interest for Cubans was not to copy the Soviet Union, but rather study the reforms of the Soviet Union.

17:2/o The Rectification process and Gorbachev's reforms part on some fundamental issues, but both have sought to correct the mistakes of the past. Although Cuba's opening of the media is similar to glasnost, overall the Cuban experience only points out that each socialist country has its own objectives and needs, unique to their own social and historical contexts.

6.3 The Matter of Democracy in Cuba: Snapshots of Three Moments

By Carollee Bengelsdorf

35:1 The Cuban revolution in 1959 is historically important for two reasons. First, it initiated a period of Marxist socialist revolutions in small peripheral countries. The successes and limitations of Cuba have a special relevance to those socialist countries lacking the industrial and population base of the Soviet Union or China.

35:2/o Second, it strengthened the link between democracy and socialism. The participatory democracy and mass participation of Cuba were considered excellent ways to overcome the problems of underdevelopment, scarcity and external threats faced by small economies.

36:1 Similarly, the failure of the radical Cuban experiment to simultaneously achieve communism and socialism by 1970, also had far-reaching consequences. It ended the Cubans' drive to realize their own form of socialism, and Western Marxists turned away from Cuba, which seemed to emulate the Soviet Union now.

36:2-3/o Fidel's process of "institutionalization a la Soviet" was so unattractive to Western Marxists that they left the 70s largely unexplored. It is the purpose of this essay to reclaim this period. This essay will focus on three moments of the Cuban revolution: the late 60s, the last years of the 70s and the period since 1985-86. It is arguable that the "heroic" period of the Cuban revolution was actually the least democratic, and the institution of Soviet structure actually allowed Cuba to become more participatory.

37:1 This essay will examine these paradoxes and the structure of the state 1960-90.

6.3.1 The Heroic 1960s and the Failure to Institutionalize Democracy

37:2 In the first decade of the revolution the Cubans made no attempt at any institutionalized democracy because underdevelopment and external threat necessitated a strong central authority. Also, the primary goal of the revolution was to "see man freed from alienation," and they feared that traditional socialist institutions and bureaucracies, based on flawed theory, still produced alienation.

37:3 Their solution was to skip the socialism stage altogether and move directly into communism.

37:4/o Cuba, in the 60s, had little state structure. Policy was initiated by the often extemporaneous speeches of a single leader. Popular input was at the implementation level only.

38/1-2 The state's relationship with the people was mitigated by several factors. First the Cuban people identified with the revolution. It was larger than themselves and allowed the accomplishment of seemingly impossible goals, like literacy. Second, a "subculture of democracy" let the people have direct influence over their neighborhoods and workplaces. And third, the mobilization campaigns, like literacy, gave the people a sense of power. Still the people had no influence on the overall direction of the revolution.

38:4/o Because the Cubans were moving directly to full communism, this lack of popular input was not seen as a problem. Under communism, all mechanisms of the state, the trade unions, and even the neighborhood committees would theoretically disap-

pear.

39:1 The results were disastrous. Vertical stratification of power increased and there was an intensification of the centralization of decision-making. There were fewer controls on administrative structures and the bureaucracy grew rapidly and became even more inefficient. Isa Joshua described the Cuban system as “authoritarian centralization coupled with anarchic decentralization.”

40:1 In the end, Cuba was forced to abandon their route to communism. Questions concerning popular input were left unresolved.

6.3.2 Institutionalization of Popular Participation

40:2 In the 70s Fidel discussed the need to form participatory governing institutions. He suggests “[substituting] democratic methods for the administrative methods that run the risk of becoming bureaucratic methods.” Although what was actually formed was limited, it represented greater decision-making abilities for the people than enjoyed previously. We will examine specifically the Popular Power system established in 1976.

40:3/o The Popular Power system did not in actuality guide the revolution at all. The party, under the guidance of Fidel still held all the real power.

41:1 For instance, foreign policy and national economic goals were not determined in Popular Power meetings. Efforts to involve the Popular Power system in criticism of economic plans has had only mixed success.

41:2 These meetings only deal with local issues, like transportation, housing, services, education and repairs. While these issues are important, they are minor compared to the entirety of the revolution.

41:3 But do Popular Power meetings have any influence with the National Assembly?

41-45 This section details a case study, in which local delegates bring to the attention of the National Assembly the critical national shortage of housing and housing repair.

45:1 In this case the Popular Power system did represent a channel of participation absent to the people in the 1960s. At the same time, it was not to give the people a voice in determining the direction of the revolution.

6.3.3 The Rectification Campaign, Perestroika, and Current Problems

45:2 Fidel’s “Campaign to Rectify Errors and Correct Negative Tendencies” represents the beginning of the third stage by which we can measure democracy in Cuba. His speeches, like in the 60s and 70s promised more popular control.

46:2 However, under the Rectification campaign, issues of popular empowerment and democracy remain vague and unanswered.

46:3 The Cuban revolution has been portrayed recently (late 80s) as opposite to the Soviet Union’s movement toward democracy.

46:4 Analysts point to the differences between perestroika and what they view as Fidel’s intransigent Marxist-Leninism. But we have to look closer at the factors which contributed to Fidel’s criticism of perestroika as well as the commonalties in situations which both Castro and Gorbachev faced, and the similarities in the methods they employed.

46:5 Fidel’s criticisms are formed by two critical concerns. First, Cuba’s revolution has a high commitment to economic egalitarianism and the view that the market inevitably undermines such egalitarianism.

47:1 The contradiction between private property and socialism seems to have dissolved in the minds of the Soviets.

47:2 The level of stratification which the market would create is unacceptable to Cuban leaders.

47:3 Fidel’s second major is how Gorbachev deals with the west. In the words of Michael Howard, “Gorbachev’s technique is now clear. It is to ask us to state our demands and then simply to meet them.”

48:1 Fidel is concerned that a revision of the Soviet Union’s economic and political dealings with Cuba will be America’s next demand.

48:2-3 Nobody is really sure what the Cuban rectification campaign is going to accomplish. The problem which Fidel faces in sketching out his program are similar to those faced by Gorbachev in the Soviet Union.

48:4 First are their economic problems. The Soviet Union is concerned with modernization and providing consumer goods.

48:5/o Cuba is concerned with development, modernization, but even more pressing is its problem with its shrinking reserves of national exchange, which resulted from a combination of a plunge in world oil prices, the US embargo, and a weak US dollar.

49:2 The second problem faced by both Castro and

Gorbachev is how to engage youth in their respective revolutions.

49:3 The populations of Cuba and Russia are very different from those who existed at the beginnings of the revolutions. They have no memory of life without free education or health care. Their concerns are primarily for personal freedom and individual expression.

49:4/o The Cuban response to the “youth problem” has been more conservative than the Soviet solution. The Soviets have begun to create new structures for personal expression. The Cubans have sought to increasingly involve young people in existing government and party institutions.

50:1 A third problem both countries face is that of growing bureaucracy.

50:3 Finally both revolutions are led by single individuals.

50:4 While Gorbachev is dedicated to change, his change is instituted through the party. Lewin asserts, “The Party, if it refurbishes its image is the only institution that can preside over the overhaul of the system without endangering the polity itself in the process.”

51:1 Fidel also seeks to change the Cuban system through a revitalization and overhaul of his revolutionary Party.

51:2 Whether these reforms will provide the responsive structures that socialism needs in the twenty-first century remains to be seen.

68:2–3: In the area of collective and substantive rights most people agree that Cuba has had much success. Cuba has progressed in assuring the populations basic needs in education, health, employment, and social services. Especially in contrast to other Third World countries where unemployment, and impoverishment are a major problem. Racial and social equality in Cuba has made wonderful progress.

68:4–5: Critics of Cuba focus on individual and procedural rights in Cuba. Little tolerance of political dissent in Cuba, and the one-party system built around Castro don’t allow open communication of opposing views. The police have broad powers to crack down on dissent.

69:1–4: Prisons in Cuba have made positive improvements that outweigh the abuses. Evidence shows that legal and penal reforms since the mid 1970’s are helping. In fact Cuba has shifted to a 1970’s U.S. style with reduction in prison sentences, little use of capital punishment, and community programs. Where the U.S. model today is similar to Cuba of the 1960’s with massive and inflexible use of imprisonment. Delegations of internationally known criminologists have confirmed that Cuban prisons are much improved. Still political dissidents in Cuba are in need of improvement. Though not as bad as the U.S. reports have indicated. Cuba’s overall record is positive, especially when considering its size, and much less tragic than many other Latin American countries.

6.5 Human Rights in Cuba: Politics and Ideology

by Tony Platt and Ed McCaughan.

6.5.1 Introduction

67:1–68:0 In recent years many long time struggles have come to an end, Southern Africa, PLO and Israel tensions, East and West tensions. However Cuba and U.S. relations have not eased much. U.S. antagonism of Cuba is long standing, and mired in layers of preconceptions and misinformation. In order to understand the human rights situation in Cuba one must strip away this misinformation and look at the real Cuba.

6.5.2 Cuba’s Human Rights Record

68:1 Human rights, broadly defined, can be collective or individual, and they can be substantive or procedural rights.

6.5.3 Tropical Gulag

70:1–3: Great pressure from the United States beginning in the Reagan years focused on human rights in Cuba. The U.S. has forced the U.N. Human Rights Commission to investigate Cuba, but the investigation didn’t find the tremendous violations that the U.S. desired. U.S. policies on Cuba have been a constant attack on Cuba’s human rights.

70:4–71:3 U.S. evidences on Cuba is based on reports from ex-prisoners, dissidents, and anti-Castro exiles. When similar things are said about U.S. allies in Latin America they are usually not thought of as credible. U.S. policies regarding its allies were to ignore the human rights abuses. The Reagan administration justified this with a view of countries that distinguishes between short-term human rights abuses, and long-term efforts. The policy viewed communist governments as inherently unable to promote human rights. The U.S. focused its attack on Cuba as a test case against all communists states.

71:4–73:2 U.S. accusations against Cuba stated

that Cuban citizens had no private life free from the State, Cuba had a vast network of prisons and labor camps, and holds 15,000 political prisoners. Whatever problems existed, U.S. propaganda took a higher stage than evidence. Facts and gossip were mixed, information not investigated, and sources not checked. Examples include non-verified factual charges, American sources being non-credible to say the least, and U.S. pressure on other countries to condemn Cuba. Western diplomats have agreed that U.S. attacks were based on domestic political concerns rather than actual human rights issues. Many people consider Cuba the scapegoat of America. Other Latin American countries are not as unforgiving, and wish for more integration of Cuba.

6.5.4 An Echo of Official Assumptions

73:3–74:3 The U.S. media has done little to report against the U.S. attacks. U.S. journalists have done little to even discuss Cuba. When they do they usually focus on highly selective, generally negative Cuban problems. The press usually relied on State department reports for stories on Cuba, which were highly questionable. Rarely are stories verified and investigated.

6.5.5 Perspectives on Human Rights

74:4–75:2 At the heart of the U.S. attacks on Cuba was the reluctance to accept a social system fundamentally different from that of the US. The U.S. fails to allow for opposing ideologies and social systems. The U.S. forces its view of the importance of individual rights over the collective. This view misses the advancement of collective rights as being significant. The U.S. has historically not given weight to the rights of the people (as distinct from individual rights).

75:3–5: Despite these many efforts internationally have been made to create new understanding of human rights and of collective rights. New attempts are being made to create a balance between individual and collective rights. Cuba's focus on collective rights has caused some problems, but provided a good answer to others.

76:1–77:3 International groups have applauded Cuba on its advances in employment, health care, literacy, and education while careful to point out the lack of healthy pluralism in political discourse. However the view of Cuba is still often done with a Western democracimeter. They view Cuba in terms of western liberal values which are often not present

in Cuba. Cuba is not an advanced industrial western democracy. It underwent a revolution just 30 years ago and is still working out many problems. Cuba is still forming many elements of its society and has tried many different approaches. When viewing Cuban human rights it is important to view them in context.

6.5.6 Human Rights, Democracy, and Socialism

77:4–79:1 If Western values and customs cannot be applied to Cuba, then how can one understand human rights in Cuba. Well a better question is why are we trying? Realistic models of egalitarian and democratic societies are very complex. Cuba serves as a good model of a state trying to create a new history. One not formed on Western ideals and values. Castro views Cuba as not the parallel of Soviet style socialism where the Communist party is separated from the population. Cuba is still evolving as a society and rapidly changing. Cuba has worked very hard on its relations with the Catholic church, which is very different from typical communist ideals of excluding religion. Political prisoners have been released, and the U.N. and Red Cross have acknowledged the improvements in human rights in Cuba.

79:2–3 Cuba still faces many challenges and has its share of problems, but Cuba has had great success and is still evolving. Evidence shows that Cuba is shifting to a more democratic society, but of all the successes that Cuba has had it still has a powerful enemy. The United States will not normalize relations and is still very aggressive to Cuba. Cuba may be better able to evolve into a democratic society without the constant pressure on the U.S. on it.

Question 240 *What was the relation seen by Bengelsdorf of the Cuban revolution to “the process of rethinking the Marxist heritage with regard to socialism and the state that begins among Western Marxists in the early 1960s?”*

6.6 6: The Cuban Economy: A Current Assessment

85:3–86:1 In the years 1981-1985 Cuba economy developed in very tough times. Poor weather conditions (sustained drought and Hurricane Kate) caused many problems. Also during this time the U.S. blockade was stepped up, and foreign financial difficulties arose.

86:2–87:1 Cuba’s national industrialization was the focus of development. A lot of funds were spent in key industrial areas, but desired levels of efficiency were still not reached. Cuba’s economy grew in many areas, except for agriculture (due to hurricane and the earlier drought).

87:2–87:5 Even though positive results occurred, they didn’t reach the desired goals of the country. A main problem came from less favorable terms of trade with other countries. Although Cuba cut imports and increased exports, they didn’t make up for this shift in the terms of trade, and the trade imbalance increased. Poor financial conditions also hurt Cuba. So while economic growth occurred in Cuba, it was not consistent with a effective utilization of economic resources.

87:6–88:1 For a socialist system to have success the interests of the majority to attain goals must be met by adoption of good development strategies. The strategy needs defined goals, and a need for the policy to respond to development requirements. Here the Cuban revolution had made some errors in development.

88:2–88:3 In socialism economic policies are a mix of the state economic, political, and social influences. The policies require good knowledge of social laws, correct interpretation of history of the laws, viewing socialism in short and long term goals, and the state wanting a correct economic plan for the society. In Cuba, the political concerns were missed, and economic mechanisms were utilized instead to solve the problems.

88:3–89:1 With the focus off of political concerns some departments fought over economic resources, which broke down the entire system. A plan needed to be for the entire economy and country, not a specific area. Without the understanding of political and social motivations when planning for goals many other concerns arose. A major problem was work standards. Without good plans for work standard level, the standards on products fell, and the incentive program did not work.

89:2 The economic plans were reassessed in 1985. Looking back it was clear that before, economic success was met, but it did not equal efficient use of resources. Many inefficiencies occurs, because of lack of overall planning. The planning also missed social and political concerns in its planning, in favor of only economic concerns. Without the political and social concerns addressed work standards fell and the incentive system broke down.

90:1–90:2 Changes occurred through the years of 1986–1988. The previous policies of 1980–1985, and

earlier had a great impact on the new policies. Hard currency fell greatly due to continued problems. This led to major external financial problems. The debt had grown greatly, and this led to the adoption of a 27-point plan mainly aimed at increasing domestic savings.

90:3–91:2 Continued poor weather conditions still caused many problems. Investment fell in Cuba. Even though efficient use of the resources did improve it was not enough to offset the negative problems caused by internal and external problems that had already added up. The economy of Cuba slowed down and experienced negative growth.

91:3–92:2 Even though the Cuban economy has had many problems it has not stopped development of basic social needs. Housing, community services, public health, and education expenditures all increased. Day care improved, and the infant mortality rate fell. All of this took place within the context of the economic problems facing Cuba.

92:3–93:1 In trying to correct the economic problems, the greatest distortions were targeted first. Work standards were improved, and many poor incentive programs discontinued. Programs were changed to take the focus off of large gains in the overall economy to focus on social and political needs as well. Day-care, doctors relations, attention to Cuban seniors and fixing housing shortages were targeted. Solidarity with other third world nations was improved.

93:2–93:3 However even with the change the process of transforming the economy will take awhile, and need to be continued. An assessment of the recent developments in Cuba is as follows. The negative effects of the previous years policies and the international problems still had a big impact. Even with these difficulties development had not stopped, and some new goals were met in qualitative standards, and the earlier problems had not effected the social development programs. Therefore the conclusion is that through a union of political, social, and economic goals, and socialist country (like Cuba) can reach its goals.

Question 241 (*p. 93*) *What does José Luis Rodríguez conclude is the central lesson to be drawn from the first couple of years of the rectification process?*

Question 242 *It is often argued that markets are needed to make agriculture work better—not only that markets in general are good things, but more specifically because of the tremendous uncertainty in agriculture. i) What did they hope would happen when they opened the “free peasant markets” in the early*

80s? ii) *What in fact happened that was not good, in the wake of the opening of the “free peasant market.”*

6.9 Cuba’s Economic Diversification: Progress and Shortcomings

131:1-2 Cuba’s economy is linked to the world market but has avoided the world shocks that other Latin countries have experienced.

131:2 Sugar is Cuba’s main export. Pre-1959, sugar production made employment seasonal, land use wasteful, and prices volatile. A lack of diversification led to stagnation and underdevelopment.

132:1-3 Cuba was dependent on the Soviet Union in the 80’s. Trade relations were favorable. Economic diversity was encouraged. The sugar industry improved but Cuba is still dependent. Cuba’s dependency on sugar decreased during the 80’s. Oil production increased.

133-134:1-3 Adjusted for inflation, sugar prices have stayed the same.

135:2 Sugar’s share of GDP fell from the 60’s to the 80’s.

135:3 Cuba has tried to diversify by exporting non-traditional goods to Caribbean Islands.

136:1 Nontraditional exports include fish products, chemical elements, raw materials (copper, metal, marble), and medicines.

136:2 Cuba has diversified without significant amounts of foreign investment. Foreign were reluctant to invest due to negative pressure from the Reagan administration.

137:1 Nontraditional exports have been successful because of a well developed infrastructure, state support, and a skilled labor force. It has been hindered by supply shortages, bad quality control and port facilities.

137:2 Tourism revenues grew in the 80’s.

138:1-3 The import substitution program in Cuba was successful in the 80’s. Manufactured goods and energy imports decreased in the 80’s. It still imports 70% of its energy. Cuba is also less dependent on food imports.

138:4 The U.S. blockade has been the biggest impediment to furthering Cuba’s economic diversification.

138-139: Predictions on future economic productivity were hard to make in the 80’s because foreign debt still loomed and reconstruction policies were still ongoing. Long-term economic prosperity looks

promising barring any major structural and/or political reforms.

Question 243 i) *There is a general argument in economics that in a developing country at least (some argue it’s the same in advanced countries, some argue that the economics of advanced countries are different from the economics of underdeveloped countries) there is a necessary trade off of gains in equity for what? ii) What does Brundenius argue is the relevance of the Cuban case in regards to this issue?*

Question 244 *What types of human rights to Platt and McCoughan find that Cuba does very well with, and what types of human rights to they find Cuba does poorly with?*

Question 245 *What do Platt and McCoughan have to say about the consistency and ideological neutrality of the US pronouncements on human rights abuses in various 3d world countries?*

Question 246 (p. 252/3) *What are the explicit principles the Cuban health system rests on?*

Question 247 *How did the shift from a standard hospital centered system to policlinics after 1975 to family doctors after 1985 affect the concept of medical care?*

Question 248 *What is the role of popular participation in medicine in Cuba?*

Chapter 7

Book Review and Notes about The Victory of Morality over Socialism [HH89]

7.1 Short Book Review, never published

This booklet, published in Munich, (West) Germany shortly prior to the momentous events in Eastern Europe, has a provocative, if somewhat obscure, title. By “victory of morality” or, conversely, “defeat of socialism,” the authors mean: it has been one of the crucial shortcomings of the attempts to build socialism in the Soviet Union that socialism was turned into a moral issue. This error comes from a teleological world view, which relies on an alleged inexorable historical tendency towards socialism. The leaders were considered to be the ones who had the correct insights into the designs of “history” and carried out its mission. This is a quite different point of view than that which views the socialist revolution as a collective attempt to consciously affect the structure of society for the better. Lenin and Stalin regularly defended their decisions with the argument that they were carrying out a historical necessity (although they were only successful because they let themselves be guided by the situation at hand rather than some grand historical scheme). This teleological view condemned the Party to remain an isolated elite, which only has to stay in power long enough until the laws of history have run their course. Anyone disagreeing with the leaders disagreed with “history,” was therefore at best obstructionist but probably counterrevolutionary.

The book develops several refreshing and stimulating theories like that, and it is written in such a way that it requires the reader to think along. This fits together with the book’s message that good will is not enough; one must also know what one is doing.

The role of the Soviet Union in international diplo-

macy is based on an erroneous assessment of the character of international dealings under capitalism. The purpose of diplomacy in the “Free World” is to extort economic advantages from each other and to gain access to the other countries’ resources for one’s capitalists. In this violent game a socialist country must always be an outsider, since it has only very limited economic usefulness for capital. The only way the Soviet Union could be accepted in the illustrious company of robbers and plunderers, is to arm itself to the teeth so that it would have to be heeded as a military factor. Despite its purpose to make international diplomacy more peaceful, the “World Peace Power” played therefore a very ambiguous role. The book suggests the Soviet Union would have been better off if it had stayed isolated, defended itself, and built socialism in the own country. Of course, one of the reasons why it did not do this was that the construction of socialism did not work too well, and the state tried to redeem itself with questionable diplomatic victories.

About the Soviet economy and many similar economies the booklet claims that it was not really planning, because it was too indirect. An intricate system of monetary constraints and incentives had the purpose to make wealth grow quasi automatically in the hands of the workers. By blindly following the guideposts and incentives given to them the producers would still come up with the right production decisions. Thus they remain isolated and alienated, and it is not the producers but the state who disposes over the wealth thus created. Unfortunately, the fighters on the front of production took up this challenge. They made the best of this incentive structure invented for them, even if it went at the expense

of the real purposes of production as, for instance, usable products or the timely introduction of innovations. The plan therefore turned out to be a greater impediment to production than the market. Held and Hill suggest that the producers should have “simply” counted things up and produced what was needed. Even if a better system may not be such a simple matter, the criticism of the situation that actually evolved is penetrating enough.

In the discussions around glasnost and perestroika, the real issue, Held and Hill argue, is overlooked. Instead of recognizing that the planning by “levers” is a big obstacle detracting from the production directed by needs, the discussion only treats the symptoms of this faulty setup. More of the same moral exhortations are tried, by which the workers are expected to use their labor as the always available stopgap, which has to make up for the flaws of the economic system. Despite its declared purpose to “protect” the working class, this system of production ends up exploiting the workers again, even though in an infinitely less efficient way than capitalism can do it. On the other hand, the state could not wither away. The “planning with levers” provided it with a steady stream of revenues, by which the agents could maintain themselves. In turn, the functionaries busied themselves with playing the good conscience of the masses—whose nationalism, moralism, and alienation are the direct consequences of their faulty socialist policies.

In its concluding chapter, the readers in the West are warned that their own political system is not so much superior either: the difference between socialism and a capitalist democracy is not one between coercion and the absence of coercion, but only one of a different form of coercion. The personality cult, for instance, displayed in Western elections, and voluntarily carried on by the press between elections, could have made Stalin green with envy.

It is regrettable that this booklet offers criticism but no alternatives. On the other hand, this might again not be an accident. If one thinks along with the authors, one realizes that building an alternative is everybody’s responsibility, not just theirs. Their contribution is a valuable and necessary one: they give insights which are hard to come by elsewhere, and which might help the readers to learn from the events that are unfolding before their eyes. Because, as this booklet argues, having the wrong theory and just following the leaders may be disastrous.

The rest is history. Instead of an incentive structure which tries to make it attractive for the individual to work for the social good by relying only on their egoism, many countries recently reintroduced

one which gives people the illusion they work for their own good when they are only the kegs in capital accumulation. Instead of a power which forces people to do what is good for them (but people disagree), they applaud to one which openly prides itself of having the guts to damage the little man, and the population consents to this abuse and considers it necessary. A population which continually has some individual leaders to blame for everything the faulty social structure does to them, is quickly turning into one which only knows to blame themselves or each other for their plight. Perhaps if more people had had an incling of some of the ideas in this booklet, things might have gone a different course. Everyone who wants to learn from the history that is unfolding before our eyes can benefit from it and get ideas and challenging inspirations which are hard to get elsewhere.

I used this booklet in an intermediate class in Marxian economics, with good success. The books of these authors can also be seen in bookstores in East Germany.

7.2 The Victory of Morality Over Socialism: Book Review published in RRPE [Ehr92]

This book was written prior to the world-shaking events in 1989, but has not lost its relevance—on the contrary, it offers explanations that make the current events more intelligible.

As opposed to the prevailing opinion that the failure of the real socialist countries exposes the inherent problems of planned economies, chapter I of this book points out severe flaws in the way these plans were organized. It calls the Soviet economy a “lever economy,” meaning that instead of giving the producers the responsibility to satisfy the consumers’ needs with the best methods, planners use indicators, norms, and monetary cost accountancy as mechanisms which are supposed to automatically bring about optimal results. Those involved in production are required to direct their attention to those formal criteria, alongside the actual requirements and purposes of production. Unfortunately, the economic agents take up this challenge—with disastrous results regarding quality of the product, economy of inputs, implementation of innovations, etc.

If one can criticize capitalism for being a system in which wealth is not produced for the sake of the use-values but in an abstract value-form, one must

criticize these socialist countries, as well, for interposing an equally abstract entity between the producers and the use-values of the products. These obstacles are those monetary constraints and standards, which they call the “plan,” which are not really a plan for production but rather detract from production. The “plan” is even farther removed from use-values than the market criteria; it is, for instance, possible to satisfy a “plan” norm with unusable articles, but it is not possible to make profits with unusable articles.

The objective restraints which the “plan” imposes on individual actions have similarities to those under capitalism. While under capitalism these restraints have the effect that individuals promoting their myopic self-interest end up furthering capital accumulation, the socialist constraints are supposed to bring about results which are optimal for society as a whole. However the cleavage between the material requirements of production and the artificial monetary restraints leads again and again to the necessity that the most basic and most flexible factor of production, labor, be used as a stopgap—so that despite the goal of protecting the working class this “planned economy” leads to the exploitation of labor. This exploitation is not very efficient, since only moral incentives can be used, not the threat of capitalist homelessness and malnutrition. On the other hand, these arrangements do not give the state an opportunity to wither away; it is busy being the good conscience of a population which does not seem to know what its interest is and must be forced to do what is best for itself; and the “automatic” accumulation of wealth which it controls allows it to continue to function.

The current lively discussions in the Soviet Union under the banner of Glasnost and Perestroika miss this important point. Instead of unearthing the systematic structure which makes the many obvious absurdities and abuses possible, it merely reinforces the moral appeals for everyone to try harder—with the only twist that now the individual is assumed right and the state wrong, while before it was the other way round. It is therefore more of the same: human labor, the eternal stopgap, has to make up for the many deficiencies in the planning mechanism. As long as the producers are not allowed to concern themselves directly with the production and distribution of what is needed, but instead that elusive “automatic” mechanism is adhered to in which everyone is only looking at his incentives, rather than his real contribution to society, the next logical step is to re-introduce the more powerful capitalistic mechanisms.

The second chapter of the book subjects the foreign policy of the Soviet Union to some equally penetrat-

ing criticism. The paradox of a nuclear power armed to the teeth declaring that its only goal is peace is, in the case of the Soviet Union, not merely a brazen propaganda lie. It is the very real consequence of the Soviet Union’s mis-directed efforts to infuse peace and justice into the imperialistic dealings between nations. The Soviet Union disregards the true purposes of the diplomatic relations between capitalistic nations, by which every state tries to secure for its capital access to the other state’s resources. Extortion is the means and exploitation the purpose, and the Soviet Union, whose closed economy has only limited usefulness for capitalist trade, gains entrance in this circle only because it is armed and therefore must be reckoned with. Despite its “good intentions” of being the conscience of the world, its objective role is not less detrimental than that of the “bad guys.”

The disadvantages of such a faulty policy are numerous. Armament which is not merely defensive but can be used for political means is very expensive, and the United States succeeded in involving the Soviet Union in an arms race. The Soviet Union needs to fish for allies without being able to draw many economic advantages from them. Its contradictory role of making peace because of its nuclear arsenal is not very convincing and does not result in the hoped-for worldwide popularity. It sidetracks and interferes with revolutionary movements elsewhere; and instead of proletarian internationalism and the consciousness that armament is a sorry necessity due to the violent character of imperialist relations, such a policy promotes a nationalistic pride in one’s invincible armament and the “ever-so-useful,” “necessary,” and “benevolent” state power. Recent events in the Soviet Union are, in part, the reward for the Party’s failure to combat nationalism.

The third chapter of the book is yet another striking demonstration how a society’s systematic attempts to determine its own destiny can lead to highly undesirable results, if guided by an incorrect theoretical outlook. It is argued that the cruelty and oppression of Stalinism are connected with the theoretical errors of a teleological world view. At the same time, this discussion throws some light on the historical origins of the faulty planning mechanisms criticized in the first chapter.

The analysis starts with one simple and disturbing fact: the Bolsheviks, in their difficult tasks of making a revolution and building socialism, never merely considered the question what the best course of action should be for their set goals, but always also asked themselves whether a socialist revolution was really already on the “historical agenda.” They saw

themselves not so much as pursuing a purpose which they themselves defined, but as carrying out a historical mission. Although Stalin and Lenin themselves owed many of their successes to the fact that in the right moment they disregarded this imputed historical agency, they did not combat the false thinking in the Party on a theoretical plane. On the contrary, they usually argued in ways that turned every decision they made into a historic necessity. The NEP was considered not a pause in the construction of socialism in order to avert famines, but a historic necessity since capitalism was on the agenda before socialism could come. And when Stalin broke off the NEP, he did not understand this as an act by which the development of the economy was freed from its capitalist fetters, but he put a socialist planning in its place that was designed to imitate capitalist accumulation. The book claims that it was so brutal not because it was planned, but exactly because the medium of planning was *money*. It is a direct consequence of the abstractness of this planning medium that all the burden to make ends meet fell on the most flexible productive power, namely labor.

This teleological view had important implications as to how disagreements in the Party were dealt with. Failures were explained to be the consequences of deviation from historical law, and the leaders' successes attested that they had their ear on the "requirements of reality." In the personality cult, devotion to the cause was substituted for the rational pursuit of goals which one had judged achievable and worth the effort, and it was Stalin's own achievement to carry this kind of debate to its bloody end, since anyone who did not come to the same judgment as the leadership of the party had to represent sinister forces trying to hold up the "course of history," and really never could redeem himself.

The fourth and last chapter makes a comparison between socialist politics and democracy. It alerts the reader that the Western political institutions which are commonly thought to be so much superior to those in the East are not that wonderful either. If a Presidential candidate says at a rally, "You are looking at the next President of the United States," what is this other than personality cult? Here the book links into a theory of democracy which is also very important and original, but which would need a whole essay by itself.

Finally, some words are necessary about the style of the book, since some parts make for quite difficult reading at first. It seems to this reviewer that there are some deliberate stylistic means involved. Reading this book can be likened to listening to jazz: al-

though the tune is sometimes never explicitly played, the listener is expected to know it from the beginning. Only if he supplies it in his own mind will the elaborations and variations that are actually played make sense. Similarly, the authors of the book refuse to supply logical connections which are too obvious to be printed. The rationale is, presumably, that if one does not see them, then one is not interested in seeing them, and printing them would not help either. It is a style which encourages an active role in the reader; the text reveals its secrets only after the reader has overcome some typical prejudices and knee-jerk reactions, just as a listener to modern jazz would not be able to follow the music if he has the wrong melody in his own head.

All in all, if one takes the pains to study this book, one will find it to be a powerhouse of several important and enlightening ideas, which one cannot find anywhere else.

7.3 Draft for even longer Book Review

Adam Smith in his "Wealth of Nations" promoted an idea which seemed outrageous for its time, but has become the commonplace ideology of modern capitalism: the narrow self-interested actions of modern business people would, quasi behind their back, jell together to yield an outcome which is optimal for society. Egoism and the profit motive function are the motors for social progress and an efficient allocation of resources. The market system is a neutral interface between limited resources and unlimited human wants.

Marx's thesis has been, by contrast, that the market system is far from neutral. The "abstract" form which wealth obtains in an economy in which everything can be had for money, and therefore the most varied kinds of wealth can neatly be summarized in one number, is accompanied by an irresistible social pull towards accumulation of more and more of this abstract wealth in fewer and fewer hands. Indeed, the spreading of the market and the attachment of a price tag to everything, whether it be someone's product or someone's honour, was only possible after that one crucial commodity had been made available, usually by force, which makes the feat of turning money into more money possible on a systematic and large scale: the commodity labor-power, whose use yields more value than its reproduction cost.

Marx located the profit motive therefore not in individual greed, but rather characterizes both miser

and spendthrift as character masks executing the inner tendencies inherent in the social forms of wealth in our society. People's desire to satisfy their needs and enrich their lives with pleasant and stimulating articles of consumption, or to extend their boundaries with powerful means of production, cannot be blamed for the ruthless and unsanitary social system we are all part of. In the Marxian point of view, individuals can generally not be made responsible for the social systems of which they are a part. We are still in the pre-history of mankind in which social systems are not the product of individuals. Individual actions merely reproduce and hand down in slightly modified way social structures which they inherited, and which follow their own laws over which they have no control. But if one asks what it is that prevent mankind from gaining control over their society, in an era in which the human mind relentlessly sets out to conquer every other sphere of reality, Marx points to what he calls commodity fetishism but which has been widely misunderstood. It is, in a nutshell, the individuals' refusal to relate to each other and to regulate production on any other basis than that of the market, in which only the abstract dimension of wealth as the expenditure of labor obtains a social expression, and everything else falls by the wayside.

The alternative to capitalism is therefore neither altruism nor abstinence. Both concepts are, rather, inextricably intertwined with capitalism itself. Altruism is people's longing for a more appropriate expression of their sociality, perverted into the ideology that this can only be one by disregarding one's own interests—because, indeed, any one-sided attempt to follow non-market criteria in a market-dominated economy will result in a loss of one's resources, since those transactions that would replenish them are simply not forthcoming. Abstinence, on the other hand, is moral fools-gold put on the economic necessities of an economic system in which human needs do not count if they are not backed by money.

Also the concept of egoism has a very special flavor in capitalism. Only in a very myopic sense can one say that the behavior of capitalistic agents is self-serving. The framework which individuals find in a capitalist economy to pursue their goals has the admirable capability of transposing self-motivated individual actions into the engines executing capital's anonymous drive to accumulate. There is indeed an invisible hand in capitalism, but it is not that of an efficient mediation between limited resources and unlimited individual needs, but it is that of turning every act by which individuals try to reach their own goals into an act promoting the accumulation of cap-

ital (while individual goals often remain unfulfilled). This hypothesis of the transposition of individually motivated activities is contained in Marx's concept of the "sphere of competition" which enforces and executed the immanent laws and tendencies of capitalism. It is one of the secrets of the "success" of capitalism.

Socialist "planners" found the mechanism by which the myopically selfish initiatives of the agents lead behind their back to the accumulation of private wealth so admirable, that ... Perhaps even too admirable, because ...

The planners in the Eastern Bloc have been very fascinated with the way the selfish initiatives of Western workers and businesspeople alike lead behind their back to the accumulation of private wealth. Instead of criticizing the indirect and narrow channels through which people interact in capitalism, they merely tried to re-orient those channels. They created an intricate system of fixed prices, premiums, goals, and incentives which should have the purpose that the same myopic selfishness of the individual agents would lead to socially desirable outcomes, to the accumulation of wealth which the state can dispose over to the benefit of everyone. Without going into the details of the planning in the Soviet Union, it can be said that it is still a quite indirect system of motivations. The purpose is not to use the available resources for satisfying the needs of the consumers, but the purpose is to meet some abstract criteria dictated by the plan. While under capitalism, monetary value interposes itself between the producer and the production process, and usurps the motivation which should be directed towards producing the best use-values, in socialism the plan does the same thing—with the only proviso that the plan is even farther removed from use-values than the profit motive. It is possible to satisfy a plan goal with unusable articles, but it is not possible to make profits with unusable articles.

Under capitalism, the pressures created by an abstract pricing and accounting system bear down on the only universal productive force, labor. It is against the self-understanding of socialist countries, however, to provide an exploitable working class as the backdrop which would cause every entrepreneurial initiative to bloom. It is not possible to fire workers, businesses have no authority over prices, etc. In this way the economy does not do anything unless it is prodded along with either moral exhortations or material incentives.

Glasnost is very much in the tradition of other attempts to patch this system up or to give moral ap-

peals to the population to make up for the deficiencies of the system with extra hard work. Glasnost tries to remedy the most glaring symptoms but leaves the basic question unasked: whether to remove the system of levers which supposedly assure the automatic functioning of a planned economy. It is therefore more of the same, blaming human imperfections rather than the setup of the whole system. The introduction of capitalism is the logical consequence, after one has reassured oneself that human nature is too unwieldy to be harnessed in any other way.

7.4 Reading Notes About The Victory of Morality over Socialism

Preface

Three puzzles: (1) it is exploitation but why not the more effective and acceptable form used by So-moza or Marcos? (2) Foreign policies: expansionary evil empire, but economically this empire does not seem to pay off. (3) Glasnot and Perestroika: West says they mean a turn to democracy, East says it is a rejuvenation of socialism.

Part 1

Chapter 1, How to Correct and Unplannable Brand of Planned Economy

Title means: the kind of “planning” which they have is not planning, it is a “lever economy.” The only way to correct it would be to discard it and replace it by a plan.

Fat print: dissatisfaction with economic success is nothing new. In Perestroika they use exactly their mistakes to fix the economy.

The fat print parts are usually not very useful; it is recommended to skip them and maybe read them after the end of the chapter.

8:2 Symptoms: shortages, bad quality, waste of production materials, nonimplementation of technical progress.

8:3/o “But as soon as the CPSU sets about changing things, it regards all its outrageous findings as *problems*.” What does that mean? They fail to draw the obvious conclusion that there is something fundamentally wrong, but tinker around at the symptoms. Compare also 18:1/o about this. They find planning so difficult because they do not try it.

A drastic example regarding this attitude of seeing something as a problem: if the baby keeps vomiting, they don’t see a doctor but they put on colored bedspreads instead of white ones.

9:1 Indirectness of the plan: instead of satisfying the needs with the best methods, they use indicators, norms, cost accountancy as mechanism to automatically bring about the best results. People have to direct their attention to those formal mechanisms rather than the actual purposes of production. (Not production for use-value but production for plan).

9:2/o Money is supposed to direct goods to where they are needed, financial surpluses

10:1 Do not object to the rule of money, but merely to the effects they consider unfair. Therefore they fix prices. On the other hand

Quote: “[T]he duty to make money is somehow not to be directed against anyone, not against the workers or the buyers or the suppliers or other firms that produce the same thing. It is to benefit the state, which collects ever larger sums of money to be used for expanding production All the *instruments* of capitalism are resurrected, no longer as expedient means of capitalist accumulation, but as rather awkward means—putting it mildly—of taking care of the people, and as fairly suitable instruments for securing the state’s rule over society’s wealth.”

This error is not an accident.

10:2 Party directs the economy in the very irrational way of imposing objective restraints. Under capitalism, these objective restraints lead to capital accumulation and the exploitation of the working class.

11:1 This gives an indication why they put those constraints on: they want an automatic accumulation of wealth, which belongs to the state. This makes quite a farce of their participatory economic democracy.

11:2 Instead of creating accumulation for the state behind the people’s backs, these directives have no effect at all, and must be supplemented with incentives for an artificial profit interest. In order to ensure that this does not go at the expense of others, they introduce cost accounting. It seems what the MG criticizes about cost accounting is that it is done in money.

12:1 More specific critique of a plan: the criteria are contradictory, which forces the firms to trade things off against each other.

13:1 Examples: fulfillment of targets and sparing use of materials, sparing use of materials and quality, technological progress and cost. These contradictions are addressed by ad-hoc remedies, but the *intentional irrationality* is not addressed.

13:2/o Perestroika is more of the same: “pushing its people into a new round in its absurd endeavor to wrest a more or less functioning production and

distribution of goods from the prescribed automatic control mechanisms.”

14:1 Private initiative is encouraged, but its other side, an exploitable working class, cannot be provided in the East.

There we see the secret of the essay: “success in capitalism: is it exploitation or deserved reward?” All the conditions for exploitation are there. Things are set up in such a way that one merely needs a little initiative to grab some of the surplus-value, and the state is glad about anyone who does so. The people who do it and see the success think that their initiative is the reason for this surplus-value.

14:2/o Why does savings not give rise to abundance? because things have to be produced first. Why is the market not the best institution for allocation? Because it only attends to needs backed by money. Why can firms find out what consumers need but the planners cannot? Because planners are not trying to.

15:1 Why is competition not a beneficial constraint on the firms? It presupposes that people are not doing what they ought to do and tries to force them to do it; it does not ask why there are these bad results. Blaming human nature rather than looking at the conditions in which people’s activities unfold. Why is unemployment and the closing of firms not a good educational measure? Because in this economy there is a shortage of means of production and labor. About unemployment: first the means of production must be there before the will to work can take effect. In other words, if you don’t have the means of production and people do not like to tinker around with all these deficiencies then this is not a sign that they do not want to work.

15:2/o Western ideologues say the market and entrepreneurship are the reason for success in production. The East tries to put this ideology into practice, by creating market and entrepreneurship by directives.

16:1 Gorbachev “The problem of a system of indicators as a link between central economic management and autonomy of enterprises is not yet solved.” What is wrong about this quote? You do not need a link, you need to set up things in such a way that this link is not needed, that producers are interested in these directions being fulfilled. The kind of link they are talking about is necessarily pressure, coercion.

Chapter 2 Complaints as an Economic Resource

Last sentence of fat print part should be “morality” instead of “morale.”

17:2–18:0 Behind Glasnost’s criticism of the bu-

reaucracy is the idea that the bureaucracy is an impediment to the spontaneous dynamics of the economy.

18:1/o Ask people to look for the next best remedy, patent absurdities are seen as problems (tasks) to tinker with, instead of something that needs to be done away with.

19:1 Anyone who would take this criticism seriously would have to ask: do we really want to satisfy the needs of the consumers or do we want to fulfil the “plan”? But this is not on the agenda. The issue is the closest reachable mistakes the system produces, with leaving the rest unquestioned.

19:2–21:0 “In terms of its logic, this is the way rulers shut grumblers up; but this is not how the CPSU means and practices it.” Making the grumblers responsible to fix the things they expose will shut them up because they are allowed to change just one aspect of an interdependent system, and since the system is in equilibrium, this is a futile enterprise. “It actually does want change—in its compensatory sense.” I.e., they want more compensation for the false setup, instead of changing this setup itself—and this is the most they can get with this directive to make the grumblers responsible. They legalize the ways people have devised to get around the system. Add more and more directives to finally make the system work, instead of getting rid of this absurd system. “Ban on the ban on criticism:” even free discussion is controlled by directives.

21:1–22:1: With its appeal to gripe and improve things, the party demands of the people to be more efficient than before. People are sorted: “There are those who take an active part, and there are those who ‘brake,’ for whom a whole typology exists, ranging from the malicious to the involuntary.” The end result is again more pressure on labor, more exploitation.

Chapter 3: A Stimulus to Production in Higher Spheres

Of course they mean the ideological spheres:

23:1 Intelligentsia responsive to the call for more involvement.

23:2 Perpetuates their old role of producers of moral guidelines. Bans implied that they were leaders for the masses.

24:1 From re-touching history to the question “How Could Stalin Happen?” What is so wrong about this question, just as the question “How Could Hitler Happen?” Since Stalin is considered morally wrong, one tries to see him as an aberration, while taking the institutional etc. background for Stalin for granted. Not explain things but fit them in.

24:2 Other ideologies: computer worship versus an ecology-oriented love of the homeland (what a funny alternative). There is not need to fear that these ideologies would shake socialism: “The achievement of dulling people’s minds by moral nonsense has already been attained by the Party itself.”

24:3/o Party also gets paid back for never bothering to do away with religion. (One should not put nationalism here, because the Party even actively promoted Nationalism.)

25:1/2 Why did religion not wither away? Because “the official state moralism finds so little fault with the catalog of christian virtues.” Neither the former prohibitions (in conjunction with tactical behavior) nor the present tolerance are the right way to deal with it: confrontation and debate, but this was not possible because too much of their power was moralistic anyway.

25:3/o Nationalism officially cultivated by the CPSU. “Sticking together.”

26:1 Their error: ignored that nationalism invariably has its counterpart in the contemptuous and hostile attitude towards foreigners. Correct attitude would be: “communists need no homeland because they adjust conditions to suit themselves.”

26:2/o It seems that among the nationalists there are also the opponents of glasnost.

27:1 So it is the moral orgies which the CPSU itself unleashed, and against which it has no arguments.

“Anyone who confuses communism with producing a new kind of person, who sets his stakes on morality not just as consolation for all the imposed restrictions but even as a makeshift productive force, need not be surprised that the corresponding inanity and moral nastiness have their own impetus when they are given free rein.”

Chapter 4. Planning with levers: A review of the principles of the Soviet economy.

1. The socialist commodity

28:1 Wealth consists in use-values, and these things also have prices, which are determined by the state.

28:2 (a) State opposed to the private power of money.

29:1 (b) It nevertheless organizes a market. It wants to plan this market by setting prices and forcing those on everyone. By this, the state monopolizes the power of money. In other words, it exercises its power through money.

29:2/o (c) There is a contradiction between money being a measure of abstract wealth and being a planning tool. Instead of planning, state acts as welfare state.

30:1 (d) This is not capitalism but this is also not

planning production.

30:2 (e) The refusal to plan labor in accordance with natural conditions and for the benefit of the producers is complemented by the eagerness to establish “objective constraints” no one can escape.

2. Socialist Profit

31:1 Profit used as a measure of effectiveness. Contradiction between profit motive and prescribed prices leads to lousy practices (bad quality etc.)

31:2/o (a) Has not much to do with capitalism, is only a way to tell the firms to be efficient.

32:1 (b) “Initiative” is in quotation marks, under capitalism initiative is only rewarded because of the presence of an exploitable working class. Here it is only rewarded because the state gives little perks (only in the form of incentives, because sanctions contradict the principles that the state protects the ultimate productive force, the workers). Therefore no suspension of production and no unemployment. Tell them what the Critique of the Gotha Programme is about.

32:2/o (c) Rewards the state offers are modifications in the proportion of the profits to be given to the state. Profit retained can be used for payroll fund and investment fund. Also premium system.

33:1 (d) Effect is not that people ignore it but that they take it up, with undesirable consequences. The most profitable products are produced and the others neglected; instead of technical progress “successes” are made in exploiting the incentive structure that make technical progress unnecessary; another unwanted consequence is that the good firms become better and the bad ones get worse.

33:2/o (e) The planners see the undesired results of the separation between the financial and material outcomes of production and look for new levers to remedy that, instead of seeing that the whole principle is wrong.

35:1 (f) Talk about the “progress of science and technology” expresses an unmet need of the state.

35:2 Summary: is a good example how forces of production and relations of production can come in contradiction.

3. Socialist wages

35:3–36:0 Wage fund is supposed to grow as the plan grows more successful. Therefore workers not only have to work but have the extra burden to make the lamented defects of the “planning” system disappear. Thus wages become a lever, planning and control becomes a moral campaign.

36:1 (a) The authors refer to the silly economic notion that the costs of “accumulation” and “consumption” are to be paid out of the same pot of money, as

if it was self-evident that this was false. Is it because accumulation and consumption are just different activities which can be seamlessly integrated? Like: learning a new computer software is accumulation, bringing up children is accumulation? It is still the separation of work and consumption?

The other thing they reject without giving an argument is: productivity must be increased first, and after that the wages. Is their alternative that this should be simultaneous? Or that you build things from which you benefit?

36:2/o For the workers the problem is: they have money but they don't know what to spend it on.

37:1-2 (b) Premium system and socialist competition are attempts to compensate for the systematic flaws of the system.

38:1 (c) Wage incentives are not very effective because you can't buy anything for it.

38:2 Threats are not being used, they are incompatible with socialist self-understanding.

38:3 To say it is moral immaturity, that workers are lacking discipline, is also evidence that the socialist economy involves neither planning nor capitalism.

Part 2: Instead of World Revolution, Peace-Promoting Interference in the Business of Imperialism

This part is very obscure reading at first, until one has made oneself clear what the underlying theme is. It is like listening to Jazz: although the lead melody is very often never explicitly played, the listener is expected to know it; only if he supplies it in his own mind, will the elaborations and variations that are actually played make sense. Similarly, the authors of the book refuse to supply logical connections which are too obvious to be printed. The rationale is, presumably, that if one does not see them, then one is not interested in seeing them, and printing them is not a remedy for that. It is a style which encourages an active role in the reader; the text reveals its secrets only after the reader has overcome some of his prejudices and knee-jerk conclusions.

Chapter 1. Cultivating Hopeful Relations with the Enemy

39:1-40:0 The USSR had to build up its armament to defend itself against the onslaught from the Capitalist world. But instead of accepting it as a sad reality, as a sorry misallocation of much-needed resources, they want to find a useful purpose for this military. They want to use it as the entrance ticket into the diplomatic dealings of the Free World, in order to exert a moderating and peace-promoting influence.

The fat print part only hints at the disadvan-

tages. Externally, the disadvantages are that the USSR is sucked into a costly behavior that does not bring them any economic advantages and also makes life hard for revolutionaries elsewhere. Internally, it brings with itself pride in the "invincible" military and nationalism, instead of proletarian internationalism, which sees only the class differences worldwide, not the national differences.

Why the Soviet Union does this again has to do with them wanting to find tasks that show how important the state apparatus is.

40:1-2 Let me first develop the lead melody in the background: What is international diplomacy about? Ideology of it is, of course, responsibility of maintaining the world. Marxist theory, however, sees the imperialist dealings closely related to a contradiction between the functions modern states have for capitalism, and the territorial boundaries to which they are confined for historical reasons. It is the role of the state to enable capital accumulation to happen, removing the obstacles for it. Territorial states are inherently inadequate for this purpose because capital must expand over the whole world, it cannot acknowledge political limits. State tries to overcome this by entering relations with other states ensuring that the others' resources are accessible to the own capital. This is an unfriendly relationship, based on mutual extortion. Therefore it is a matter of course that every state maintains a military. Diplomacy is merely war with other means.

How should a socialist country react to this? Keep out of it, and defend itself against it. Isolation has economic disadvantages, but in a socialist economy they are not unsurmountable.

What is the Soviet Union doing instead? Tries to enter the international scene as a power which promotes peace.

40:3/o The Soviet Union has an additional reason which makes their peace mission even more urgent: the existence of nuclear weapons seems to make it imperative that international relations become more peaceful. (The authors point out how ironic this reasoning is because part of these nuclear weapons are their own.)

Again I have to interrupt here in order to fill in some basic facts about military.

(a) It is a cop-out to say, as Parenti does, that the military exists only as a scheme to transfer profits from the state to industry.

(b) It is also a cop-out to say that the purpose of nuclear weapons is to prevent war. After every invention of new weapons there were voices claiming that these weapons were so cruel and effective that

nobody would want to wage war with them, but everything, including nuclear weapons, has been used in a war.

(c) The remaining alternative is that the military exists because it is needed. Political scientists counted, for instance, over 40 uses of nuclear weapons (i.e., threats to use them) by the U.S. since their invention. Deterrence is not the purpose but was for a limited time a sorry necessity because nuclear weapons were too unwieldy. Engineers worked very hard to overcome the technological state in which nuclear weapons were too imprecise and dirty to be used.

(d) Of course, one should not misunderstand this to mean that capitalists like war. The capitalists pursue violent goals, and they prefer to win without having to go to war. But they are willing to use war if necessary.

(e) Now what should a socialist state do? Use its nuclear weapons as “minimal deterrence,” i.e., for merely defensive second-strike purposes, but make it clear that they are willing to use them if attacked, and that this is what they are here for. This would have distinguished them refreshingly from the West. (In the long run, socialism will make wars obsolete because it makes the population ungovernable and unexploitable.)

Now we are getting into 41:1–43:1. In all these paragraphs there is a lot of repetition.

(f) What has the USSR in fact been doing? By saying that their weapons are a means for peace they bought into the same ideology the West has been promulgating all along. But it is not merely ideology but also practice. Instead of shutting themselves off and defending themselves, the Soviet state is seeking a role which demonstrates how necessary a power devoted to good and noble ends is: it wants to use its influence to promote a better world with self-determination of nations and all. Again, it tries to uphold the idealized self-image of reality against reality itself. But this is fraught with contradictions: they are forced to play the imperialistic game without having the imperialistic payoff. Although the necessity to use weapons to assert themselves shows that they must abide by the imperialistic rules, they point to the fact that they can indeed assert themselves by these means as proof that it is possible to introduce different criteria for the relations between nations.

43:2–44:1 Explanation of arms diplomacy, which is a consequence of this false approach.

44:2/o Other diplomatic institutions.

45:1–47:0 The participation of the USSR does not make any of this more peaceful. On the contrary, its

only entrance ticket in this circle is its military capability, since it cannot offer economic advantages to others. The only difference between the way the Soviet Union acts and the way the West acts is that the USSR often has very unfavorable cost-benefit ratios, and public opinion turns against them because they are reluctant to go all-out with violence and therefore are not very successful. (Disgust about the atrocities of war is always the winner’s propaganda against the loser!)

47:1–48:0 The only “success” of this policy consists in implanting a false consciousness among their citizens.

Chapter 2. Promoting Socialism on the Imperialist Market

Skip the fat print for now.

49:3–4

Part 3. Stalin—Who Was That Man?

66:1 First sentence what Stalin wanted to do: fight “private production” in agriculture and build up heavy industry as fast as possible. How he defended this decision: by the theory that it was necessary to build socialism in one country.

There is something wrong with this defense. What is it? it is explained in 66:2–67:1. Contradiction between on the one hand the successes of the Bolsheviks in achieving what they had set out to do, and on the other hand their self-understanding that they were merely carrying out the teleological inner laws of history and their doubts whether socialism was really on the agenda in Russia.

67:2–69:1 First example: NEP.

67:2/o There is this “on the one hand” whose resolution is unclear. They say: had the NEP been the only means to make sure people had enough to eat, this would have justified the postponement of political plans. But—and now the authors analyze why people in the cities did not have enough to eat, and criticize the policies of the Bolsheviks for having brought that on themselves. Two points: first, peasants refused to hand over their grain, which was a consequence of the unsocialist goal of “emancipation of the peasantry”; and second, the state did not have any money to offer, while a whole class of well-equipped (maybe it would have been better to say well-to-do) rescuers was standing by (who should have been expropriated).

68:1 Now again the two-fold thinking of the Bolsheviks about this: on the one hand, this was a regrettable setback, on the other hand, they saw it as proof that the historical law was valid by which they first had to get the country going with capitalistic means. Presumably this prevented them from clearly seeing

and addressing those factors that made this detour necessary.

68:2–69:1 Here it seems the point of view of the party is described, as opposed to that of Stalin. For them, the kind of “socialism” that would allow the transition to “communism” (alone this nomenclature is based on a teleological view of history) was merely a regulated state-capitalism. This was in keeping with their view that the socialist revolution was not yet really on the agenda.

69:2–73:1 Second example: how Stalin abolished the NEP.

69:2–70:2 After eight years of NEP, Stalin discontinued it and did those things right which were criticized in 68:0. But unfortunately his justification and self-understanding again stayed within the limits of teleology: instead of seeing that he was removing the fetters capitalism had imposed on the economy, he defined his project as bringing about the accumulation and productivity by the capitalists’ example but without capitalists.

70:3–73:0 This is why also their planning tried to imitate capitalism. Another very nice summary about what is wrong with their kind of planning. It imposes an additional burden on firms, since not only the material flows must fit, but also the money flows must fit. Money constraints were the hard constraints, the cooperation of the firms and the procurement of the workers was stipulated but left to the firms’ self-initiative. Result: shortages, and labor as stopgaps. It was so brutal not because it was planned, but exactly because the medium of planning was *money*. It is a direct consequence of the abstractness of this planning medium that all the burden to make ends meet fell on the most flexible productive power, namely labor.

73:1 Agricultural policy criticized along similar lines. Instead of building up concrete cooperation in agriculture, they just gave more funds to the bigger (collective and state owned?) farms.

73:2/o Sums up the error once more: not the “voluntarism” of planning, but the attempt to do rational production planning by the means of money.

74:1–75:1 The capitalistic reification of social relations of production were held to be necessary ingredients even in a socialist economy.

75:2–76:1 Planners were supposed to study the law of value.

76:2–78:1 Progression from Lenin to Stalin to modern practice. False critique translated into a real economic system.

Chapter 2

79:1–80:0 Criticism why personality cult is wrong

without falling into the Western hypocrisy which is blind towards the personality cult that is paractices in the West. One has to distinguish between two kinds of authority. (Are there two different words one might use?) The first kind of authority is based on an appreciation of past accomplishments which causes people to trust his judgment even in situations where there is no irrefutable argument to decide the matter, the second is a position demanding loyalty and submission.

80:1–81:0 Stalin’s purpose in instituting this submission: party members should identify with the cause Lenin exemplifies, this fits together with them functioning as missionaries, instead of free agents.

81:1–2 One cannot blame Stalin alone for this: he was successful in the Party because this is needed so that people would see themselves as serving a mission rather than independent agents pursuing goals which they themselves chose.

82:1–2 Here the double aspect of their debates is discussed once more. Instead of reasoning something out the question is: who can best predict the eternal laws of history, who has his ear on the “dictates of reality” (sic in 84:1). Successes “proved” the historical justice of the revolutionary cause, and failures cast doubt on whether those in charge had not violated the historical agenda. This moralistic argument is very different from attributing success and failure to luck, the present constellation of the forces, etc., and admitting of more than one “right” way to do things. Here it becomes clear why the book has the title “victory of morality over socialism.” As an aside, the authors point out an interesting contradiction between this morality and teleology: they saw themselves as the good forces fighting against the evil, but their goal was also historically conditioned.

82:3/o Stalin found personality cult to be such a convenient tool because of this attitude, by which the success of the revolution made the leaders the personification of the correct line.

83:1–84:1 Here interesting nuances how they did argue and how they should have argued. They used Lenin quotes instead of “make alternatives clear, criticize false radicalism and compromisers, analyze the hurdles to be overcome, and bring about common insights and a consensus on a chosen course of action.”

84:2–86:0 This determined their treatment of dissenters: not an error but a deviation, a bad intention. Dissenters believed it themselves.

86:1 The pursuit of this to its logical conclusion is now tied to Stalin himself (“It was Stalin’s very own achievement”).

86:2–88:2 Instead of discussions of the alternatives

how to build socialism they had debates about the reliability of comrades, Stalin as the incarnation of the correct Party line and line of history versus conspirators sponsored by Imperialist powers. Since the party was rallying with standing ovations around its leader, the failures in the economy had to be caused by sabotage. Even non-party members were required to acknowledge the moral superiority of the party.

88:3 Here some idea how it should have been done: at first one can only have a minority, the Party, but one can hope for the Party gradually to incorporate in its circle of discussion and self-determination more and more people. This chance was forfeited here.

89:2 Today the same system works much better without Stalin, but the Stalinist image immensely helped the Western propaganda.

Chapter 3 is about the misguided policies of the allied communist parties. Skip it for now.

Part 4. Comparison of Systems

Westerners are very keen on seeing the signs that the regime in the East exercises power against its citizens. They are much less aware that they are also subjected to a power in the West. Therefore this appendix.

99:1-4 How Eastern propaganda does not give gossip about the private lives of leaders.

This is just stated as a fact. The writers apparently hoped that the reader would wonder: why, after all, do we get all those ridiculous details? Reasons: confuse them about these people's power by depicting them as private individuals who have the same concerns the man on the street has.

100:1-2 No gossip about the internal power struggles. People are supposed to identify with those ruling over them, look at the issues through the eyes of their rulers, entirely disregarding the fact that all this goes at their own expense.

100:3-101:0 Most interesting: how can the rulers gain and maintain the trust of the masses. Arguments like: Watergate destroyed the trust people have in government!

101:1 In the East it is different. Now let us see if it really is so much worse.

Chapter 1

101:2/o What is the lesson to be learned from election campaigns? (1) state power pretends that it is putting itself into the citizen's hands, and that the voters somehow control the function of the office in question. Why don't they? because the office itself is not in question, only the person; and because the voters do not give these office holders binding mandates; and thirdly, because the whole arguments in the campaign are very irrelevant: it is more that the

candidates must prove that they can "catch votes." In the system of primaries this is very obvious.

102:1-

In the East, voting is culmination of many discussion processes in which an agreement is reached about the "social tasks." People have to go to many election rallies and the more of them speak the better. In the West, these opinions have their outlet only in the letters to the editor or to big talk in pubs. Mark on the ballot "stultifies any reasoning, any reservation, any well-considered balancing that educated or uneducated, clever or naive, committed or skeptical voters may base their choice on."

In the West, people are deceived by . . . , see 104:1 The whole section is pretty rambling. The message is: what we have in the West is not that much superior.

Chapter 8

Notes about Sherman: The Soviet Economy [She69]

8.3 Economic Development 1917–1928

53:1 Start with look before 1917.

Russia before 1917

53:2–54:2 In their 1861 emancipation, the serfs had to make payments to the landlords for 49 years. The land was held collectively by the mir, and the mir had to collect the money and it was distributing the land by very egalitarian principles (rotating plots, or cutting plots into many strips, to counter the effects of unequal quality of plots).

54:3–55:1 Consequences: this immobilized the peasants, and low productivity because nobody wanted to improve rotating plots, and the cut-up plots required a lot of walking time.

55:2–56:0 Industry mainly owned by foreigners, because there was no middle class: it was just the aristocracy and small peasants. The factories they did have were quite large and modern. Between 1890 and 1914 industrial output almost quadrupled. But most of it concentrated around Moscow or St. Petersburg, while more of 85% of the population still lived in the rural countryside. Only 10% worked in industry.

56:1–57:2 Political trends:

56:1 Peasants wished to expropriate the large landholders.

56:2 There was a strong anti-war sentiment.

56:3 Increasing political consciousness of the workers.

56:4 1905 rebellion failed because it lacked organization, but this is when they created the Soviets.

March 1917 Tsar was overthrown. But the new government continued the war. Food shortages in cities and at the front.

September 1917: peasants were taking over the land of the land owners, also local workers took over factories.

57:2 November 7, 1917: Bolshevik Revolution.

War Communism

57:3 Peace to the soldiers, land to the peasants, and bread to the workers. Peace with Germany at great cost, confiscated the landlords' estates and divided them up, and gave the workers' councils in the factories authority to take over the management of the factories.

57:4 Had envisaged not socialism but controlled capitalism, but in 1918 civil war erupted, they had to defend themselves.

57:5/o Also foreign intervention. By 1920, industrial production between 10 and 20 percent of 1913 level. Leningrad was ghost town with one third of previous population of 2.3 million. No fuel, railroads fueled by wood.

58:1 Also embargo, govt. could not borrow money abroad, had to finance its expenditures by inflation.

58:2 The peasants consumed their own food and did not produce any surplus since there was nothing they could get in return.

58:3 Squads of men sent into countryside to “requisition” (take) supplies from rich and middle farmers.

58:4/o Had tried to have more workers control in the factories, but as a military measure by 1918 all large scale factories were nationalized.

59:1 Government ran everything in a practically moneyless economy, but there was no central plan.

59:2 Agricultural produce requisitioned from the farmers was used as productive materials for the factories and as wages in kind at bare subsistence levels.

59:3 Workers organized like an army.

59:4 Communism based on poverty instead of plenty.

60:1 Shock system of planning: all efforts concentrated on those products which are presently in shortage. Few workers knew about administration, and few administrators were loyal to the government.

60:2 By end of Civil War in 1921, peasants stopped producing.

60:3 Also dissatisfaction in cities. Kronstadt, one of the strongholds of communism in 1917, rebelled.

New Economic Policy

60:4/o Requisitioning was stopped, farmers had to pay a proportion of their output as a tax in kind, otherwise they could sell their surplus. Small firms could produce for market, even big firms were allowed to respond to market independently of central government. Middlemen allowed to trade and reap windfall benefits.

61:1 Some said the NEP was successful experiment in market socialism, but they disregarded its inability to spark construction of heavy industry. Others said NEP was beginning of end of socialism; that disregards that Lenin had envisaged a gradual transition and that war communism was the interruption.

Beginnings of NEP: 1921–23

61:2 Agriculture: 1921 crop failures and in some regions famines, therefore high agricultural prices. This caused agricultural production to recover very quickly.

61:3 Industry: small government-owned businesses leased out for private independent management. But government-managed enterprises still produced 92% of output in 1923. Financing of enterprise activity by government budget was abolished by 1922, exception railroads. Firms had to get money through their own revenues or through bank credit. Immediate result was competition and fall of prices. Were allowed to form trusts, but government reviewed their production plans.

62:1 Trade: Any gains from NEP were reaped by notorious middlemen. Private trading organization controlled 9/10 of retail trade. Small businessmen were allowed to hire up to 10 or 20 workers.

62:2 Labor: free to change jobs. Unions negotiated wages but also increased general culture and welfare of working class. Were controlled by CP, therefore workers had right to strike in theory, but it was seldom used.

62:3 Finance: government had the plan to balance its budget. 1923 only 2/3 of state expenditures covered by tax revenues, still high inflation.

62:4 Planning: not much planning. It was thought that demand by peasants would spur light industry and that this could spur heavy industry.

63:1 Only Trotsky said one should plan in order to control the market, but he was ignored.

Scissors Crisis 1923–1924

63:2 1923 Agricultural production had reached pre-war levels, but industrial production was still 1/3 of pre-war levels, in part due to anti-competitive measures by the trusts. Therefore same dilemma as with war communism.

63:3 Bukharin on the right wanted to increase motivation of the private farmer by offering additional incentives. Trotsky on the left saw problem in industrial sector.

63:4/o Bukharin won. The well-to-do farmer was the one who produced the surplus, and government policy supported him.

64:1 Government tried to reduce industrial prices by restricting credit to trusts and forcing them to unload excessive inventories; by price ceilings; imports; closing of less efficient plants. Tried to raise farm prices by the government paying more for grain, and by encouraging export of grain.

64:2 Scissors began to close, but not entirely, and farm production brought to the market was always sluggish.

End of NEP 1924–28

Agriculture:

64:3–67:0 Although agricultural production was higher than pre-war levels, agricultural surplus to be marketed was lower, due to large proportion of land held by small farmers who just ate it all up and did not market much, and their land was too small for tractors.

67:1–2 Industry: Pre-war levels had been reached by reconstructing old plant and equipment. Now question how to build new plant and equipment.

67:3/o Labor: Very low wages. Unions were cultural organizations but did not fight for higher wages. Many wildcat strikes.

Trade: retail was still mainly private, but government became dominant in wholesale trade, and set up a monopoly in foreign trade.

68:2 Finance: Inflation brought under control by monetary reform Spring 1924.

68:3 Planning. Starting 1920 plan to electrify the whole country. By 1924/5 serious attempts at planning started (Gosplan).

69:1 Need for planning to control the soaring industrial prices, and because of unemployment (migration of peasants into the cities with their amenities).

69:2 Control figures 25/26: 100 page booklet, more a trial run than an operational plan.

69:3–4 Discussion: Most eminent theoreticians (Bukharin, Trotsky: “teleologists”) said that a socialist economy needs no value theory, which is only related to capitalism. No economic laws to restrict the freedom of the planner. “Geneticists” said that planning was rigidly bound by present state of things.

70:1 Geneticists thought growth was constrained by growth in agricultural output. Defeatist. Some skeptical that a workable plan could be constructed at all.

70:2 Sherman’s “solution:” yes there are constraints but also many degrees of freedom. Question of economic regularities of plan is not answered by this.

The Great Debate

70:3 Two problems: how an established economy should grow, and the initial construction of socialist industry. The latter was the burning issue.

70:4 Left wing Trotsky argued that large scale industry should be pushed on basis of modern technology, which should also be extended to agriculture, collectivization to be encouraged. Would only be possible with aid from more advanced countries; socialism in one country was impossible.

71:2 Since the advanced countries did not have revolutions, he came to believe that it was possible but would need harsh political dictatorship over peasants and workers and detailed centralized planning.

71:3–4 Preobrazhensky systematized it and called it primitive socialist accumulation.

71:5/o Imperialist plunder and investment from abroad were not possible.

72:1 Therefore had to come from the meager resources of the Soviet Union itself. Even reinvesting profits not enough, because what was needed was building of many factories in many branches at the same time. (Big Push).

72:2 Only possibility was to extract it from agriculture by high taxes and high prices of industrial goods.

72:3–73:1 Right wing (Bukharin) said this would not succeed because the farmer would hide their product or not produce it, and it would break the vital

political alliance between workers and farmers, and Bukharin thought that NEP would accomplish the same thing more easily.

73:2 Preobrazhensky and Trotsky replied that the right wing policy would strengthen the rich farmers and weaken the Communist political base and that the eventual flow of industrial products would solve the scissors problem and reconcile the peasants once and for all, and that the amounts drawn from agriculture by Right-wing policy would not be enough to get the big push going.

73:3–74:2 Stalin first united with Right wing to fight against the Left and got Trotsky exiled, then swung over to an ultra left position and used the remnants of the left to oust the Right wing. After becoming the sole ruler, he “solved” the problem.

The Stalinist Solution

74:3/o Stalin justified his change in policy by changed conditions: farmers were ready now.

75:1–2 Stalin started to emphasize collectivization of the farms in 1928, and pushed the farmers in 1929 so that a civil war ensued in which large numbers of farmers were killed or exiled to Siberia for resisting collectivization. (How many?) Livestock was slaughtered, crop production fell, but Stalin succeeded in eliminating the rich farmer and the large size of the collectives eventually allowed introduction of machinery and efficient farming. Despite lower production, he greatly increased the amount of grain actually marketed.

75:3–76:1 Numbers: Procurement of grain doubled between 28/9 and 30/1, and despite a famine in 31/2, procurements kept increasing. Only possible because of collectivized farms.

76:2 It is *collective* farms instead of state farms, because in collective farms procurements are stable and variations in crops are borne by the farmers; in state farms the reverse.

76:3/o How can farm products become capital? Some directly useful in industry, some exported in exchange for machinery, most important part can be used to feed industrial workers, and finally to feed farmers who specialize in inedible industrial crops.

77:1 Therefore industrialization at expense of very low standard of living of majority of population (farmers) and later also of the workers.

77:2 This could only be done with a one-party dictatorship. [But it could also only be done because many supported Stalin.]

77:3 Some say it is also possible without socialism, but Sherman doubts it.

8.4 Economic Development 1928–1950

The First Five Year Plan 1928–32

79:1 In the early years planning period went from October 1st to September 30. Task of reaching pre-war production was completed by September 1926, 26/7 first year of expansion of production above pre-war level.

79:2 27/8 Plan for volume and form of capital development became the backbone of economic policy.

79:3/o Delay in adopting Five-year plan because of disagreement between Right wing (slow development of industry) and Left wing (“castles in the air”).

80:1 Industry: Production targets for 28–33: consumption increases 75%, net investment in heavy industry was to increase more than 3 times. Assumptions: (1) no serious failures in harvests, (2) expansion of imports, (3) increases in productivity.

80:2 Collectivization of agriculture planned at extremely conservative pace.

80:3/o 29/30 Second year of plan, plan targets were revised upwards. Intensive collectivization campaign as only way to get this surplus from agriculture.

81:1 Forced collectivization led to acute difficulties in next 3 years: slaughtering of livestock, supply shortages in retail markets, plus unanticipated enlargement of labor force! Also the 3 above favorable conditions did not obtain. But all shortages were passed on to consumption, while investment proceeded as planned.

81:2 Officially, first plan successfully completed in December 1932, 4 1/4 years after it began. Investment in heavy industry 50% higher, in all industry 33% higher than plan targets for the whole five years. Iron and steel industry capacity increased by nearly 2/3, machine tools stock in engineering industry and electric power generating capacity doubled. But the official data are misleading.

81:3/o Most US estimates say: rise in investment goods considerably below Soviet claim, and consumer goods did not rise at all. Official statistics did not measure small scale private handicraft production, which probably fell very quickly.

82:1 But important long-run gain was improvement in quality of labor. Number of specialists increased 250%.

82:2 28/9 plan seemed to proceed better than expected on all fronts, they seem to have had a now or never attitude, and considerably raised their targets.

82:3/o That required doubling of collective farms in terms of area and production, which was done by

force.

83:1 Small farmers happy to join collectives, but Kulaks resisted, but they were needed because they had the livestock and capital equipment. Had to be forced and/or expropriated.

83:2 Collectivization drive 29/30 was met with slaughtering of privately held livestock. By 31, cattle fallen by 1/3, sheep and goats by 1/2, horses by 1/4.

October 1st 29: 4 percent of farmers collectivized. March 10 30: 58% of peasant households collectivized, but countryside in state of civil war. Therefore Stalin reduced pressure, allowed firms to leave collectives again; by May 30 28%. September 21%. Strong economic preference of collective farms and more gradual pressure persuaded many to return: 1931 52%, by 1936 90.5%.

83:4/o there were not enough tractors to replace the killed animals. Therefore decline in harvest, but amount of marketed produce increased.

[In individual planning, people overestimate what they can do in the short run and underestimate what they can do in the long run.]

84:1 29/30 and 30/31 also some efforts to create gigantic state farms, but their output did not increase enough to justify investment.

84:2 Therefore state farms were again reduced in numbers. Peasants preferred collective ownership, and government was unable to provide the capital equipment or skilled managers (and in state farms, government absorbs the losses, see above).

84:3 Also in collective farms output per worker increased but output per acre or total output did not for some years.

84:4/o Machine tractor stations allowed control and rationed the limited supply of agricultural machinery.

85:1 Had planned to import vast amounts of machinery, but due to Depression, terms of trade turned against agriculture. Roughly half of new machinery installed in first five-year plan was imported.

85:2 Productivity did not rise as expected, but industrial workforce doubled in 4 years.

85:3/o Wages rose because of shortage of labor, but prices rose more.

Financial Problems:

86:1 Lack of consumer goods led not only to inflation (declining real wages) but also to rationing to preserve equity.

86:2 Bread rationed in major cities since 1929, 1931/2 almost half of manufactured and all agricultural consumer goods rationed. Surpluses sold off the ration at very high prices (which gave some meaning to differential wages, but they were a dull incentive).

86:3 Industrial bank gave interest-free grants to industry. Everyone applied, waste.

86:4/o Short term borrowing was considered even more important: firms borrowed excessively on short term, to finance their hoarding of labor and inventories because of shortages.

87:1 Therefore credit reforms introduced 1930–32: no more short term credit. State bank could only grant credit if it was planned, and made sure it was used for the planned purpose.

87:2 Because of unanticipated increases in wages and labor force these reforms not entirely successful.

87:3/o Credit for long term investment was restricted even more sharply. Finance was not to play an independent role besides the plan. This was not achieved since penalties for overspending were low and meeting output goal was all-important.

88:1 Also tax reform: high income tax for individual not in socialized sector: private doctors or lawyers, priests, handicraft workers, but not for workers, because their pay differences were used as incentives.

88:2 Another kind of tax was the tax in kind because farms had to sell to the government at low prices.

88:3/o So-called mass subscription bonds were another hidden income tax.

89:1 Summary: despite many unforeseen calamities, first 5-year plan largely successful in its goals.

Second Five Year Plan 1933–37

89:2 Advance not quite as quickly, learn new technology and improve labor productivity, solidify industrial structure. Small decrease in investment ratio from 25 to 20 %, consumer goods output planned to grow more rapidly than capital goods.

89:3 Stable retail prices in 1936 and 37, partly because of bumper crops.

89:4 Transportation was bottleneck. Length of railroad track had risen only 50%, but volume 500% since 1913.

89:5/o Why such large transportation needs? Shift of population from village to town required movement of food, new industrial centers requires movement of building materials over long distances.

Railroad and industrial construction placed sharply competitive demands on iron and steel.

90:1 Output per capital ratio of railroads very low. That is why they did not want to expand it.

90:2 Another reason for increase in transportation is “gigantomania” with a few big plants supplying all the supply.

90:3 Supply of goods from farms increased. By 38, procurement of agricultural produce to cities was 250% higher than 28.

90:4/o By 1935 rationing could be abolished, therefore wage differentials became more important as work incentives.

Productivity rose faster than planned. People “finally” learn how to use the machinery. New machines installed in first plan period were de-bugged etc.

91:2 Second five-year plan very successful. “Belated” reward for the sacrifices of the first five-year plan.

91:3 During this time population in cities doubled, workers from 10% to 33%, cooperative producers to 55% of all workers. Vast changes.

92:1 Sherman talks about the noisy hostility of Hitler. But it was not only noisy. War danger caused unexpected increase in military goods. Perhaps here we can actually call it defense spending.

92:2 International trade shriveled, no longer so much need, depression, and hostility of Western trade partners.

Third Five-Year Plan 1938–41

92:3 Response to war threat.

92:4 By 1940, investment plus defense took at least half of Soviet national income. Standard of living declined.

92:5/o Most of industrial construction was in Eastern areas.

Size and Location of Industry in 1930s

93:1–3 Prior to revolution, 90% of industry concentrated around Moscow and Leningrad. This was economically irrational and was an expression of colonialism.

93:4/o By weight loss principle, manufacturing should be close to raw materials.

94:1 Also reconstruction until 1928 concentrated in the West, only with the Five-Year plans shift of industry to the East.

94:2–3 Some say that Eastern location were severe miscalculations, justified only afterwards by military benefits.

94:4–95 Slow balancing of iron-ore and coal production, but too much steel was produced in the East according to Sherman.

96:1 Third five-year plan had goal to generally move production closer to consumption. My own thinking: maybe the gigantomania made sense for

big push: factories had to be installed once, there was not much movement of iron afterwards.

Growth in the 1930s

96:2–99:0 Growth rates very impressive, 11.9% per year, but figures very variable: political bias (Stalin used to suppress certain figures), qualitative changes and changes in composition, previous production unrecorded.

Second World War 1941–45

99:1 After Hitler's invasion Soviet Union could switch to war production very rapidly.

99:2 But German army took over area which contained 1/2 of Soviet pre-war capacity.

99:3 Mass evacuation of workers and capital equipment to the East.

99:4 Scorched earth policy: when Soviet army retreated, they destroyed all productive facilities that could not be evacuated.

Reconstruction 1945–50

100:1 Fourth five-year plan 1946–50. Main task: rebuilding and re-equipment of destroyed enterprises in Western regions.

100:2 Goal for 1950 was to exceed pre-war production by 50%. Transportation was taxed by the movement back. Little room for consumption.

100:3 They did manage to restore capacity by 1950.

100:4 But Soviets claimed that they had far surpassed their pre-war capacity by then.

100:5/o During the war money incomes much higher than consumption.

101:1 1947 rationing could be ended, and monetary reforms which would penalize holders of large cash holdings:

101:2 Bank deposits up to 3000 rubles exchanged 1 for 1, higher amounts progressively less until 10 for 1, and cash 10 for 1.

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