CHAPTER TWELVE

Non-Marxian Socialism

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12.1 Introduction

A socialist can be defined as anyone who asserts that capitalism has very serious problems, and who also believes that a substantial degree of common ownership is necessary if those problems are to be solved. Thus socialism covers a very wide range of opinions, from revolutionary anarcho-syndicalists to moderate social democrats and even (at the margin) some conservatives (Lichtheim, 1983 [1970]). It does exclude, however, the essentially neoliberal advocates of a (post-1989) "Third Way." Economics can also be defined very broadly, to include any discussion of production, consumption, distribution, or exchange, whether it is conducted by specialist economists, by political activists, or by social philosophers. Even "non-Marxist" is an elastic term, as the instances of Rudolf Hilferding, Oskar Lange, and John Roemer illustrate (see sections 12.3, 12.5, and 12.9). There is, inevitably, some overlap with Geert Reuten's chapter on Marxism and with Warren Samuels's chapter on utopian economics.

12.2 Socialism Before Marx, 1800–50

Arguments for some form of socialism date back to classical antiquity. The case for beginning this survey around 1800 is a simple one: all the writers considered here preached a socialism of affluence, denying the Malthusian claim that nature placed severe limits on material progress. For them, capitalism stood condemned for perpetuating poverty in the midst of potential plenty. The rise of modern industry, they asserted, demonstrated that human ingenuity was boundless; social, political, and (above all) economic institutions were to blame for the continuing misery of the mass of the population, not divine displeasure or the niggardliness of nature.

Among the most important of the early British socialists were John Francis Bray, John Gray, Thomas Hodgkin, Robert Owen, and William Thompson

(Thompson, 1998). They all attacked Malthus and his followers, sometimes drawing on Ricardo and other classical economists to substantiate their critique, and for this reason are frequently referred to as the "Ricardian socialists." The first and most serious defect of the existing order, they maintained, was an indefensible degree of inequality. At this point they often invoked the labor theory of value, interpreted (as it had been by John Locke) as a theory of natural right. Since each productive individual was entitled to the full fruits of his own labor, the working man was clearly receiving much less than his due. Most early socialists attributed the gross injustice of the contemporary income distribution to inequality in economic relations, in particular the prevalence of unequal exchange. Bray set out a very clear theory of exploitation, derived from a theory of surplus labor (Bray, 1931 [1839]; King, 1983).

The capitalist system was also criticized on efficiency grounds, since periodic industrial crises threw millions of working people into utter destitution and forced the economy to operate well below its potential capacity. Socialists frequently linked this phenomenon with the inequality of income, which they believed to be responsible for a chronic tendency to underconsumption. A similar point had been made in 1819 by J. C. L. Simonde de Sismondi and also by Robert Owen, who was equally convinced that unrestrained economic individualism was innately self-destructive. Owen added a further reason for supposing capitalism to be wasteful and inefficient, in that it failed miserably to develop the skills and make use of the intelligence of the workforce. Human potential was being squandered through constant overwork, malnutrition, and cultural and educational deprivation.

Claude-Henri de Saint-Simon came to the same conclusion by a different route. The principal defect of contemporary French society, he maintained, was the excessive influence of the aristocracy and the military. This came at the expense of the *industriels* or productive classes, which included not just the workers but also their capitalist employers, intellectuals, scientists, and artists. For Saint-Simon, economic efficiency required the concentration of decision-making in the hands of an enlightened (and well-paid) elite. His compatriot Charles Fourier proposed a much less authoritarian system in which work would be performed for its own sake and production organized by voluntary associations of free producers. Fourier was also no radical egalitarian: he believed in rewarding skill, responsibility, and managerial expertise, and even in the payment of interest on the capital invested in the Phalanstery, or productive community (Tugan-Baranovsky, 1966 [1910]).

While the early socialists disagreed on the defects of the status quo, there were even sharper differences of opinion on how things might be put right. Sismondi, famously described by Marx and Engels in *The Communist Manifesto* as a "petit-bourgeois socialist," advocated a return to a pre-capitalist and largely pre-industrial economy. Some British socialists favored an egalitarian society of independent artisans who could exchange their products among themselves in proportion to the labor time expended in producing them, with a monetary system (of "labor notes") designed to facilitate the process of equal exchange. Many, however, were convinced, like Saint-Simon, of the need for a collective solution that preserved the advantages of large-scale production and the social division of labor while eliminating the worst of the costs.

Some of the fault-lines that would later divide the socialist movement were already apparent. Was the new society to be egalitarian or stratified? Should it be democratic or authoritarian? Would it be based on market relations, or would nonmarket processes prevail? Could it be self-managed, or did it have to be run by the state? Would it be achieved by reform or revolution? These questions were to pose themselves over and over again, to every subsequent generation, right up to the present day.

Respectable economists reacted to "the people's political economy" with a mixture of fascination and horror. The socialist implications of the labor theory of value were vigorously denied, along with the theory itself, as was the viability of any alternative economic system. Socialism, the classical economists claimed, would destroy the incentive to produce, to save, and to exercise moral restraint in the matter of procreation. It would therefore have a disastrous effect on the level and rate of growth of output. Only John Stuart Mill responded at all sympathetically to socialist arguments, most strongly in the third edition of his *Principles*, where he rejected the Malthusian critique of socialism and accepted the possibility that public-spiritedness might well replace traditional economic incentives. Mill favored self-managed workers' cooperatives rather than state ownership of enterprises, and on this count can perhaps be seen as a forerunner of the syndicalists. Late in life, however, his doubts about the desirability of any form of socialism returned (Robbins, 1978 [1952]).

12.3 State Socialism, 1850–1945

The case of Sismondi illustrates the potential for conservative critics of liberal individualism to take up socialist, or quasi-socialist, positions. By the 1870s there was in Germany a vigorous school of *Kathedersozialisten* (professorial socialists), led by Gustav von Schmoller and Adolph Wagner, who combined loyalty to the emperor with a deep suspicion of unbridled competition. These conservative state socialists advocated a substantial degree of state ownership and the encouragement of peasant proprietorship through state acquisition of large estates, supported tariff protection and government promotion of German trade and overseas colonies, and demanded strict regulation of hours and working conditions in factories and workshops. Wagner went much further, proposing the nationalization of all large-scale enterprises, including the banks (Dawson, 1972 [1890]).

In analytic terms the pioneers of the "marginalist revolution" in economics were a very long way from the German professorial socialists. The relationship between socialism and neoclassical economic theory was, however, ambivalent. On the one hand, the neoclassicals repudiated the labor theory of value and in most cases rejected the very concept of exploitation. Marginal productivity theory was sometimes consciously used to defend the justice of the existing distribution of income. On the other hand, some important elements of neoclassical theory pointed in a socialist direction. First, and most obviously, the diminishing marginal utility of money had inescapable egalitarian implications. Secondly, the Walrasian auctioneer who was supposed to establish the vector of competitive prices, although a phantom, could potentially be conjured into life in the service of a government planning bureau. General equilibrium theory could then be reinterpreted as a theory of socialism rather than as an account of the capitalist market process. Thirdly, the neoclassical concepts of marginal utility and marginal cost offered a rigorous foundation for collectivist economic planning (see section 12.5). This, perhaps, was what Léon Walras had in mind when he described himself as "a scientific socialist." Finally, since, in actually existing capitalism, monopoly power was widespread and growing rapidly, the conditions for efficient resource allocation were routinely violated. This pointed to the benefits of a very considerable degree of state intervention and also reinstated the fundamental socialist notion of exploitation, albeit in a very different form. Between 1870 and 1945 many socialists were attracted to marginalist economics (Steedman, 1995), while some of the best neoclassical theorists were committed socialists.

Fabians such as Sidney and Beatrice Webb and George Bernard Shaw were among the first to use neoclassical economics as an intellectual weapon against capitalism, which they believed to be both wasteful and unjust. In production, they argued, monopoly led to the curtailment of supply. In distribution, Ricardian rent theory could be extended from land to capital, providing a theory of exploitation independent of the labor theory of value, since the great bulk of property income was unrelated to any productive contribution or sacrifice. The anarchic nature of the capitalist economy generated enormous waste, because the coordination of individual decisions was necessarily highly imperfect. Thus the Fabians called for high rates of progressive taxation on unearned income and for the socialization of the means of production, which would be better employed under the direction of expert economic planners in the service of the state (Shaw, 1949). They regarded themselves as the true scientific socialists, since their analysis was based on modern economic theory and backed up by painstaking empirical research, in contrast with the speculative, Utopian, and Hegelian foundations of Marxian socialism.

Before long, neoclassical ideas began to infiltrate German social democracy. The key figure in this process was the former Marxist Eduard Bernstein, who was heavily influenced by the Fabian case for gradual, peaceful, piecemeal change. Bernstein abandoned the labor theory of value and the notions of surplus value and exploitation. He became skeptical of the Marxian doctrines of growing social polarization, the increasing severity of economic crises and the necessity – indeed, the inevitability – of violent revolution (Bernstein, 1909 [1899]). In the 1920s the formerly orthodox Marxian theorist Rudolf Hilferding pointed to the successful extension of state control over the economy during World War I and set out a new theory of "organised capitalism." The tyranny of the market, Hilferding proclaimed, had been overcome with the growth of private monopolies and public regulation and control of economic life. This process would culminate in a fully socialist economy, owned and managed by the state in the interests of the working class, without a revolutionary upheaval (Howard and King, 1992, ch. 1).

The socialist convictions of many neoclassical economists were reinforced by the emergence of Pigovian welfare economics, which highlighted the need for detailed and comprehensive state interference with the operation of many, if not all, markets. More important, perhaps, was the development of rigorous models of imperfect competition, revealing that prices were seldom equal to marginal costs and wage rates were almost invariably lower than the value of the marginal product of labor. Finally, Keynes's *The General Theory* demonstrated that involuntary unemployment was a recurrent fact of life in any capitalist economy in which the level of aggregate demand was not subject to conscious social control. In Britain, liberal socialists denounced unemployment, inequality, and monopoly as the three fundamental flaws of capitalist economies, and proposed a combination of public ownership, microeconomic planning, and Keynesian demand management to put them right (Meade, 1936; Robinson, 1943). In the United States, neoclassical theorists used the new analytic tools to outline an "economics of control" (Lerner, 1944) and to assert the feasibility of an efficient socialist economy (Bergson, 1948). Most neoclassical economists, however, remained opposed to socialism (Pigou, 1937). Equally, in the socialist camp it was not just the Marxists who dismissed contemporary economics as at best irrelevant and, at worst, little more than capitalist ideology (Cole, 1935).

12.4 Libertarian Socialism, 1850–1945

There had always been an anti-statist element in socialist thought, reflected in the communitarianism of the Owenites and the supporters of Fourier and strengthened by anarchist suspicions of Marxism. Anarcho-communist ideas were propagated, from the early 1880s, by William Morris and Peter Kropotkin, who argued that human beings have a natural propensity for spontaneous cooperation to provide each other with "mutual aid" through voluntary and federative association (Kropotkin, 1902). In the early years of the twentieth century libertarian socialist arguments were advanced even more vigorously, by the syndicalists, Guild Socialists, and finally, after 1917, by Council Communists.

The syndicalists agreed with all the traditional socialist objections to capitalism: inequality, exploitation, unemployment, and poverty in the midst of potential plenty. But they had an additional complaint, against capitalism now and against state socialism as a vision of the future. In neither case were the interests of working people as *producers* taken at all seriously. Fabian (and all neoclassical) variants of socialism were based on the assumption that consumer interests were paramount, and implicitly placed a very low (or zero) value on the human need for self-realization though work. This need could be satisfied only through workers' control of the labor process, and it could not be traded away in exchange for higher levels of material consumption. An engaging account of the syndicalist vision was provided by Emile Pataud and Emile Pouget (1990 [1909]), who described the debates between those who argued for immediate free access to all consumer goods and more cautious syndicalists who believed this to be premature. A compromise would result, in which basic commodities such as food and clothing became available to all holders of a union card, free upon demand, while luxuries were rationed by price. Wage equality would ensure rough equality of consumption, according to individual taste, and the "free access" sector would continually expand as the productive potential of the new society increased. Working time would be greatly reduced, with the introduction of an eight-hour day and a much shorter working life.

A frequently voiced contemporary objection to syndicalism was that it privileged producer interests at the expense of consumers. Guild Socialism represented a compromise between the libertarians and the state socialists, on this and other issues. The Guild Socialists intended that consumer and producer interests be given equal weight in the making of economic decisions. The most eloquent defense of Guild Socialism came from the philosopher Bertrand Russell, who agreed with the anarchists that work should be undertaken voluntarily, as an end in itself, and should not be treated only as a means to the acquisition of consumer goods: "no community where most work is disagreeable can be said to have found a solution of economic problems" (Russell, 1920 [1918], p. 193). In a transitional phase it would be necessary to offer material incentives to compensate those workers in unpleasant or monotonous jobs, and also to encourage innovation. Everyone would receive a basic income and free access to some essential commodities (including education and child care), while those who chose to work would also be paid a wage and enjoy the right to a higher level of individual consumption. Receipt of the basic income, Russell noted, would give scientists and artists the freedom to pursue their interests unhindered by the need for state approval (or state finance). Payment for housework would "secure the complete economic independence of wives" (ibid., p. 196). He expected drudgery to decline very rapidly as leisure was given a higher priority than material consumption and less time was wasted on unproductive activities. People's characters would also improve, and the joy of life would be greater than it could ever be in a competitive world.

Like Russell, G. D. H. Cole proposed a form of market socialism based on workers' control of production but with the planning of investment, and the supply of credit, in the hands of the political authorities. Both the market and the inequalities that it engendered would eventually wither away, as more and more essential goods and services were supplied free, according to need (Cole, 1920, pp. 141–8). Reacting to the Russian Revolution, the Council Communists Anton Pannekoek and Herman Gorter rejected the authoritarianism and statism of mainstream communism, arguing instead for a form of nonmarket socialism based on self-management by mass assemblies of workers, represented where necessary by recallable delegates. A more detailed elaboration of an essentially similar vision guided the much more recent work of Albert and Hahnel (1991), which is discussed in section 12.9.

Fabians, Leninists, and conservatives were in broad agreement in criticizing libertarian socialism. Their principal objections concerned the lack of any provision for overall planning, the refusal to recognize the need for expert management, and – above all – the narrow sectionalism that syndicalist and kindred ideas would inevitably breed. In a generally rather sympathetic discussion of "collectivism," the liberal Treasury economist Ralph Hawtrey concluded that producer cooperatives would behave like a trade union engaged in collective bargaining with the state, which would bring all the dangers of injury to the community that were already posed by strikes under capitalism. Strike-breaking might have to be seen as a social virtue if the collectivist state were to survive (Hawtrey, 1926, p. 351).

12.5 The Lange Controversy, 1908–89

While the Fabians claimed that marginalism was entirely consistent with socialism, they made little progress in adapting neoclassical principles to serve as a guide to economic planning. In 1920 Ludwig von Mises attacked the very possibility of rational calculation in a socialist commonwealth. Without a market for producer goods, and a system of market prices, there was no rational method of pricing inputs, and thus no way in which costs of production could be calculated – or minimized. Socialists had simply evaded this problem, but no one any longer pretended that labor values offered a sensible measure of economic magnitudes. War communism in Russia was had involved the destruction of the existing division of labor and its replacement by "a closed peasant household economy" (von Mises, 1935 [1920], p. 125). Some socialists, such as von Mises's compatriot Otto Neurath, actually seemed to welcome this, making a virtue out of harsh necessity.

Unknown (apparently) to von Mises, this question had already been addressed by an Italian disciple of Pareto, Enrico Barone. If a socialist Ministry of Production wished to maximize social welfare, Barone argued, it would have to use the capitalist categories of prices, wages, interest, rent, and profit, and enforce the capitalist criteria of minimizing production costs and equating prices to costs. Thus socialism would look very much like capitalism. Even the much-vaunted gains from abolishing the "anarchy of the market" were illusory. The Ministry of Production would not be able to calculate economic magnitudes *a priori*; it would have to engage in precisely the same process of experimentation as occurred in capitalism, with identical consequences (Barone, 1935 [1908], pp. 287–9).

In 1935 Friedrich von Hayek published the first English translation of von Mises and Barone, together with similar criticisms by other writers (Hayek, 1935a). Hayek was prepared to concede the possibility of rational central planning, using a Barone-type system of simultaneous equations, but vehemently denied that it was practicable. A socialist planning authority would need "details of the most minute description"; it would have to undertake calculations that were "beyond human capacity" and "could not be carried out in a lifetime" (Hayek, 1935b, pp. 209, 211, 212). Some younger socialists had recognized this, and had repudiated planning in favor of market socialism. This, Hayek argued, was already a significant retreat. Neither was it any more practicable: without private property in the means of production, there could be nothing more than "pseudo-competition" (ibid., p. 217). The advocates of market socialism misunderstood the role of profits as "an inducement to change" (ibid., p. 230). There would be no incentive for socialist managers to take risks if successful innovation brought no reward; conversely, errors must not go unpunished. Hayek concluded by denying the existence of any middle way: "nobody has yet demonstrated how planning and competition can be rationally combined" (ibid., p. 241).

Oskar Lange (1938 [1936–7]) soon took up this challenge. He had no qualms about the restoration of markets and money under socialism; this, after all, is precisely what happened in the Soviet Union after 1921 once output had recovered from the disastrous consequences of the civil war. Lange set out a comprehensive model of market – or quasi-market – socialism with freedom of choice for consumers and workers, so that consumer goods and labor were allocated through markets, but all means of production and natural resources were owned by the state. Economic welfare would be maximized, Lange demonstrated, if socialist managers were required to follow Barone's two simple rules. First, minimize the average cost of production, thereby also minimizing the alternative opportunities forgone. Secondly, produce up to the point at which price equals marginal cost, thereby maximizing consumer welfare. Prices of producer goods and resources would be set by a Central Planning Board and therefore parametric to the managers, as would be the case in an ideal, perfectly competitive, capitalist economy. A process of trial and error could then be used to establish equilibrium. The Central Planning Board would play the role of the Walrasian auctioneer, carrying out a sort of socialist *tâtonnement*. It would not have to solve millions of equations, as had been alleged by Hayek; in fact, it would not have to solve any equations at all. The accumulation of capital could be determined by the Central Planning Board or simply left to the market, in which case the rate of interest would be established – as with all other prices – at the level necessary to equate the demand for capital with the supply.

The initial reaction of socialist economists was that Hayek had been routed. His reply can be interpreted either as reflecting a major shift in emphasis or simply as a clarification of the Austrian position. Either way, it required him to break explicitly with neoclassical economics. A successful attack on Lange, he came to realize, entailed a fundamental critique of equilibrium analysis and of the neoclassical conception of competition as a force which gives rise to equilibrium solutions. Competition, Hayek now argued, entails rivalry: it is a process of struggle, involving a clash of human purposes, and not a neutral progression of trial and error. Barone's equations were therefore irrelevant to the real world of continuous, rivalrous change – and so, too, were Lange's solutions to them (Hayek, 1940; Lavoie, 1985).

12.6 EUROPEAN SOCIAL DEMOCRACY AFTER 1945

The postwar compromise between capital and labor led many Marxists to ask whether capitalism had changed, fundamentally and irreversibly (Howard and King, 1992, ch. 4), and social democrats also began to wonder whether it was still capitalism. The British politician (and former academic economist) Anthony Crosland (1956) argued that it was not. He claimed that economic power had been transferred from capitalists to the state, through nationalization and direct intervention in the private sector; to organized labor; and to a newly influential class of technicians and professional managers. This loss of power had produced an important change in the psychology and motivation of "the contemporary business leader," who was much less aggressive in the pursuit of profit and much more inclined to accept his social responsibilities. Poverty had declined greatly, Crosland noted, and the share of the very rich in income and wealth had been substantially reduced. Full employment had brought with it a shift from a buyers' to a sellers' market for labor, which had improved social welfare and further altered the balance of class power. Finally, almost everyone now accepted the need for some measure of economic planning by the state. If "capitalism" referred to decentralized economic decision-making by a tiny minority of private owners driven by individual greed in a climate of intense class antagonism, then capitalism was dead. Crosland concluded that ownership of the means of production was increasingly irrelevant, since *control* of large companies now rested with management. The traditional socialist concern with public ownership of the means of production, distribution, and exchange was misguided. Socialists should aim for greater equality, not for further nationalization.

Crosland had greatly exaggerated the extent to which the capitalist tiger's teeth had been drawn, as he himself was forced to acknowledge when international finance took its revenge on the British Labour government in the 1975 sterling crisis (Thompson, 1996, pp. 236–9). He had been remarkably complacent about the dangers of wage inflation, rejecting the necessity for an incomes policy on the grounds that demand management was sufficient to keep prices under control (Crosland, 1956, p. 461). He was at best lukewarm about industrial democracy, following the age-old Fabian line that self-management was simply not feasible in any large organization (ibid., pp. 333–50). Finally, his commitment to increased equality sat uneasily with his repudiation of further nationalization. If the distribution of wealth was to become much more equal, but industry was not (for the most part) to be owned by the state, what pattern of ownership *did* Crosland have in mind? Did he envisage a "share-owning democracy" or "people's capitalism," of the type supposedly favored by his Liberal and Conservative opponents?

More radical social democrats looked to Scandinavia for answers to these and other questions. Between 1945 and the late 1980s, when the Swedish model of socialism was at its strongest, unemployment was extremely low and incomes more equally distributed than anywhere else in the world, the self-proclaimed Communist bloc included. The most interesting part of the Swedish model, however, was the one that was never implemented: the proposal for wage-earners' funds. Under a "solidaristic" wages policy that benefited the low-paid, highly profitable firms were not subject to claims for higher pay from their workers. In the absence of a high excess profits tax, there was a real danger that the profit share in national income would rise continuously. To avoid this, the Swedish unions advocated a form of collective profit-sharing in which a proportion of a firm's profits would be allocated in the form of new shares to union-controlled trust funds. These wage-earners' funds, it was intended, would eventually own a significant percentage of equity in Swedish industry, offsetting the tendency to increasing concentration of wealth and strengthening the voice of employees in managerial decision-making (Meidner, 1993).

In the late 1970s and 1980s there was a deep crisis in European social democracy as a consequence of growing dissatisfaction with the welfare state, and especially with the high tax rates needed to finance it. The outcome was the adoption of neoliberal economic policies by ostensibly socialist governments and, on the left of social democracy, the articulation of an Alternative Economic Strategy (Aaronovitch, 1981) which combined an extension of public ownership with increased union rights at the workplace and proposals for detailed state intervention in the private sector to promote higher investment and more rapid technical change. Coupled with this "industry policy" was an essentially Keynesian macroeconomic strategy that relied upon fiscal and/or monetary policy to restore full employment and (for some) a consensual incomes policy – including control over prices and profits – to restrain inflation. Economic planning was to apply also to international trade and capital movements. To a very large extent, the Alternative Economic Strategy represented a restatement and modernization of the "liberal socialist" ideas of the 1930s (Thompson, 1996).

12.7 SELF-MANAGED SOCIALISM AFTER 1945

Largely in response to developments in Yugoslavia, a very substantial literature on the economics of self-management grew up in the 1970s (see Jaroslav Vanek, 1975). Branko Horvat argued that socialism required the replacement of *both* private *and* state ownership by "social ownership" of the means of production. This entailed that enterprises be self-managed, with their decisions coordinated by the market – but a market corrected and regulated by the state. Economic democracy, Horvat claimed, would lead to both increased efficiency and greater equity; it would also tend to reinforce political democracy (Horvat, 1982). A search for forerunners would have led him to Oskar Lange, whose first model of market socialism, written jointly (in Polish) with Marek Breit in 1934, had drawn on ideas dating back to Friedrich Engels's old enemy, Eugen Dühring, and further developed by Theodor Hertzka (1987 [1891]). In the Breit–Lange model, production was controlled by self-managed firms but membership of these enterprises was open to all-comers; any worker had the unconditional right to join (or leave) any firm. This right of free entry would automatically break down monopoly power. It would also provide the socialist National Bank with a ready-made investment criterion – direct resources to those enterprises with an inflow of members – since this would be an excellent indicator of the intensity of demand for the goods and services that they produced (Chilosi, 1986; Breit and Lange, 2003 [1934]).

The first formal analyses of the self-managed enterprise, using a neoclassical framework, came from Benjamin Ward (1958) and Evsey Domar (1966). A systematic and comprehensive neoclassical model of Yugoslav self-management was later published by Jaroslav Vanek, a trade theorist. Vanek's discussion was based on a comparative static analysis of a labor-managed firm that maximized net income per member, contrasting it with the behavior of the profit-maximizing capitalist firm of traditional theory. One potential problem was the supply response of the cooperative to an increase in product demand, which might be zero or even negative. On balance, though, a labor-managed economy would be "not only highly efficient in absolute terms but also more efficient than other existing economic systems," including Stalinist central planning (Vanek, 1970, p. 403).

Responding to Vanek, James Meade stressed the overriding importance of free entry in a labor-managed economy. He also discussed the possible incompatibility of self-management with labor discipline and the inescapable conflict between efficiency and equity, which implied a need for rules to govern the distribution of the surplus between established cooperative members and newcomers. There should also be some social provision for risk-sharing to prevent workers having all their eggs in one basket, which would be the case if all their assets, and their only source of income, came from their membership of a single cooperative enterprise (Meade, 1972). In later work Meade continued to advocate a decentralized, competitive society based on workers' cooperatives, in which economic incentives would restrain the cost-inflationary pressures that had ultimately destroyed the postwar social democratic consensus (Meade, 1989).

A much more conservative variant of Meade's analysis was supplied by Martin Weitzman (1984), who looked for inspiration to Japan, where workers received a significant proportion of their income in the form of annual bonuses related to their employer's profits. The marginal cost of labor, equal to the wage, was therefore substantially below the average cost, which included the bonus. Profit-maximizing Japanese firms had an incentive to employ more workers (*ceteris paribus*) than their Western counterparts. This pointed the way to a "share economy" in which full employment could be maintained without generating inflation.

Some theorists of self-management approached the question from a much more radical perspective. Jaroslav Vanek's brother Jan, for example, refused to be confined to a neoclassical straitjacket in his appraisal of the benefits from self-management, rejecting the single-maximand approach in favor of a "vectoral model" in which the self-managed enterprise pursued multiple goals. These included – in addition to current net income per worker – growth in income, long-term security of income, reduction in effort and work intensity, improvements in the work environment, acquisition of skills and career advancement for members, and welfare and social benefits provided by the cooperative. Self-managed enterprises would also strive for "the suppression of non-work," by which Vanek meant the elimination of the restrictive practices, featherbedding, and opportunistic withholding of effort that were characteristic of capitalist firms (Jan Vanek, 1972, ch. 9).

This last point was taken up, in a neoclassical framework, by Samuel Bowles and Herbert Gintis, who focused on the determination of effort levels in capitalist and "democratic" firms, the latter being owned and managed by the workforce. Bowles and Gintis identified several reasons why democratic enterprises might operate more efficiently, and induce higher inputs of effort, than their capitalist counterparts. These included the motivational impact of participation in decision-making, more effective mutual monitoring and the greater use of financial incentives by the democratic firm, relative to monitoring and disciplinary sanctions (Bowles and Gintis, 1993).

12.8 PLAN AND MARKET, 1953–89

Defenders of Soviet planning noted that while, under capitalism, the intertemporal allocation problem was solved by the uncoordinated individual decisions of capitalists and landlords, in communism the solution was imposed by the central planners in the interests of society as a whole. The relevant criteria had been specified by neoclassical theorists, but they could be implemented only under socialism (Dobb, 1960). In the Cambridge growth equation, $g = s_c r$, where g is the steady-state growth rate, r is the rate of profit, and s_c is the propensity to save out of profits. Eliminating capitalist consumption, so that $s_c = 1$, means that $g = r$ and a socialist "golden age" can be achieved (Nuti, 1970). After 1945 these arguments resonated powerfully in what soon came to be known as the Third World, since they appeared to offer a theoretical justification for applying the Soviet model to the ex-colonial countries, where rapid growth was the overriding political priority. Mao's China now provided a second major example of successful centrally planned industrialization (Baran, 1957).

The first doubts were expressed in Eastern Europe, not long after the death of Stalin in 1953. Here the static inefficiencies of the command economy were not only obvious but also large enough to reduce the growth rate (Nove and Nuti, 1972). Dissenting voices were heard first in Poland, where Michal Kalecki objected strongly to the "heroic" nature of Polish plan construction in the 1960s, which imposed enormous sacrifices on the working class and neglected both the productivity of new investment and its effect on the productivity of labor. Kalecki modified the Harrod–Domar growth equation to highlight the contribution of technical progress, and devised a planning algorithm allowing the authorities to economize on investment resources (Kalecki, 1992, 1993). Although he supported workers' management of production, Kalecki was not a market socialist. Neither was Oskar Lange (1967), who now believed that computers had made it possible to solve the classic socialist calculation problem directly. Some of Kalecki's younger colleagues, however, argued that markets should be given a much *greater* role in the increasingly complex and sophisticated economies of Central Europe (Brus, 1972).

This view proved more influential in those parts of Eastern Europe where far-reaching economic reforms were introduced. The economics minister in the ill-fated Dubček government in Czechoslovakia, Ota Šik (1976), advocated democratic market socialism as a "Third Way" between capitalism and Stalinism, in which production decisions would be made by independent enterprises. He proposed a combination of competitive markets and macroeconomic planning of incomes, credit, and foreign trade, all in the context of a democratic political system. According to Janos Kornai (1986), though, the record of economic reform in Hungary was not encouraging. Command planning had indeed been abolished, but state-owned enterprises had not achieved genuine independence. They operated under a system of "dual dependence," reliant vertically on the bureaucracy and horizontally on their suppliers and customers. Relative prices remained arbitrary and irrational, forcing firms to seek assistance from the state.

This reinforced the universal and pernicious phenomenon of the "soft budget constraint," which allowed enterprise managers to escape the consequences of their errors by obtaining subsidies from local and national government, renegotiating their tax liabilities, receiving credit on excessively generous terms from the state banking system, and benefiting from unduly favorable administered prices. The soft budget constraint, itself a major source of allocative inefficiency, further increased the influence of the political authorities. Pervasive excess demand created an insatiable appetite from enterprises for investment resources, and imposed frustrating and wasteful queuing upon consumers. Prices failed to converge to Walrasian prices; firms did not behave like profit-maximizers; and the planners were neither omniscient nor unselfish. For all these reasons it had proved impossible to simulate the market. The Austrian theorists had been right after all, in stressing that competitive rivalry required a hard budget constraint and a buyer's market.

In the Soviet Union the reforms had not gone even this far. Attempts had been made from the mid-1950s to apply optimizing techniques in the planning process, and Leonid Kantorovitch's work on programming theory won him a Nobel Prize in 1975. But no fundamental alterations to the command planning system were introduced until Mikhail Gorbachev came to power in 1985. Some of his advisers advocated decentralization and democratization of decision-making that went at least as far as anything that had been achieved in Hungary (Aganbegyan, 1988). The Soviet Union disintegrated before the economic theory of *perestroika* (reconstruction) was really put to the test, but early indications had been distinctly unfavorable.

What did all this imply for the feasibility of socialism in the West? Alec Nove offered a left social democratic perspective on the lessons of "actually existing socialism." Centralized planning had proved to be inconsistent with socialist democracy; rule by a self-perpetuating oligarchy had given rise to growing shortages, disequilibria, and imbalances. But the Hungarian reforms had proved relatively successful, and there was much to be learned also from the experience of Yugoslavia, Poland, and China. All relied, to a considerable extent, on the market, and all allowed for a range of different forms of productive unit. Nove's model of "feasible socialism" allowed for five species: state enterprises, centrally controlled and administered; state-owned enterprises with full autonomy and a management responsible to the workforce; cooperatives; small-scale private enterprise; and self-employed individuals. Each species would operate in the habitat most suited to it. Central planning of major investment projects was consistent with a general preference for small-scale production, and continued reliance on material incentives did not rule out the encouragement of moral incentives and conscious limitation of income inequalities (Nove, 1983).

12.9 After the Fall: Socialist Economics Since 1989

The sudden and unexpected collapse of the Communist system in 1989–91 was interpreted in various ways. Many economists concluded that the infeasibility of any form of socialism had been demonstrated for all eternity. Some were more thoughtful, and less triumphalist. Joseph Stiglitz (1994) argued that information problems constituted the most important reason for the failure of the socialist experiment; even Hayek had not recognized the full extent of the problem. The market socialists and the proponents of the standard neoclassical model of capitalism had made the same analytic mistakes. Stiglitz's conclusions were therefore not those of a neoliberal. He recognized that markets could not work without government intervention: the real question was, what sort of intervention, and how much.

Kornai was more pessimistic than Stiglitz about the prospects for any sort of socialism. The classical Soviet system, he suggested, had at least formed a coherent whole. The economic reforms had destroyed this coherence, but had proved incapable of establishing any new order in its place. There was no sign that the various contradictions of the reform process were being resolved; on the contrary, each inconsistency had bred new conflicts. Neither was there a "third road," as Gorbachev had proclaimed. The only outcome of the post-socialist transition was capitalism, even if some of the moral values associated with socialism would continue to exercise a considerable attraction to many in the transition economies (Kornai, 1992).

Attempts to rescue the socialist project were soon forthcoming. A nonmarket vision of a future socialist society came from Michael Albert and Robin Hahnel (1991), who drew on the vision of the Council Communists, reinforced by analytic tools taken from neoclassical economics. Their model of a participatory economy aimed to achieve equity, self-management, solidarity, efficiency, and a diversity of economic lifestyles. This was to be brought about through democratic planning, conducted by federations of workers' and consumers' councils using an iterative process in which production and consumption plans were repeatedly revised in the light of estimates of opportunity costs until excess demands and supplies were eliminated. Albert and Hahnel thus made use of Lange's neo-Walrasian trial-and-error methodology, but without recourse to markets, profits, or anything more than shadow prices. Equity at work would be established in the form of "balanced job complexes" – working lives in which the desirability of individual career paths was roughly equalized. Remuneration would be according to effort, as judged by one's workmates. Some of the objections to this model were considered, and rejected, by Hahnel (2000).

The alternative, market socialist, position was very clearly stated by Pranab Bardhan and John Roemer (1992, p. 101): "Our claim is that competitive markets are necessary to achieve an efficient and vigorous economy, but that full-scale private ownership is not necessary for the successful operation of competitive markets." The fundamental objective was to overcome the soft budget constraint, which (like Stiglitz) they interpreted as a principal–agent problem: How, short of bureaucratic controls, can socialist managers be kept on their toes? They set out two models, both incorporating some essential features of a capitalist economy, but without private ownership. One was bank-centered, while the other mimicked the operation of the capital market. In both variants, national and international competition would be encouraged to prevent the reemergence of soft budget constraints through the exercise of political influence.

A historical materialist could only agree – holding her nose, perhaps – with the market socialists. The Fabians had been quite wrong, along with the Marxists and many others, in believing that the development of the forces of production inside capitalism was leading inexorably to the suppression of competition and the elimination of market relations. In fact, the twentieth century had proved the opposite to be the case (Howard and King, 2003). This prompts a question raised by Weitzman against Bardhan and Roemer: Why go to all the trouble of simulating capitalism, when you can have the real thing? This is especially so when it can be reformed, along the lines proposed by Philippe Van Parijs (1995), to provide everyone with a "basic income" independent of their work or ownership of property, and thereby create "real freedom for all." This is, perhaps, the most fundamental challenge facing the advocates of non-Marxian socialism.

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