

In Search of Feasible Socialism

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Alec Nove, *The Economics of Feasible Socialism* (London: Alien & Unwin 1984)

Socialism, like God, means different things to different people. Disagreement about the meaning of socialism started almost as soon as use of the word itself, in the 1830s. Most of the earliest users of the word were prepared to accept some measure of private property and trade, sometimes a considerable measure.

The rise of Marxism changed all that, giving pre-eminence to one specific concept of socialism, which had earlier been called "communism". According to Marx, "commodity production" (production for exchange on the market) had to be eliminated in favour of "production for use". "Anarchy of production" (the unpredictable spontaneity of the market) was to be replaced by "conscious" allocation governed by a "single vast plan". A democratically-elected body representing the whole of human society would get on with the simple task of organising production to satisfy human wants, unencumbered by the foolish rigmarole of money, prices, and profits, all of which would cease to exist.

Marxism was the unreasonable in pursuit of the unfeasible. The unfeasibility of Marxian socialism was strongly hinted at by (among others) Friedrich von Wieser in 1889, then clearly explained by Nikolaas Pierson in 1902, Enrico Barone in 1908, and Ludwig von Mises in 1920.

In order to make sensible decisions about the allocation of factors of production (for instance, to compare the costs of two alternative production methods) it is necessary to refer to prices of those factors, and these prices must be established spontaneously in an "anarchic" market. Anarchy of production is vital to modern industry, and will remain so indefinitely.

Abolition of markets for factors (whether or not accompanied by abolition of markets for consumers' goods) would lead to the breakdown of industry, as indeed it did in Russia during 1918-21 and Cuba in the 1960s.

Nove accepts that Pierson, Barone and Mises were right, and sets out to construct a "feasible socialism", a kind of socialism which might work. Others have tried the same thing, but such efforts routinely fail in two ways: 1) they are too "capitalist" to appeal to serious socialists, and 2) they are not "capitalist" enough to work.

The myth of abundance

Leading up to his account of feasible socialism, Nove discusses Marx's ideas, the Soviet experience, and the market reforms in Eastern Europe. Much of his treatment is fundamentally sound but very pedestrian and inclined to rely on implicit appeals to common sense. He believes it is a powerful argument against a position to describe it as "dogmatic", and so he employs this simple yet devastating trick very frequently. Nove calls views dogmatic if they are unconventional. Thus, anti-market communists and free market libertarians. are dogmatists *ipso facto*.

Nove's actual arguments against the dogmatists are sometimes superficial. He correctly dismisses Marxist expectations of "abundance" as unrealistic, but his treatment fails to go to the root of the matter. The traditional Marxist view is that with increased productivity (which will be increased all the more after the revolution), scarcity will vanish, so that all demands can be satisfied at zero price. The stores will simply be stocked up, and people will take freely whatever they please, without any rationing or payment, and the stores will never become empty. Nove's discussion of water supply tends to blur the issue:

"It is not necessary to regulate its use through "rationing by price", it is available in sufficient quantity for all purposes. It is not "marketed" in any meaningful sense, nor is its provision subject to any "law of value" or profitability criterion. There is no

competition for water, there are no conflicts over water ... If other goods were as easily and freely available as water is ... new human attitudes would develop: acquisitiveness would wither away; property rights, and crimes related to property, would also vanish . . ."

This misses the point. Where consumers do not have their water metered with payment *pro rata* water is over-consumed (though there usually is a crude, inadequate rationing by price, in the sense that there are additional charges for use of hoses or sprinklers). The people who suffer from the absence of metering are those very consumers who appear superficially to be receiving a free gift. They are faced with a situation where using extra water appears to cost them nothing. They still do pay for that extra water, since resources are diverted to produce water which would with metering be released to produce other things. The consumers therefore find less of those other things available. They would prefer to cut down their consumption of water, in order to increase their consumption of other things, but that choice is effectively denied them. So water is overproduced - meaning that alternative consumers' goods are underproduced. Further, the bidding for land and other factors denied to alternative employments in order to make more water does not accurately reflect conditions. Because neighbouring water suppliers cannot compete by reducing the price or improving the quality, pressure to cut costs and provide a better service is weakened. There is nothing special about water: the same cock-eyed way of paying for it, with the final use "priceless", could be applied to bread, cornflakes, electricity, or aerobics classes. Wherever it is applied it wastes resources and tends to impoverish the people. If it is done with only one industry, or a few, the waste can be borne by the rest of industry. "Free availability" of water does not therefore mean that property rights can be dispensed with or that "acquisitiveness" (wanting more) disappears. This is a mistaken concession Nove appears to give the Marxists.

For purposes of practical exposition, two points about scarcity need to be made more forcefully than they are by Nove: 1) the

distinction between the economic and everyday senses of the word "scarcity", and 2) the fact that it is scarcity of factors which is most relevant. If the whole world were raised to the per *capita* income level of Switzerland, which is surely at least a century away, "scarcity" in the everyday sense would have been abolished. Almost no one could be seriously claimed to be suffering hardship or insufficiency of consumer goods. Yet in this super-affluent society, consumer goods remain scarce in the technical sense of economic theory, and more importantly, this level of income still depends for its maintenance upon using the price system to allocate factors. It remains vital that people who take decisions in production continue to veto some combinations of materials and equipment as too expensive, and continue to strive for cost-reduction. Such a wealthy society still cannot afford to treat ounces of zinc, square meters of conveniently situated land, hours of computer time, or gallons of sulphuric acid as abundant and therefore costless. Every enterprise must continue to employ that eternally indispensable instrument of industrial production, the balance sheet.

Is it planning?

Nove performs the usual dreary recitation of the extraordinary wastefulness and irrationality of the Russian economic system. He seems at times over-generous in his valuations of Soviet progress, but the shambles of Russian industry is so abject that saying anything nice about it always acquires an ironic coloration, if inadvertent. There is much irony in Nove, though I sadly suspect he never intended it, as in his remark that "Poland had the good fortune to possess three distinguished socialist economists: Lange, Kalecki and Lipinski."

Nove makes quite well the point that attempted central planning is by its nature hostile to participatory democracy, but he fails to give proper attention to the argument that Soviet industry is *not* centrally planned:

"Several authors of the most diverse political views have stated that there is in fact no planning in the Soviet Union: Eugene Zaleski, J.Wilhelm, Hiliel Ticktin. They all in their very different ways note the fact that

plans are often (usually) unfulfilled, that information flows are distorted, that plan-instructions are the subject of bargaining, that there are many distortions and inconsistencies, indeed that (as many sources attest) plans are frequently altered within the period to which they are supposed to apply, partly to take the unexpected into account, but also to justify the claim to 100 per cent fulfilment of a plan reduced (at enterprise level) to the level of actual achievement. The outcome often differs both from the intentions of the authors of the plan *and* from the needs and desires of the users."

Nove picks over these ideas and inclines to the view that Russia is centrally planned, with "deficiencies and imbalances" constituting a sort of noise that prevents planning being perfect. In all this, he misses out the strongest argument that Russia is not centrally planned, and does not even mention the two writers who did most to propagate it, Michael Polanyi and Paul Craig Roberts.

It is true that Soviet-style plans are issued well after the commencement of the planning period, and then periodically amended to fit unplanned events, yet it might be possible to explain this away as ceaseless revision of plans in the light of experience. But Michael Polanyi pointed out in his remarkable works, *The Contempt of Freedom* (1940) and *The Logic of Liberty* (1951) that the very notion of planning a large industrial structure, where the so-called planners do not and cannot know the inter-relationships among elements which would give such a plan any meaning, makes no sense. Any plan must be capable of being grasped by one mind. Polanyi explained that planning was suitable only for tasks possessing "natural unity", where the "simple terms of one general idea which can be conceived and handled by one man dominate a mass of details; the general idea is the plan, the details follow from it as its execution." Since society's total production cannot be turned into a general idea of this sort, "a centrally directed industrial system is administratively impossible."

What, then, is the meaning of a published Russian "plan", which appears to stipulate physical targets for various branches of industry? The aggregate statistics in such

"plans" cannot constitute a genuine plan. That would be analogous, Polanyi said, to the captain of a chess team announcing: The plan of my team is to advance 45 pawns by one square, move 20 bishops by an average of three squares, 15 rooks by an average of four squares etc. What we have here is not a plan, but a "a nonsensical summary of an aggregate of plans".

Since the Soviet "plan" acquires meaning only when translated into detail (detail unknown and unknowable to its supposed composers), the plan must be a summary of the plans of enterprises. The so-called planners ask the enterprises what they intend to do, and then instruct them to do it. The enterprises are being told to execute their own guesses (by this time obsolete) with a few crude amendments introduced by the centre. Of course, individual Soviet enterprises have their own balance sheets along Western lines, and have to make a profit to survive.

Some of Polanyi's ideas were developed by Roberts in *Alienation and the Soviet Economy* (1971). As Roberts makes clear, the really strong argument for the absence of Soviet central planning is that no one has any idea where the "plans" come from. No coherent explanation exists for the origin of the "plan", except the Polanyi-Roberts theory that it is a senseless aggregate of millions of separate plans, Roberts cites remarks by people with experience of direct involvement in Eastern European "planning", who have come to more or less the same conclusion.

Is it socialism?

Nove accepts that socialism has never existed, and explicitly rules out Sweden as too mild and piecemeal a kind of interventionism to be graced with the title "socialism". His "feasible socialism" is to have more guts than that, and it is, as he points out, much more centrally directed, less market-oriented, than the market socialism of Radoslav Selucky.

Nove summarises the features of his socialism in nine items, though most of these are concerned with emphasising the vital role of the market, the small-scale, and independence of enterprises. Nove wants

incomes policies, discriminatory taxes, anti-monopoly policies, and the exemption of education and health from market criteria - all familiar features of most post-war Western societies. But the first three items of the nine have a Big-is-Beautiful sound to them, and the first seems to advance the strongest claim to "socialism":

"The predominance of state, social and co-operative property, and the absence of any large-scale private ownership of the means of production."

A co-operative is a private business. People are free now to run their businesses as co-operatives, but this form of organisation has been found to be inefficient, and the more conventional forms of partnerships, one-man businesses and joint-stock companies predominate. No matter how radical its internal structure, an independent co-operative is a private entity.

By "social property" Nove means state-owned enterprises which are "fully autonomous", with management's "responsible to the workforce". But if an enterprise is autonomous, there is an element of the private about it. The distinction between state and private firms is not clear cut, and as Alexander Bajt has emphasised, a nominally state-owned firm can have more genuine independence than a highly-regulated nominally private firm. If the firm gets enough practical autonomy, the state ownership becomes reduced to a fiction, like the idea that the Queen owns all the land in England. There is something paradoxical about people like Nove who demand that state businesses be made commercially sound, for every step towards soundness and autonomy (which go together) is a step away from being state-owned.

This does not mean that "state ownership" makes no difference: it means that we must examine in each case what concretely state ownership means. For instance, if enterprises are conventional joint-stock operations, with 51% of shares held by the government, which takes no active part in management, then the effect is quite similar to a tax, represented by the government's dividends. The 51% state holding would introduce some distortions into the capital markets, and

therefore no one has anything to lose, everyone might gain, if the state unloaded its shares and took its cut by a straight tax. Such a bourgeois form of state ownership as 51% shareholding is not something for which anyone will go to the barricades. But the more teeth are given to the government, the more the government meddles, then the more distortions are created, and the more we all suffer. At the same time, even viewing things from the standpoint of the statist oppressors, there is a practical limit to the extent to which they can pursue any coherent goals in detail by meddling in the affairs of millions of separate enterprises, unless like the Politbureau, their only coherent goal is to keep pointlessly smothering industry, to delay for a few more years the joyful dawn which will see them dangling from lamp-posts, alongside their distinguished socialist economists.

Vacuous desirabilia

Nove discusses the desirability of self-managed concerns, of non-alienating small-scale production, of co-operatives, of private firms which remain small, and so forth. There is something ambiguous, and even unreal, about such discussions. I could say that I would like half the restaurants in London to be vegetarian, but this is inconsequential unless I explain how it is to be enforced.

We could discuss the desirability of self-managed firms, but there is nothing to stop people forming self-managed firms now. Indeed, people do it all the time, but for the most part such firms are quickly eliminated.

They are inefficient at serving the consumers, and they are not so delightful to work for that workers are prepared to accept sufficiently low wages to make them viable. So it is pointless discussing the desirability of self-managed enterprise, in a vacuum. To make the discussion of practical significance, we must address the question: given that workers and consumers have demonstrated that they do not want self-managed enterprises, what coercive measures should the state implement in order to force the people to accept what they do not want? Privileges for self-managed firms? Penalties on hierarchically managed firms? A state

inspectorate to make surprise calls on any workshop, with court proceedings if it is found undemocratic?

There is nothing which prohibits anyone from trying to make TV sets in his attic. This is not done, because it would be inefficient and therefore unprofitable. Discussion of the desirability of small-scale production must take the practical form: what measures should the state inflict on society so as to waste resources and make people poorer, by attacking large units and bestowing privileges on small units? Nove points out that there are good reasons why some kinds of production have to be large scale. But it does not matter whether Nove, or I, or some state official, can see why large-scale production is more efficient. If it outcompetes smaller units, in an unfettered market with a properly designed legal system, the reasonable presumption is that it is more efficient, and no one need ever know why.

Nove accepts that his big state corporations must not be given a coercive monopoly; small private concerns must be permitted to compete with them. How then can he be sure that the state corporations will predominate? Experience suggests that state enterprises survive by special privileges, usually heavy subsidies or the outlawing of competition. Nove takes it for granted that postal services must be provided by the state, because this is done "even" in the US, yet everyone knows that without fining and jailing anyone who delivers letters privately, or without enormous subsidies, no state post office could survive. The Post Office knows this better than anyone: the threat of demonopolization sets them shaking in their shoes, though it does not terrify them enough to prevent postal services getting steadily worse.

If British state steel firms had to pay their way or close down, they would be eliminated over a period of years. There would be no need for "denationalization". Demonopolization plus commercial viability is gradual but effective denationalization.

The road to freedom

When he argues against socialists, Nove is fond of asking: why not? And a good question it is too. In cases where consumers would benefit and no one would suffer from permitting a spot of private trading, why not permit it? But the same question can be asked in relation to the mainstay of Nove's "socialism": the state corporations. Nove says that small private firms must be allowed to compete, but if there are no subsidies for the state giants, how can we be sure that the small-scale private firms will not take over most of the industries concerned? Perhaps the large state corporations will find that the disadvantages of being state-owned outweigh the advantages of being large. Beyond that, why place a limit on the size of the private competitors? If some of these private competitors start to expand, why stop them? According to Nove's own perfectly correct arguments, they can only do this because they are finding ways to satisfy needs overlooked by the state firms.

Where are Nove's dykes against the floodtide of the free market? He thinks he can call his system socialist by citing the "absence of any large-scale private ownership of the means of production", but he does not say how this absence is to be maintained in the teeth of private competition. He does not specify the bludgeons which will be employed to beat back the superior independent producers in order to impose upon society the hegemony of the inferior state producers.

Nove speculates that Lord Harris would respond to "feasible socialism" by warning of the "road to serfdom". I don't know what Harris would say, but my response is the opposite of that imagined for Harris. Feasible socialism would probably be overwhelmed by what Lenin called "bourgeois-anarchist spontaneity". Experience shows that once a state-dominated regime permits a substantial measure of independent production and trading, the tendency of the free sector to expand is very powerful, and can only be thwarted by extreme repression or entrenched monopoly privileges (neither of which Nove favours), though even then, "capitalism creeps".

Why does Nove want socialism?

Given the lacklustre quality of Nove's socialism, why does he concern himself with trying to find and advocate a feasible form of socialism? Why not just accept that socialism is played out? Nove gives many reasons, many of them unsubstantiated assertions, like the "danger that labour-saving innovations will be introduced at a rate far exceeding the possibility of providing alternative jobs", the "long-lasting" energy crisis (shortage or glut?), or mysterious unidentified "material shortages". Nove acknowledges that Marx's prediction of the polarisation of society into a tiny group of capitalists and a mass of paupers has proved false, but does not give this fact the emphasis it deserves. Since many people continue to think otherwise, it needs to be clearly recognised that 1) there has been no discernible long-term trend towards ever-increasing concentration during the past 150 years (the US private sector, for instance, is no more concentrated than it was a century ago), and 2) there is no good reason (no sound piece of economic theory) which should lead us to expect any concentrating tendency. If present civilisation persists for another 50,000 years, there are no grounds for supposing that at the end of that period industry will be any more concentrated, in ownership or administration, than it is today. But Nove thinks that monopoly is an increasing problem, though he states that it is not his purpose "to enter into controversy on the relative efficiency of the large corporation, its contribution to innovation, and so on" - that is, he dismisses most topics relevant to any discussion of the subject.

Nove's feasible socialism is a market system, which most socialists would label a form of capitalism, and Nove gives no grounds for thinking his socialism would be less inclined to monopoly than what he calls "liberal capitalism". All state intervention carries the risk that it will confer artificial monopolies on particular groups, and therefore Nove's system is more vulnerable to the "monopoly" criticism.

He believes that "vast riches" going to some who own oil-bearing land "has nothing whatever to do with any contribution to production or welfare in any sense, and

makes it seem more than a little silly to urge "wage restraint" at a time when the very rich do not need to work at all." But it is *always* silly to urge wage restraint (and sillier still to heed such urgings), and this only has relevance to the incomes of the very rich if it could be shown that destroying those incomes would benefit the wage-earners.

As for contribution to production, Nove's reference to "vast riches" is presumably irrelevant, since a very small increase in income going to the owner of a tiny plot of land would incur the same criticism, as would a big or small loss of income. Nove amalgamates a feeling of resentment against the undeserving rich with a judgement about economic efficacy. But if we separate these, we get the claim that windfall gains and losses have no economic function; Surely no one with Nove's appreciation of the way markets function could argue that. Windfall gains and losses apply to all assets, including those which Nove would permit to rest in private hands. Land is no different. These gains and losses result in a changed valuation of the assets which enables them to be allocated more efficiently in altered circumstances. No other method exists for arriving at the proper valuation than to leave them in private hands, with the owners free to suffer any losses or reap any gains that result from changed conditions.

Furthermore, it is not feasible to separate (except for purposes of theoretical discussion) windfall gains due to luck from gains which are the result of entrepreneurial foresight, and there is no doubt that the latter serve a function, by moving assets to more productive uses. Consider a state board appointed to determine whether, when I decided to hold onto a plot of land, I did so because I shrewdly suspected it would appreciate, or out of "lucky" inertia. Imagine the same board deciding whether the Parlophone executive who gave a recording contract to an unknown musical ensemble, the Beatles, was being far-sighted or lucky, with confiscation of all Parlophone's gains in the latter event.

There is also the fact, stressed by Barry Bracewell-Milnes in *Land and Heritage* (London: IEA, 1982) that people like owning

and, and it therefore injures them if they are forbidden to do it.

Nove writes regretfully of the breakdown of "deference" in the workplace, and "a sense of alienation: large-scale units are run by virtually unknown bosses; the outcome of the work, and its organisation, is none of the business of the workforce." The implication is that this is something which just dropped out of the sky, without anybody wanting it. But output is higher, and consequently wages are higher, in these large alienating organisations. Otherwise different systems of management would be more profitable, and the big alienating firms would disappear. Evidently the amount of reduction in money wages workers are prepared to accept for the sake of a more congenial system of management is not sufficient to render the cosier forms of management profitable. (Conceivably, this might change with higher incomes in future, but I am inclined to think people will more likely take their alienation reduction in the form of shorter working hours, or by working in small partnerships.)

It would be inefficient to compel workers to take more managerial cosiness, and concomitantly less food, clothing, cars, houses and hospitals, just as it would be inefficient to force workers to watch ballet instead of football. It would also be an unjust imposition of Nove's arbitrary preferences upon individuals who mostly earn incomes much lower than his. If I prefer working for a big alienating firm because I am thereby more productive and can therefore live in a bigger house and take longer holidays, why should Nove (who has "had the luck" to write books salable to a lot of middle-class students) poke his nose into my life and tell me I must do something different?

But the patrician Nove has few qualms about forcibly correcting the debauched tastes of the masses: "There is something genuinely repulsive in the amount of money to be made by pandering to the lowest common denominator, in the mass communication industry, with some of the highest incomes going to presenters of shows, or disc-jockeys." The analogy of the lowest common denominator implies that there is some bias in the market, making it easier to supply rock music than opera, but this is unsupported,

and I doubt if any disc-jockey makes half as much as Pavarotti. Nove claims that: "if there were three TV programmes run by the same public-service-oriented organisation, there would be more choice for the viewer than if there were three competing networks which tend to put on similar programmes at peak hours." With a free market in broadcasting there would be hundreds of alternative channels, but if we suppose the number of channels fixed at three, Nove's reasoning is a fine old muddle. If three channels put on similar programmes, this means that given two channels airing these shows, there is still sufficient demand for a third to outweigh the total demand for the most popular dissimilar programme. That is the expression of the viewers' choices. Nove's argument is like-saying that where there are three car factories making similar sorts of cars, because these are the cars enough people actually want to buy, the three plants should be nationalised, and one of them retooled to produce a type of car desired by so small a minority that its production is unprofitable. Naturally, Nove is free to detest other people's preferences, just as he may dislike the fact that some people go to church (or that some people don't). But he should not represent an interference with people's choices in order to benefit a minority elite as an extension of choice in general. The elite may like it, but that is merely because they are being subsidised by the rest of us.

Free Life