

Feasible Socialism: Market or Plan or Both?

A critical appraisal of Alec Nove, *The Economics of Feasible Socialism* (Unwin Hyman, 1983), and Pat Devine, *Democracy and Economic Planning* (Polity Press, 1988).

The Collapse of Certainties

The collapse of the Stalinist regimes in the former Soviet Union and Eastern Europe has been hailed by anti-socialists as final proof that socialism, besides being undesirable, does not work. The collapse has also reinforced the crisis of socialist theory. If these regimes did indeed represent what socialism was like in practice, is the whole concept of socialism still valid? Is there really no alternative to capitalism? There are many who have contended that the Stalinist regimes were not socialist and that their existence and eventual collapse do not imply either that socialism is undesirable or impossible. What is does make imperative is a redefinition of socialism and a critical evaluation of past experience. This prompts several questions:

1. Were the negative features of the Soviet regime only the consequences of the backwardness and long isolation of the Soviet Union? Or were they due to the inherent impracticability of state ownership and central planning and its incompatibility with democracy?

2. What alternative models of socialism are feasible and desirable?

The search for such alternatives began long before the collapse of the Stalinist regimes. Since 1917 there have always been libertarian, anarchist and other critics of Stalinism, not to mention the various oppositions from within the Bolshevik party starting with the Workers' Opposition in 1920. I want to discuss here more recent proposed alternatives, particularly the arguments put forward by the late Alec Nove in *The Economics of Feasible Socialism* and by Pat Devine in *Democracy and Economic Planning*. These are by no means the only contributions to the debate, and Nove's book in particular, since it has been out for over 10 years, has already attracted a number of reviews and comments. My reasons for concentrating on these two books are, firstly and obviously, that I have read them and not some of the others, and,

secondly, that they cover the main problem areas.

It is impossible without making this review too lengthy to deal with all the points raised in these two books. I will outline only the main themes and keep my own comments to the end.

Nove starts by asserting that Marx's writings provide no guide, or a misleading guide, as to how a socialist economy would function. Marx, according to Nove, had a romantic and utopian vision of communism, based on an assumption of superabundance, with all social and economic problems assumed out of existence. Nove is concerned to draw up a model of socialism not for the far distant future, in a state of superabundance, but one that could feasibly be working within the lifetime of a child already conceived – that is, within the next 50 years – in a world in which resources would not be unlimited, and where there would still be relative scarcity. That is, a world in which the decision to invest resources in a desirable project must entail abandoning or postponing another equally desirable project – a world in which costs of opportunity have to be weighed against each other.

“There is a long agenda awaiting socialist economists. They cannot even begin to face the real problems unless they openly reject the utopian elements of the Marxist tradition. Marx would surely have revised his own ideas if he had lived a hundred years longer – he would have been a ‘revisionist’. There were many things he could not possibly foresee. More probable, surely, than ‘abundance’ is quite another sort of world, one in which conflicts over scarcity threaten the survival of the human race, in which the pursuit of short-term profit threatens the destruction of the environment. Some species of socialism, on an international scale, may well be the only alternative to disaster. But this is conservative, share-scarcity socialism, which can have little in common with a utopia based upon the assumption

of limitless resources” (p.60).

The Defects of Étatist Command Economies Nove argues that the negative features of the Soviet system cannot be explained solely by specifically Russian conditions. On the contrary, the abolition of the market and the development of planning inevitably requires bureaucracy and limitation of democracy – especially in a setting of complex and large-scale industry.

“Given the centralised system, itself the consequence of the elimination of the market, the powerful bureaucracy becomes a functional necessity. A Soviet author has calculated that in a year there is a total of between 2700 and 3600 million plan indicators’ determined at all levels – between 2.7 and 3.6 million at the centre, and 70 per cent of these concerning material allocation and supply. What has all this to do with factors specifically Soviet? Surely the difficulties and distortions are consequences of scale, are various kinds of manifestations of dis-economies of scale. Marxists have vastly underestimated the complexities of centralised planning. Those who choose to attribute the distortions of the planning system to bureaucracy and lack of democracy have put the cart before the horse. Given the aim of substituting planning for the market, administrative resource allocation for trade, the visible for the invisible hand, central control becomes an objective necessity. Given the immense complexities, one requires a complex bureaucratic structure to take a multitude of interconnected decisions which, of their nature, are not a matter for democratic voting. In no society can an elected assembly decide by 115 votes to 73 where to allocate 10 tonnes of leather, or whether to produce another 100 tonnes of sulphuric acid” (pp.34, 77).

Nove notes the alienation that exists in étatist economies, and remarks that alienation is not just the product of class society, or even of bureaucracy; it is also the result of scale, complexity and centralisation: “decisions are taken at levels remote from ordinary people – this remoteness is due to the very nature of centralised planning, of a market-less economy. So is hierarchy, which arises because decision making is hierarchical, but which then has profound social effects, including the emergence of institutional privilege” (p.78).

Nove concludes from this – and this is the nub of his position: “This is one reason why a model of socialism free from such defects will have to be based on direct links between economic units, that is on commodity production, on exchange, with some form of market” (p.78).

Writing in 1988, Devine argued that the systemic problems facing the étatist economies were inherent to command economies. He listed their manifestations as:

1. Falling rates of economic growth.
2. Continuing difficulties in agriculture.

3. Poor innovative performance.
4. Rising capital-output ratios (that is, lower productivity).
5. Unemployed fixed capital.
6. Low labour discipline and morale.
7. Low quality.
8. Inefficiency.
9. Low consumer satisfaction.

The two most important systemic problems inherent in command economies related to information and motivation. Adequate information and motivation require decentralisation. The balance between centralisation and decentralisation must depend on the nature of the activity in question. Both Devine and Nove relate the problems of information to the top-down chain of command and the lack of participatory democracy. At each subordinate level of the industrial hierarchy, the people concerned will “doctor” the information supplied to the higher levels to suit their own interests. For example, since bonuses for enterprise managers depend on achieving or surpassing the set targets for production, there is a built-in incentive to understate existing capacity and inflate requirements of inputs (since “planned” deliveries from suppliers of raw materials, fuel, etc, are notoriously unreliable). Similarly, projected costs and delivery times are deliberately inflated so as to make it easier to show “savings” in costs and times – all of which attract bonuses. Since the bureaucrats at the centre must necessarily depend on information from below in order to set the plan targets, this system ensures that the plan. is inevitably flawed. Devine also points out that the absence of democracy promotes alienation and therefore causes poor innovation (p.65).

The Alternatives

So far, Nove and Devine are in general agreement. It is in their proposed alternatives that they part company. Nove argues for an amalgam of plan and market and a mixture of forms of ownership and control. Devine rejects Nove’s “market socialism”, and proposes a model of planning involving participation in decision-making at all levels, which he calls “negotiated coordination”.

Nove argues that a completely centrally-planned command economy can no more ascertain social and consumer needs ex-ante than can capitalist markets. And for basically similar reasons. The individual capitalist firm can plan and decide what it is going to produce in the coming year, based on market research and projection from past trends and its existing share of the market. But its ex-ante predictions are often wrong because it has imperfect knowledge. It knows what it plans to do, but is completely unaware of the plans of its competitors which will drastically affect the accuracy of its forecasts. Even governments with all the means at their disposal

are unable to forecast economic trends in an economic system dependent on the millions of decisions of multitudes of independent producers. But the market does provide an ex-post verification of the firm's estimates of the demand for its products.

Nove argues that the command economy has the worst of both worlds. It is not only unable to predict needs ex-ante because of the defects of central planning already mentioned, but is also unable to have ex-post checks on its plans due to the absence of market constraints. Since bonuses are based on the achievement of production targets and savings, the managers of individual enterprises are not interested in whether their products are actually used or purchased. Thus quality is sacrificed. Once the production target for tractors or lorries or machine tools has been met, the manager of the producing enterprise could not care less if his products break down repeatedly and are eventually dumped to lie rusting in some yard. Similarly, for consumer goods the absence of market constraints, that is, the need to produce items actually wanted and therefore purchased by the public results in a combination of waste and shortages. Add to this the fact that while some products such as electricity or coal are homogeneous and can be measured and planned in aggregates – megawatts, tonnes, etc – other products such as clothes, spectacles, instruments, machine-tools etc, come in hundreds or thousands of variants. Nove contends:

“It is the beginning of wisdom to realise that the centre cannot plan these ‘quantitatively’, in any meaningful microeconomic sense. Plans in tonnes or square metres are plainly far too crude to encompass the literally millions of varieties and versions of products with use-values that exist. Trotsky wrote: ‘Cast-iron can be measured in tonnes, electricity in kilowatt-hours. But it is impossible to create a universal plan without reducing all branches to a common value denominator.’ Here at least he saw the clear limitations of physical planning even of metals and fuels. He was referring to the USSR in the 1930s, but why should it be different in ‘real socialism?’” (p.43).

Nove concludes from this that central material allocations with enterprises instructed to obtain their raw materials and other inputs from specified suppliers and in turn to supply their products to specific users (these inputs and outputs more often expressed in aggregate form) must be replaced by individual contracts between autonomous enterprises – and this implies market mechanisms.

As far as forms of ownership are concerned, Nove (p.200) envisages the following:

1. State enterprises, centrally controlled and administered, hereinafter centralised state corporations.

2. State-owned (or socially owned) enterprises

with full autonomy and a management responsible to the workforce, hereinafter socialised enterprises.

3. Cooperative enterprises.

4. Small-scale private enterprises, subject to clearly defined limits.

5. Individuals (for example, freelance journalists, plumbers, artists).

While broadly agreeing with Nove's criticisms of the command economy, Devine rejects market socialism as a viable alternative and proposes instead “a model of democratic planning based on negotiated coordination”.

“It is democratic, which distinguishes it from the command planning of the statist countries. It is planning, which distinguishes it from the instability and lack of conscious purpose characteristic of capitalist countries. It is based on negotiated coordination, which distinguishes it from market socialism, the only reasonably worked-out alternative model of a third way that has so far been proposed” (p.3).

Devine argues that state ownership in and of itself does not amount to the socialisation of production. Political democracy, that is, popular control of the state and popular participation in decision-making at all levels, is required. Nor is the abolition of private ownership of the means of production and its replacement by workers' control socialisation if each worker-controlled enterprise merely pursues its own advantage in competition with everyone else and its activities do not form part of an overall consciously and socially decided plan. Citing critically the Yugoslav example of worker self-management and the model of market socialism advocated by Nove, Devine asks:

“Yet why should state-run or worker-managed enterprises, pursuing their narrow self-interest within a regulated socialist market, aggregate to a system with fundamentally different characteristics from those of capitalist economies, in which privately-owned enterprises pursue their narrow self-interest within a regulated capitalist market? It would presumably be a more just system, since there would be no unearned income, but why should it be more stable and more subject to overall social control?” (p.108).

According to Devine: “the basic principle of self-government is that decisions in relation to any activity and responsibility for their implementation should rest with those affected” (p.151).

Starting from the bottom, at the level of the factory or enterprise, which Devine calls “production units”, the workers in each production unit elect their representatives on to its governing body. Here Devine makes an important distinction between control – by the workers only – of the production unit and “real social ownership”. He argues that sectional worker

ownership or control is just as “private” as capitalist ownership, the worker-owners pursuing their own sectional profit in the same narrow self-interested way as the capitalist owners without regard to the overall social interest:

“Socialisation of the means of production requires democratic social control of both the overall disposition of resources and their detailed use. What it means for a production unit to be socially owned and controlled will therefore depend on how it fits into the overall picture, and will differ according to the character of the economic activity involved” (p.223).

There should therefore be representatives of organised consumer and user groups and of the local communities on the governing body of each production unit, in addition to the representatives of the workers themselves:

“Decisions on how production units should use their existing capacity would be made by representatives of the consumer/users and the producers, along with representatives of other interested groups. Thus, potential conflicts of interest and different perceptions of reality would become explicit and would have to be taken into account when arriving at decisions. The process would have a transformatory dynamic” (p.221).

This would cover problems at the local level, and reconcile the interests of the workers and the local community – for example, if the production unit created an environmental hazard or nuisance.

At the level of whole branches of industry the production units would be represented on a “negotiated coordination body” for the industry or economic sector. Again, in addition to representatives of the production units, there would also be representatives of consumer and user groups and other interests on each “negotiated coordination body”.

Planning and Investment

So far the passages I have quoted from Nove and Devine give an idea of how they envisage relations between enterprises at the individual and local level. How do they envisage the methods of planning at the national level or at the level of the society as a whole?

Devine writes: “It [the model of negotiated coordination] assumes a democratic society, in which people participate through a variety of self-governing and representative bodies, with decision-making decentralised as much as possible, both functionally and vertically. National, regional and local representative assemblies, democratically elected in a context of political party pluralism, are vested with ultimate political power. Civil society is populated with autonomous, self-governing interest and cause groups coming together in chambers of interest. Economic activity of all types is undertaken by production units whose governing bodies consist of representatives

of all those affected by their activities. Production units are organised internally on the basis of self-management. Broad social priorities and changes in strategic direction are decided through the democratic political process on the basis of alternative plan variants prepared commission” (pp.189-90).

A National Planning Commission would be responsible for all major investment on the basis of these decisions, thus determining the planned overall allocation of available resources and hence the planned distribution of purchasing power. The priorities decided by the national planning commission are also the basis for determining the primary input prices that are used by the production units in setting their prices equal to long-run costs. The prices at which production units sell their goods would also cover a surplus over basic costs – a return on capital used – most of which would return to the national planning commission or government as a tax to finance new major investment and social and government expenditure. Some would be retained by the “negotiated coordination body” (that is, the body dealing with a whole branch or sector of industry) or production unit for minor investment.

Production units would meet demands from customers who in general would have a choice of supplier: “Since all major investment would be controlled centrally and a banking system established to facilitate this, the principle operated would be that nothing that is desirable, is possible in real terms, and would otherwise be undertaken should be prevented by lack of finance” (pp.207-8).

Like Devine, Nove assumes a state controlled central banking system: “Investments would be divided into two parts: those of structural significance, usually involving either the creation of new productive units or the very substantial expansion of existing ones, and those which represent an adjustment to changing demand (or new techniques). The latter would be the responsibility of management (cleared as required with the elected committee), and the necessary finance would be obtained either from retained profits (and reserves based upon past profits) or from credits from the state banking system. Exceptionally there would be a budgetary grant, where the activity carries with it large external economies or is seen as a social ‘must’. As for big, structurally significant investments, these would be the major responsibility of the central planners” (pp.221-2).

Nove makes an important distinction between already developed industrialised countries and developing countries – for which both he and Devine accept the relevance (with reservations) of the command-type economy with its implication of a necessary bureaucracy and authoritarianism:

“Given that we are discussing an industrialised, developed country, there is no need to assume

that high growth rates would be a high priority. A large part of investment would therefore be of the 'adjustment-to-demand' sort. It is plainly essential, within a controlled market environment, that firms (state, social, cooperative) have the means to make such adjustments, for otherwise the profits they make would serve no rational purpose. If, for example, demand increases for anything, from microchips to potato chips, the price would rise and so would profits. The function of this rise in price and profits in a market economy is to stimulate additional production, which, unless there is already spare capacity, requires investment. If this result does not follow, the mechanism would be failing to work, and the existing enterprises would be making excess profits to no social or economic purpose. Indeed, it would be necessary to have a species of socialist anti-trust legislation: in these sectors in which competition is desired and desirable, a watch would have to be kept to prevent the creation of informal rings or cartels, agreements not to expand or not to compete. One way of combating such a tendency is to encourage (by credits on favourable terms, etc) the creation of new productive units in the sector concerned, another important function of central planners in a socialist market" (p.222).

Both Nove and Devine accept that socialism cannot be built or maintained in one country alone. On the other hand, to think in terms of "world socialism" or nothing is equally unrealistic. For a time, either one country or a group of countries in the stage of transition to socialism will have to coexist with and trade with capitalist countries. This involves questions of foreign trade.

Comments and Criticisms

From a Marxist standpoint the basic objection to Nove's "market socialism" is that the market and socialism are incompatible. Typical of some of Nove's Marxist critics is David McNally:

"For what is at stake is not an argument over different mechanisms of socialist economy, but rather the survival of socialism itself as an alternative to capitalism. For the logic of the modern cult of the market is a thoroughly anti-socialist one. If the market is the solution, then, as Brus and Laski note, socialism and Marxism are finished. The choice before us, therefore, is socialism or the market." (D. McNally, *Against the Market*, Verso, 1993, p.2.)

McNally cites Nove's argument for the market that "given the enormous number of goods and services produced in a modern economy, and the complexity of gauging their demand and determining the inputs required to produce them, efficiency dictates that the market govern their allocation". But McNally goes on to say: "Thus far, the argument appears innocent enough. But what is usually ignored in such discussions is that

an economy governed by price signals is one in which market principles determine the value of all inputs and outputs within the economic process" (p.172).

However, what McNally himself ignores is that even if, in Nove's model, "market principles determine values", they do not determine what is produced or not produced, or the general level of economic activity. While it is true that there would be market relations at the micro-level, all major investment of structural significance would, according to Nove, be the responsibility of the central planners, while minor, "adjustment-to-demand" investment would be the responsibility of management (cleared as required with the elected committee) (pp.221-2).

This is the key factor. Provided the bulk of investment capital and the creation of money and credit is under such control acting through the state banking system, macro-planning is assured. Once the overall priorities have been decided through democratic consultation – that is, so many new hospitals, so much public housing, so much increase in public transport, so many power stations, etc, etc – the necessary budgetary grants are made – so many million for the NHS, so many million for the railways, etc. The detailed implementation of these plans can then be left to negotiated contracts between the enterprises and their suppliers. In one sense, this macro-planning through the central control of finance, credit and investment would be an improvement on the present system even if the enterprises that contracted to build the hospitals, houses, schools, buses, etc, remained privately owned. At least more hospitals and houses would be built and more workers would be employed. A capitalism run on Keynesian lines would be preferable to one run on deflationary monetarist ones.

But Nove and Devine do not advocate merely this Keynesian demand management. They also argue for the abolition of capitalist ownership of the bulk of the means of production and their transfer into social ownership – either as state-owned, centrally-run enterprises or as autonomous "socialised enterprises" cooperatively owned or worker and user controlled (Nove would allow some small-scale private enterprise subject to clearly defined limits).

Although Devine rejects market socialism and prefers to call his model "negotiated coordination", he nevertheless still accepts that money and prices will play a role in his economy. In fact, given that workers are paid in money wages which they then exchange for consumer goods, there is a *de facto* market, at least in the consumer goods section. Moreover, if there is no direction of labour or forced labour, differentials in wages will have to be used to encourage sufficient workers to undertake unpleasant jobs in less pleasant localities. There will therefore be a

“market” in labour. It may well be true, as pedants will assert, that it is not a market in the capitalist sense since the workers will not be selling their labour power to capitalists for the appropriation of surplus value, but to themselves as the enterprises would be socially owned. But nevertheless some form of market mechanism will exist. Here it is important to note that Devine throughout makes a distinction between market exchanges or market mechanisms (which are acceptable and subsumed within overall planning) and market forces, which he opposes as antithetical to socialist planning.

It is undoubtedly true, as both Nove and Devine explain, that the command economies were unable to ascertain needs ex-ante nor have an adequate ex-post check. Nove argues that only the market will provide this. Here, in my opinion, both Nove and Devine ignore the possibilities provided by modern computer technology. Let us take for example the production of shoes. It is asked how, in the absence of the market, can the producers gauge the demand for these – and also the correct mix of sizes and styles of dresses and shoes? At present, it is true, only the market allows them to gauge this. But remote shopping by phone and computer is rapidly becoming a possibility. In 20 or 30 years time, will it not be possible for people who want a new pair of shoes to phone in to a computer network the size, colour and style they want (chosen from a catalogue of all the variants available – also flashed up on computer screen)? The order is then transmitted via the computer network to the appropriate shoe factory. Thanks to modern technology, the production lines can be rapidly and easily switched to produce just that model of shoe. In a week or 10 days, the shoes are ready to be collected. This is not a far-fetched science-fiction utopia. The technology already exists. In fact even today the more expensive types of cars are ordered by customers in advance before they roll off the production line. Of course, there will still be some commodities, purchased daily, such as food, for which this method would not be suitable and whose distribution would still need to be done via old market methods.

But in an increasing number of cases the application of the latest computer-assisted cybernetics could overcome the difficulties, encountered in the past in command economies, of disaggregating plan targets from aggregate tonnages or other units into the proper “mix”. This would be obtained by reciprocal feedback between the central planning bodies, subordinate levels, individual enterprises and the consuming public, both vertically and horizontally. This would enable producers to ascertain requirements ex-ante and meet Nove’s argument that:

“If a plan is expressed in aggregate quantities, the product mix that ‘fits’ into such a plan (in

tonnes, square metres, or for that matter value in money terms) will not, save by accident, be the mix that is actually needed. If, however, contracts between customers and suppliers determine what the micro content of the plan should be, then the economy is no longer centrally planned, since then the totals too (in tonnes, square metres, etc) are the consequence of the negotiated contracts. Productive units (enterprises) are then autonomous and, to make a reality of that autonomy, must be free to obtain the inputs which they need by, in their turn, negotiating contracts with their suppliers” (p.43).

With the computer-assisted cybernetics described above, the detailed contents of the plan would be available not only to the centre, but also to anyone with access to a computer terminal. This would make democratic participation in the planning process feasible, and would undermine Nove’s assertion that command central planning *must* lead to authoritarianism and lack of democracy. However, even allowing for computerisation and its facilitation of democratic planning, some form of market mechanism will probably still have a role to play for some considerable time.

This brings me to the next point. Nove describes his model as “feasible socialism” – a society which can come into existence within the lifetime of today’s children, without assumptions of super-abundance. Marxism would have no quarrel with Nove if he had described it as a society in the stage of transition between capitalism and socialism. After all, Trotsky, speaking in 1922 at the Fourth Congress of the Comintern, said: “It is necessary for each state-owned factory, with its technical director, to be subject not only to control by the top but also from below, by the market, which will remain the regulator of the state economy for a long time to come.” (Cited by Nove, p.59.)

Quite apart from the argument that some market mechanisms would still be necessary at the micro level within overall planning, there is another reason why socialists must not dismiss the market out of hand. This is that on the day after socialists anywhere come to power the market will still exist. It will not disappear overnight, nor can it be abolished overnight. Even if we accept that the market and socialism are incompatible (and I am not convinced of this unless one is to define socialism very narrowly), it will take time to develop alternative methods. Like the state, the market will have to “wither away”. Until then, socialists will have to live with it and ensure its compatibility with social planning, as one of its mechanisms.

Neither Devine nor Nove have much to say about the effects of unplanned growth and uncontrolled exploitation of natural resources on the global environment. Yet the danger this poses

to civilisation is due to the fact that to maintain itself, capitalism is forced into ever more accelerated and unsustainable growth. One of the tasks of central planning would be to keep this growth within sustainable and environmentally acceptable limits, and to ensure an optimum quality of life based on a balance between industrialisation and the environment. Again, this can only be achieved if the central planning bodies have the power to direct and limit economic activity. It also implies the need for planning on a global scale.

It is impossible in the space of one review to deal fully with all the issues raised by Nove and

Devine, but I have dealt with the main themes. I recommend these two books to anyone who is concerned with achieving a better society. Socialism cannot be achieved without mass popular support and participation. In order to convince people, it is necessary to show them that socialism is neither the hell of Stalinism nor an unobtainable utopia. One may or may not agree, in whole or in part, with Nove and Devine, but their arguments cannot be ignored. Theirs is a useful contribution to the present debate on a redefining of socialism in the light of the collapse of Stalinism.