

# State Ownership and the Transition to Socialism

## Introduction

In “State Ownership, Workers’ Control and Socialism”, published in the July 1992 issue of *New Interventions*, Walter Kendall makes several important points. Firstly, state ownership of industry by and of itself is not socialism. In fact state collectivism in the absence of workers’ control is not only not socialism but a monstrous mutation of socialism. Secondly:

“Given the infinite range of data required to manage a modern, complex industrial society, it is neither possible, nor is it desirable, to govern all decision making from a single centre. Consequently, we have to seek to reconcile global planning with a measure of free initiative for market forces within the same economy. To resort to a mythical free market in this regard would be as foolish as to flee from this market into the arms of Stalinist command economy. The rules of capitalist market economy, which seeks to maximise returns on invested capital, and of a socialist market which seeks to maximise a whole range of different things in accord with both the desires of the state planners and the various working collectives, must be very different. Very little work has been done in this field and there is a crying need for much more work in the future.”

This point has been taken up also by Moshé Machover in the January 1993 issue of *New Interventions*. He agrees that central planning alone is not enough, but must be supplemented by market mechanisms. The question he asks is: “Where do you draw the line?”

Walter Kendall also argued that while Marx and Engels might have had some excuse for refusing to engage in utopian speculations about the future society, because within the old society the elements of the new were not yet generally apparent and they could only appeal to reason, we, in the twentieth century, have no such excuse:

“Today, we have years of experience of the Russian state, around one quarter of a century of stasised economies in Eastern Europe and China, to say nothing of a quarter of a century of Yugoslav self-management. We have practical experience of the operation of nationalised industry, which in most capitalist countries

extends over half a century at least.”

My purpose in this essay is to continue the argument. It is necessary, in the light of the collapse of the Stalinist command economics, that we try to answer the question that if state ownership of industry is not of and by itself socialism, what is? What sort of model of socialism do we have in mind? Rather than daze into the distant future of a fully-developed communist society, I think it is more appropriate to start by looking at possible models of the transition from present-day capitalist societies to the first stages of a socialist society. In this we are helped by an analysis of the experiences of attempts at planning that Walter has mentioned – as well as the lessons of wartime state control of the economy in capitalist countries. I would also suggest that the elements of the new society are also apparent in the old society in the form of the welfare state, the National Health Service and municipal housing. Despite the attempts of Tory free-market dogmatists to abort these embryos of the new society in the old, we can glean from them some ideas of some of the features of the transition to a socialist society.

## Planning and State Ownership

In discussing models of socialism, we need to distinguish between two related but distinct questions. One is the question of planning versus market, the other is the question of ownership of industry. Experience in the twentieth century has shown us that one can have state ownership without planning; and planning without state ownership.

We have learnt from the experience of the nationalisation of coal, electricity and gas by the postwar British Labour government, and from the experience of state takeovers of industries in France and other countries, that these nationalisations did not do away with market forces and replace them by planning in the overall allocations of society’s resources. The nationalised industries continued to operate within capitalist market economies, and were subject to market forces almost just like the privately-owned industries. I say almost because there is one important

difference. Though state owned enterprises are normally expected to be run on commercial lines, that is, to compete on the market, sell their products at market prices, etc, they do not face the ultimate sanction, the threat of bankruptcy that overtakes private capitalist concerns. The state can step in, subsidise their losses, underwrite their debts and provide capital. But this difference is not as great as it seems. On the one hand, the state also often subsidises private enterprises, and on the other the state, especially if headed by free market dogmatists like the present Tory government, can refuse to bail out those it labels lame ducks, and force them to operate within the constraints of overall market forces.

The British coal industry is a case in point. The fact that it is nationalised has not insulated it from the market. Even if it was put under workers' control, the problem of what to do with unsaleable coal would remain. I do not want to enter into a discussion of the merits of coal-fired power stations versus gas-operated or nuclear ones. Indubitably the market has been rigged against coal by the way the Tory government privatised the electricity industry, but even if this rigging were reversed, it is probably true that the overall need for coal has been, and will continue to be, reduced by technical development in energy production and use. This will be true whether coal is state-owned or privatised. Similarly, the nationalisation of Leyland Daf, or even its take-over by a workers' cooperative would not of itself magically increase the market for trucks. Nor would the introduction of workers' control in the coal mines and power stations – desirable though it is – stop unsaleable coal stocks accumulating at the pit heads. To demand that no pits be closed, that all the pits be kept open irrespective of whether there is a need for all the coal they could produce is nonsense. So, in the case of Leyland and the motor industry in general, is the demand that it should continue to put millions of new cars on already congested roads and add to the pollution of the environment.

Even in a fully socialist economy, there will be times when certain industries will have to contract while others expand. The problem here is how to dovetail the run-down of redundant pits or factories with measures which provide not only alternative jobs, but also use the available human and material resources for worthwhile production to satisfy social needs in ways which do not pollute or destroy the environment – in other words, how to replace the anarchy of the market with rational planning.

If, as demonstrated above, nationalisation and state ownership (even under workers' control) does not of itself resolve the problem of effective planning, what can we learn from historical experience of attempts at planning?

### Capitalist Wartime Planning

Lenin was greatly interested by the way the state in Germany exercised control over the economy for war purposes during the First World War. He stressed that Bolsheviki should study this experience and learn from it. Since then we have had the experience of wartime economic management during the Second World War in Britain and other countries. What can we learn from this? The state in Britain was effectively able to plan and control and harness the national economy for war purposes. It decided how economic resources were to be used, not only for the production of military ware, guns, tanks, planes, uniforms, etc, but also controlled the production and supply of non-military consumer goods; how much civilian clothing, how many pairs of shoes, how much furniture, how much food – either from home production or imports. The economy remained essentially capitalist. Except for the state-owned Royal Ordnance factories, the firms producing tanks and armaments remained under private ownership, working for profit. So did the bulk of industry both in the capital goods and consumer goods sectors.

How then did the state control and plan the economy? Firstly, by being the sole purchaser of military equipment. Its orders determined how much was produced and (within limits) the price it paid. Secondly, by a system of licenses and physical controls. For example the production, import and purchase of steel and other raw materials, machine tools, etc, required a licence from the appropriate government department.

This also applied to capital goods and materials for consumer industries. A textile firm was permitted to buy spinning machines, looms, etc, only if it was producing uniforms for the forces or a permitted and controlled quantity of civilian clothing. To these measures, rationing and price controls were added, as were controls over investments, foreign exchange dealings and the export of capital.

Thus the desired mix of war material, capital goods and consumer goods was determined not by the market, but by political decisions made by the state. Commodity production for the market continued, but the market was controlled and overridden by state regulations, and thus, within the constraints imposed by external circumstances, the course of the war, the German submarine blockade and so on, there was essentially a planned economy within national boundaries.

All this was done of course for the sole purpose of prosecuting an imperialist war. But it illustrates one way in which the state can plan the national economy, and socialists can learn from it. Similarly, while condemning the Stalinist regimes in the former Soviet Union and Eastern Europe, it is important not to throw the baby out with the dirty

bath water. Not everything about the command economies was negative. The problems the Bolsheviks faced in applying War Communism and afterwards during the NEP period of mixed economy and then in the forced industrialisation and the means they applied to resolve them contain many useful lessons, and we need to rescue the positive features and apply them, with suitable modifications, to the problems that will face socialists in the different circumstances of developed economies.

The main difference between the situation in Russia and the wartime situation in Britain just described, and that which would face a socialist government coming to power in the middle of an economic recession such as the present one, is obvious. In Britain during 1939- 45, the problem was one of how best to use limited resources to supply a rapacious military expenditure and feed the population amidst bombing and blockade. In the Soviet Union, the problem was one of primitive socialist accumulation in a backward, devastated and isolated economy. Today in Western Europe the problem would be of ending mass unemployment, of putting the millions of unemployed and idle productive capacity to work for social needs rather than for war or forced industrialisation; to build new hospitals and schools and to refurbish the run-down railway system instead of building tanks and war planes. Some of the methods need not be that different, some might. Certainly the problem of mass unemployment calls for an international campaign by the trade unions for shorter hours, longer holidays and earlier retirement.

The NHS and Council Housing are Embryos of Socialism

What would be common to both situations would be the weight of the state in the market. Just as the wartime state in Britain steered the economy in the direction it wanted by being the main purchaser of the commodities making up the gross national product, so could the socialist state in the transition towards socialism control the direction of the economy by becoming the main purchaser of goods and services which it would then reallocate to the consumer.

Already existing instances of this method are the NHS and the provision of council housing by the local authorities – in the good old days when council houses were still being built! The principles according to which council housing was provided are worth examining. Ideally, in the first place the number and type of houses (two or three bedroom, OAP bungalows) to be built were decided by the state in its local extension (the borough council) on the basis of social needs (that is, by the waiting lists) and not by the market. Then the local authority allocated the finance to

build the houses. Thirdly, the council fixed the rents, subsidising them if necessary out of the rates for poorer tenants.

I said ideally, and I stress this because in practice the provision of council housing was far from ideal. Firstly, it had to function within an overall capitalist market economy. It was always constrained by the overall economic situation, whether the economy was in a boom or slump, and the limited funds at the disposal of the local authority. Even at the best of times, income from rates and local taxes was inadequate, and local authorities had to borrow money in the financial markets. As a result, a large part of the rents tenants had to fork out was payment on interest to the banks and capitalist financial institutions. And, as we know, since the advent of the Thatcher government in 1979, council housing has deliberately been sabotaged by the Tories. But I am concerned with the *principle*.

This is also the principle – even more so – of the National Health Service; a service providing health care with no cash payment at the point of use but funded by taxation, in other words to each according to his needs, from each according to his means. Not only must socialists fight to defend and demand the extension of this principle today, that is, restarting council housing, more resources for the NHS, etc, but they must recognise that they are also the policies a socialist government could apply and extend as part of the transition to socialism. In fact, the NHS and municipal housing are embryos of socialism within the capitalist system. The extension and improvement of these and their application to more and more of the necessities of life are both transitional demands to be fought for now under capitalism *and* part of the transition towards a socialist society.

State Control of Banking and Investment

These policies necessitate that the state exercises a direct control over the supply and allocation of capital funds; that it has the power to raise and invest vast sums according to an overall plan satisfying social needs. This involves a radical restructuring of the existing financial system whereby private banks and financial institutions, the stock exchange, etc, determine the flow of investments on the basis of profit maximisation and not social need. Through either the taking over and merger of all the private banks into one public investment bank, or other appropriate measures, the socialist state would acquire the means of directing the general direction of the economy according to an overall plan.

The measures described above do not of themselves amount to socialism, especially if one defines socialism as nothing but state ownership of the means of production. Walter Kendall has argued persuasively against this definition. So

what is the role, if any, of state ownership of not only the financial institutions but of industry itself?

It can be argued that state monopoly and control of finance and investment together with the sort of controls used by the state during the war is sufficient to overcome the anarchy of the market and ensure the rational use of resources without the need for the detailed bureaucratic central planning used in the Stalinist command economies. State direction of investment would set the general boundaries of economic activity; the detailed implementation would still be in the hands of autonomous industrial enterprises, selling to the state and entering into autonomous purchasing and selling agreements among themselves. Of course this would still not be socialism but it would be an improvement on the present set up. It would be a step in the direction of socialism. But we cannot leave it at that. Two more important questions have to be resolved. One is the nature of the state – that is, who controls it and takes the decisions. The other is industrial democracy.

State Ownership or Workers' Cooperatives? Given the overall central state control of investment capital and banking described above, is state ownership of the rest of the economy – that is, industry – necessary to overall planning? On the face of it, the answer is no. Let us consider again the examples of the NHS and local authority housing. Provided the state and its local organs hold and provide the capital necessary for the NHS to build new hospitals, or for the local authority to build a new housing estate, it need not matter whether the hospitals, medical equipment, medicines and houses are built and manufactured by direct labour or by private contractors. The end result in the provision of health care and housing is the same. On a broader scale, provided the state became the major purchaser of products (as in wartime Britain) and had the power to control and direct the bulk of investment in the economy, the continued existence of privately or cooperatively-owned independent enterprises would be subsumed within the overall planning of the economy.

But socialism is more than the provision of hospitals and houses, however necessary and important that is. It is more than just planning. It is also about exploitation and about workers controlling their working lives and working environment. In short, it is about industrial democracy. In this respect, neither private capitalist ownership nor bureaucratic state ownership is the answer. In fact, state ownership itself is not important. There is no reason why firms and industrial enterprises should not be owned by the workers and employees themselves in the form of

autonomous worker-employee cooperatives competing for tenders to supply the state.

Similarly, if the railways and pits and factories are to be run by democratically-constituted bodies, the question of ultimate ownership is really a formality. The important thing is who controls, who makes the decisions. The implementation of the overall plan for the economy would be the function of a central investment bank or planning board which would allocate the necessary financial resources to the various sectors of the economy. Within this mechanism, the cooperatively controlled industrial enterprises would be contracted to provide the goods or services at agreed prices. They might be allowed even to retain profits over and above the need to replace and renew productive capacity for disposal according to the wishes of the employees. In the Soviet Union and Eastern Europe, industrial enterprises provided housing, crèches, holiday camps, etc, for their workers. One of the negative features of the current privatisation is that these social services are being destroyed.

#### Democracy and the State

I have talked throughout of the state, of a central or public investment bank, of planning boards through which the allocation of capital and resources would be controlled. This is also an area where democratic control and participation by the mass of the people is required in working out and implementing the overall plan. Without this, we would have a state capitalist or state collectivist system run by an uncontrolled bureaucracy. Even this would be in many respects an improvement on unplanned market capitalism, provided this bureaucracy was benevolent and free from corruption. But it would be naive to bank on this. Democratic control and mass participation in decision making is not an optional luxury, but a necessity. In other words, the state, so long as a state remains necessary, must be an open and democratic one.

How then are we to ensure this? Here again we must take into account historical experiences. Marxists have learnt heavily on the experiences of the Paris Commune of 1871 and the Russian Soviets and the 1917 revolution. In this field as in the field of economic planning we have to distinguish between what is positive and can be applied in today's conditions, and what is negative or only applicable in the conditions of those days. The features which Marx and Engels found positive in the Paris Commune were the merging of executive and legislative functions, revocability of its elected representatives, the rule that the all public officials and delegates receive no more than the average workman's wage and the creation of a popular military force not divorced from the mass of the population.

The Bolsheviks of 1917 included all these measures in their programme for the new Soviet State. It is now history that as the Soviet state developed over time none of these aspirations were realised. The Trotskyist explanation of why this occurred – the economic and historical backwardness of Russia, the ravages of the civil war, the poverty and the isolation of the Soviet Union – is, in my opinion, basically correct. But it is not enough merely to point this out and say that these circumstances would not apply in an advanced industrialised country, and that therefore the dangers of degeneration would not arise. Full participatory and direct democracy is certainly feasible on a small scale, at the level of small or medium-size communities and enterprises such as the Israeli kibbutz.

But the compatibility between full participatory direct democracy and efficiency at the level of national and international structures is full of problems. Is it possible to combine the two? What degree of delegation of powers is possible, without loss of control from below? How is the conflict between local and overall interests to be resolved? It may be trite to say that power corrupts, but it is true. *There is always the danger of corruption in any society or structure where the complexity of decision-making and planning necessitates some delegation of power.* It is a danger that must always be fought and consciously guarded against. The best guarantee against such dangers is the raising of the general cultural educational and political level of the mass of the population. Without this, no sort of socialist society is possible.

#### Parliaments and Soviets

I said we must differentiate between the features of the Paris Commune and the Soviet experience which are or are not applicable in the different context of the societies we now live in. Here, I think, the greatest danger is to try to apply mechanically the experience of 1905 and 1917 Russia to evolved parliamentary democracies such as Britain. Bourgeois democracy with its system of parliamentary elections based on universal suffrage is more than just a fig-leaf masking the naked rule of capital. It represents a solid gain for the exploited won over decades of struggle. In itself, it does not abolish the rule of capital, but it mitigates it, provides opportunities for the working class and the unprivileged to fight for improvements. More importantly, it provides a framework within which the struggle for socialism can be conducted. Let me at this stage anticipate some objections I can already hear being muttered. I *am not* saying that socialism can be achieved by solely parliamentary means. I *am not* ignoring the historical experience, of which Chile was but a recent example, that a socialist or even mildly reformist elected government will be subject to

attempts by the reactionary forces to overthrow it by force. Nor am I saying that that the existing state machine can be made into an instrument of socialist transformation without far-reaching changes in its structure and functioning.

What I am saying is that it is foolish to assume that just because the revolution in Russia took the form of the growth of soviet-type organisations as direct contenders for power against the state machine, this will be the norm everywhere. Tsarist Russia had no history of parliamentary democracy. Its pale reflection, the Duma, had developed no roots in society, and had no powers. The working class had had very limited opportunities for developing democratic organisations over long periods. What trade unions and workers' societies had developed prior to 1917 had done so in conditions of semi-illegality and in constant danger of suppression. The Soviets, therefore had to be revolutionary organs. They also filled an empty space not occupied by other (democratic) bodies.

Contrast this with the situation in Britain in the late twentieth century. Let us look at the one instance when a government was overthrown as a result of extra-parliamentary working class action – the miners strike of the 1970s which forced the resignation of the Heath government. Ted Heath dissolved parliament and called a fresh election. The possible alternative of a different way of forming a government – by the creation of soviets and their taking over the role of government – never arose. Even the most militant miners and their supporters accepted that the only way to decide on the composition of the next government was through a general election.

I suspect the same would have applied in 1926 if the General Strike had continued and the Baldwin government had been forced to resign. It is doubtful that the Communist Party's call for the Councils of Action or trades councils to take power would have met with significant support from the workers. The attachment of the working class to the traditions and methods of parliamentary democracy would have been too strong. It will need significant historical developments which expose the limitations of parliament to alter this attachment, and to pose the question of an alternative state structure, for example, blatant gerrymandering of constituencies or electoral chicanery which would generate the demand for fairer elections and a reform of the system, the sabotage by the civil service and the existing state machine of the decisions of a socialist or radically reformist majority in parliament, a military coup against an elected government, or the suppression of civil liberties and erosion of democracy as the result of intense social conflicts. Certainly socialists will warn people about these dangers and possibilities, and prepare for them.

But at this stage the general strategy of socialists must be to make the fullest possible use of the opportunities provided by democratic and parliamentary frame works, to push and extend the limits of existing democracy as far as possible. We must fight to extend the positive features, and make the existing institutions even more democratic; for example shorter parliamentary terms, greater accountability, provisions for recalling unsatisfactory MPs, prohibition of MPs taking on other jobs and consultancies, payments of the average wage etc, etc. Parliamentary and extra-parliamentary methods of struggle must be combined. Grass-roots initiatives and mass participation in politics and decision-making at all levels must be encouraged and supported. In the process, new mass-based organisations can develop. But they cannot be brought into being artificially, for example by a mechanical adaptation of the Russian experience and the artificial call for soviets under whatever label. But all the time, we call only start from the existing level of political consciousness and the existing situation. And we must also bear in mind that even the most formally democratic institutions can only function democratically if there is a high level of mass participation – this implies a high degree of mass political consciousness and activity.

#### The Link Between Transitional Demands and Transitional Measures

Finally, I want to stress the close connection between the demands socialists should raise today, on the current issues, pit closures, redundancies, unemployment, cuts in public services, etc, and the measures a socialist government would or should take if it came to power tomorrow. There should be no discrepancy between transitional demands under capitalism and the transitional measures undertaken on the morrow of socialists achieving power. They are one and the same. If they are not, we are being hypocrites. Socialists should only make demands and advocate possibilities that are feasible and achievable.

For example, faced with pit closures it is nonsense – as I pointed out earlier – to demand

that all pits remain open and continue production even if the demand for coal has shrunk due to technological changes in energy use *and the coal merely piles up*. Rather, we should demand that if pits have to close, the government must provide alternative work in the mining areas to supply social needs. The government must find the money either by taxing the rich, or, if that is not enough, by taking over all investment capital and directing it where it is needed – and the people and communities involved must be consulted. If the government will not do this, it must be replaced by one that will. These demands must be supplemented by clear and simple arguments showing how a socialist government could carry out these measures. The demands we put on the Tory government are no different to the measures *we* would carry out if in power. To put forward demands incapable of implementation is to deceive people.

#### The International Dimension

It goes without saying that the implementation of the economic planning and investment measures outlined above as part of the transition to socialism are bound to be constrained, limited and distorted if they remain within the confines of any one nation-state continuing to operate in a global capitalist economy. The transition to a socialist society is possible only on an international basis – or at least a continental one. But it would be wrong to ignore the probability that a socialist administration would for some time be isolated and forced to act within narrow national boundaries and in a hostile international environment – as was the Soviet Union. Such an administration might not be able immediately to improve the conditions of the population. It might have to call for a tightening of belts and sacrifices. But in order to do this and continue to have mass support, the masses of the population must be intimately involved in all decisions that effect their lives. *A democratic state and industrial structure and mass participation are not optional luxuries but a necessary condition for the transition to socialism and its development.*