ECONOMIC REFORM AND POLITICAL CHANGE IN EASTERN EUROPE

A Comparison of the Czechoslovak and Hungarian Experiences

by

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Introductory material and Part 1: Chapters 1 and 2

The remaining chapters are in an additional file

Synopsis

Economic reform - the introduction of elements of the market into a planned economy - has been the central political problem for socialist states for at least three decades. This thesis seeks to elucidate the nature of the problem through a reconsideration of the general theoretical issues, and through a comparative analysis of the practice of economic reform in two countries - Czechoslovakia and Hungary.

In Part One, the arguments in favour of the use of the market in socialism are recapitulated, and the implications of various socialist economic models for political freedom, democracy, and the realisation of some concept of the 'social interest' are discussed.

The case studies presented in Part Two address the practical political problem of introducing market-type reform into communist systems. In Czechoslovakia, the issue of economic reform contributed to a profound political crisis culminating in 1968. But it is argued, economic reform was not the only, or even the most important source of the crisis. In the different political conditions in Hungary, economic reform was embraced by the regime as a means of securing political stability and popular legitimacy. Political crisis was avoided, but at the cost

of compromise in the economic reform. The conclusion is that while full-scale democratisation of the political system may not be an inevitable concomitant of economic reform, profound changes in the style and instruments of communist rule are required.

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PART ONE

PLANNING, MARKETS AND POLITICAL SYSTEMS

PART TWO

THE POLITICS OF REFORM IN CZECHOSLOVAKIA AND HUNGARY

Introduction

The central assumption upon which the theory of socialism is founded is that there exists a 'social interest', and the central aim of socialism is the realisation of the 'social interest' through the organisation of the economy. The idea of a 'social interest' or 'common good' is not unique to socialism of course, appearing in classical political philosophy, Christian theology, and also in the rational liberalism of the Enlightenment. The socialist concept of the 'social interest' derives most directly from the last tradition of thought, taking over key elements of Enlightenment philosophy and recombining them into a distinctive new synthesis.[1] The 'social interest' in socialist theory involves both rationalism and egalitarianism. Socialism in practice is to realise 'true' freedom and democracy by abolishing the material inequalities between men arising from the private ownership of the means of production, and by rationally using the economic resources of society to meet 'social need', not individually appropriated profit, through 'conscious, planned control' of the economy. A classical statement of the aims, formulated by Marx, puts it thus:

> The national centralisation of the means of production will become the natural base for a society which will consist of an association of free and equal producers acting consciously according to a general and rational plan.[2]

Socialists traditionally have seen the market as 'anarchic' and therefore irrational, productive of cyclical economic crises and wasteful of both human and material resources; and also as the source of class division, social inequality and exploitation. The 'freedom' proclaimed by the ideologists of liberal capitalism was argued to be fundamentally vitiated by its limitation to political rights alone. Socialists take up the argument that power has an economic dimension too, and they hold that men cannot be free where they are not equal in respect of their most basic conditions of existence. Private ownership of the means of production deprives non-owners of the possibility of free self-realisation, since they are dependent for their productive activity - identified as the central characteristic of human existence - on access to the means of production which are owned and controlled by others. Furthermore, the market is argued to be a source of human 'alienation'. Productive activity is guided not consciously and directly according to 'real social need', but abstractly and indirectly through the pursuit of profit, accruing to individual capitalists as the result of productive activity which is essentially a cooperative, social effort.

On the basis of such argumentation, by the time of the first practical attempt to create a socialist society, in Russia following the Revolution, there was no dispute among socialists that the superiority of socialism would find expression in the abolition of private ownership of the means of production and the direction of the economy through central planning, which definitely excluded use of the market. But even before the first experiement in the practical application of socialism had had time to provide convincing evidence, non-socialist theorists had identified crucial problems of principle with the socialist argument, which led them to predict that in practice, the socialist 'utopia' would be neither rational nor democratic. Subsequently, the experience of central planning in the Soviet Union and, after the Second World War, in Eastern Europe, appeared to confirm this pessimistic conclusion.

In this first part of the thesis, we will examine socialist theory from the two angles of rationality and democracy. Although in the theory, the question of the <u>economic rationality</u> of the socialist economy is argued to be inseparably bound up with the claim that socialism will be more <u>democratic</u>, <u>free and equal</u> as a political system than liberal capitalism, for analytical purposes, the two questions will be treated in separate chapters. Thus Chapter I tackles the arguments about the socialist economy as a rational means to securing production in the 'social interest'. To what extent can rational use of the means of production towards any end be made without the market? This is the question posed in the first section (A) of the chapter by anti-socialist liberals such as Ludwig von Mises and F A Hayek. The socialist economist, Oskar Lange, responded with his 'Competitive solution', by which he attempted to show how a Central Planning Board could arrive at an economical plan based on rational prices defined through simulation of the functioning of the market. In practical terms, however, the 'Competitive solution' appeared unrealisable. Thus a real, functioning market seems to be essential to rational economic activity: Section B of the chapter starts from this premise. The question is now to what extent the market can be made to serve the 'social interest' in the economy. The Yugoslav concept of self-management makes full use of the market, and thus demonstrates the theoretical independence of the market from private ownership of the means of production. But to what extent does the self-management model meet the socialist criterion of production guided by the 'social interest'? The Polish economist Włodzimierz Brus argues that it does not. He provides an alternative model, the 'regulated market', which attempts to combine the advantages of the market with a powerful central authority essential, in his view, to the overall coordination of the economny, and thus to the realisation in practice of the 'social interest'.

The second chapter tackles the political questions raised by the various concepts of socialist economic systems. The key questions are: what implications for freedom and democracy flow from the different concepts of the 'social interest' embodied in the respective models? Are freedom and democracy logically compatible with each definition of the 'social interest'? Are freedom and democracy necessary conditions or consequences of the functioning of the respective models?

CHAPTER ONE

ECONOMICS

Section A: The Anti-socialist Case

It was Ludwig von Mises who, in 1920, threw down the gauntlet which began the 'Great Debate' on the rationality of the socialist economy among academic economists. He argued that under socialism, with the abolition of the market, there can be no objective indicator of value, which will be supplanted by the politically-based preferences of the State administration. While the State may be able to obtain knowledge of what commodities are required by society, and thus draw up a coherent list of priorities of 'social need', it will be unable to direct the use of the means of production rationally to the given ends, since it will have no way of calculating their relative values. Prices in this sector would no necessity be arbitrary, and could give no information on relative scarcity. Thus there would be no possibility of calculating costs of production, and therefore no possibility of producing the commodities identified as needed in an efficient, economical way:

> In place of the economy of the "anarchic" method of production, recourse will be had to the senseless output of an absurd apparatus. The wheels will turn, but will run to no effect.[1]

For von Mises, the market mechanism is inseparable from private property in the means of production, since the motive force of the market economy is the drive to maximise profit. The pursuit of private material gain is what 'induces entrepreneurs to appropriately limit their demand for factors of production to cost-minimising proportions'.[2] The search for profit thus acts towards the efficient allocation of resources in a competitive market economy; it is at the same time the basis for individual motivation. Von Mises sees the lack of personal responsibility, and of opportunity for individual initiative, as an inherent feature of socialism, which further reduces the possibility of rational economic activity, since there can be no direct relationship between individual effort and reward: 'While the well-being of any particular individual is dependent on the diligence of others, one's own welfare is independent of one's own diligence'.[3]

The argument was later further elaborated by F A Hayek, for whom the central flaw in the socialist proposals was the assumption of the possibility of an omniscient centre, capable of amassing the sheer quantity of information necessary to the 'objective' definition of an unambiguous 'social interest' in every detail:

> The economic problem of society is not merely a problem of how to allocate 'given' resources - if 'given' is taken to mean given to a single mind which deliberately solves the problem set by these 'data'. It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilisation of knowledge not given to anyone in its totality.[4]

The knowledge required for rational economic activity is not only, or even mainly scientific knowledge - if it were, then Hayek concedes that a 'body of suitably chosen experts may be in the best position to command all the best knowledge available'.[5] But the larger part of relevant knowledge is not of this type - it is unorganised, intimate local knowledge of the particularities of time and place, which, moreover, are in a state of constant change. The sheer quantity of information which planners would have to have amassed would be quite overwhelming, unless their statistics contained some degree of aggregation, 'abstracting from minor differences between the things, by lumping together, as resources of one kind, items which differ as regards location, quality, and other particulars, in a way which may be very significant for the specific decision'.[6] It is thus inescapably a less efficient system of knowledge.

It is the price mechanism which, in the market economy, can deal with the specific, local information, and the state of constant change, 'by attaching to each scarce resource a numerical index which cannot be derived from any property possessed by that particular thing, but which reflects, or in which is condensed, its significance in view of the whole means-end structure'.[7] Hayek's point is that it is simply not necessary for rational economic activity that all or any of the participants know everything about the whole economy - it is only necessary that each possess sufficient information to enable him to carry out his own particular individual task. The spontaneous adjustments of the price system both provide information in an intelligible form, and integrate individuals' activities without the intermediation of a 'superior intelligence'.

The Polish economist Oskar Lange attempted to counter these arguments in his 'Competitive solution', by which he sought to show that a rational system of efficiency pricing could be constructed, without the operation of a free market, in the context of a socialised economy.[8] The model assumes free choice of occupation and consumer goods. A Central Planning Board (CPB) is responsible for setting the prices of goods and services, including the interest rate on capital. The point is to demonstrate how this price setting can be made 'rational', rather than 'arbitrary' or purely political, without the operation of a free market.

In practice, the CPB's initial set of prices would be based on the historical experience of relative values, taken over from the free prices of the previous market economy, and so they need not be wildly off the mark. Managers of enterprises are instructed to regard prices as 'parametric', that is, although they know prices have been consciously set by the CPB, they must treat them as if they were independent of any individual actions, by themselves or by others (as do participants in a perfectly competitive market). The objective function of managers is no longer the maximisation of profit, but to 'produce exactly as much of a commodity as can be sold or "accounted for" to other industries at a price which equals the marginal cost incurred by the industry in producing this amount'.[9] In doing this, the managers are to observe two rules set by the CPB: 'Use always the method of production (i.e. combination of factors) which minimises average costs and... produce as much of each commodity as will equalise marginal cost and the price of the product'.[10]

On the basis of these rules, for each price set, a given quantity of goods will be supplied. If supply does not match demand, there will be a clear indication of this to the CPB: 'Any price different from the equilibrium price would show at the end of the accounting period a surplus or a shortage of the commodity in question'.[11] The CPB would then merely alter the price to rectify the situation. Through this 'trial-and-error' process, analogous to the prices in a competitive market, but taking place without it, short-run equilibrium is reached, thus, in effect - insofar as the CPB is merely reacting passively to changes in demand and costs of production - merely simulating the operation of the free market. Why then have a CPB at all?

The answer is that by concentrating price setting authority in the hands of the CPB, at crucial points prices which differ from free market prices can be enforced, and thus, overall, the economy can be guided in the 'social interest'. The CPB can intervene to set accounting prices to enterprises which differ from the prices paid by consumers, where such a move is felt to be justified by considerations of social welfare. Significantly, Lange observes that this opportunity must be fairly limited (although he does not specify the means by which such limits might be determined), since its widespread use would be politically unacceptable, implying that the CPB had a different scale of values and priorities from the people as a whole.[12]

Further advantages Lange claims for this system derive from the possibility it affords of rational control over the overall rate of saving, thus offerring a long-term perspective which the market is unable to provide; from the possibility of allowing for 'externalities' in prices, thus rendering prices a more accurate reflection of true social costs; and from the realisation of social justice in distribution, which requires more detailed explanation.

While households, having free choice of occupation, sell their labour to the highest bidder, or in such a way as to maximise utility (i,.e. weighing up material reward against the content or location of work, or the degree of leisure time allowed), the market is not left to determine the final distribution of income. A social dividend, derived from the return on capital and land, which would, under private ownership, have accrued to individual proprietors, is also paid out by the CPB, but in such a way as not to interfere with the function of wages in obtaining optimum distribution of labour services between different occupations and industries. The social dividend may be used to compensate for economically unjustified inequality, such as that arising from variation in the number of dependents per given wage earner. The system can thus approximate more closely than the free market to maximum social welfare - where market demand at each price will reflect the relative urgency of the needs of different individuals - since the equality of income required for that effect will only be departed from to the extent to which income differentiation reflects the marginal disutility to the individual of the pursuit of any given occupation. This contrasts with capitalism, where private ownership determines to a large extent the distribution of income, and large inequalities prevail.

However, this ingenious 'solution' to the problem of economic calculation in socialism was found by Hayek to suffer from serious shortcomings:

> There is of course no logical impossibility of conceiving a distinct organ of the collective economy which... would be in a position to change without delay every price by just the amount required. When, however, one proceeds to consider the actual apparatus by which this sort of adjustment is to be brought about, one begins to wonder whether anyone should be prepared to suggest that, within the domain of practical possibility, such a system will ever distantly approach the efficiency of a system where the required changes are brought about by the spontaneous action of the persons immediately concerned.[13]

Lange's model does not answer Hayek's point noted earlier, that the planners will be forced to deal in statistical aggregates. The feasibility of the model, no less than in the case of the non-price planning model, depends on the CPB only dealing with large, general categories of goods. Thus small but significant differences between goods will be ignored, with the result that 'a great many prices would be at most times in such a system substantially different from what they would be in a free system',[14] and to that extent it would produce inefficient, irrational results.

Nor can the model cope with Hayek's insistence on the inevitability in the real world of constant change. Lange is preoccupied with efficiency in terms of static equilibrium. It is assumed that once an equilibrium price is found, it will remain stable for long periods. But, as Hayek sees it,

> The practical problem is not whether a particular method would eventually lead to a hypothetical equilibrium, but which method will secure the more rapid and complete adjustment to the daily changing conditions in different places and different industries.[15]

If prices are set by the CPB for fixed periods, changes in conditions within those periods will mean that prices are no longer reliable as guides to rational economic activity. But the requirement for constant adjustment of prices would be a truly vast apparatus, which must be cumbersome and slow-moving in operation, thus reducing the effectiveness of the information transmitted by prices, and creating further problems of integration within the CPB itself - to say nothing of the costs of maintaining this army of non-productive bureaucratic workers.

'Bureaucratisation' as an inherent tendency of the Lange model is further promoted by the problem of motivation. How is a system of incentives to be constructed to induce managers to observe the rules set by the CPB? Lange nowhere provided a clear criterion for judging and rewarding managerial success. Unlike in the capitalist market economy, managers cannot simply be judged by enterprise profits, since (a) they are not instructed to maximise enterprise profits; and (b) the size of the profit they produce, if they follow the two rules of behaviour set by the CPB, is determined by the centrally set prices. Thus what is required is some means by which the CPB can check that the rules themselves had been followed scrupulously. But this would require probing deeply into the enterprise's internal records:

> This will not be a perfunctory auditing directed to find out whether his [the manager's] costs have actually been what he says they have been. It will have to establish whether they have been the lowest ones. This means that the control will have to consider not only what he actually did, but also what he might have done and ought to have done.[16]

The requirement would be for a considerable extension of the CPB's activities, and thus of course, of its personnel, which, as Bergson notes, 'it is a cardinal concern of the Competitive solution to limit'.[17]

How are managers to be induced to take risks? Lange provides no indication of the means which might be built into the model to overcome the 'asymmetry' of the effects of success and failure for the manager, where the penalties for failure greatly exceed the gains of success. In such circumstances, it is only rational for managers to prefer safe but unspectacular progress to the greater but less assured benefits of, for example, a policy of substantial innovation. Moreover, the fact that prices are set consciously and deliberately by an identifiable body, rather than emerging spontaneously and impersonally through the market, adds an extra dimension. Anticipation of future price changes is an important part of managerial decision-making, especially where risk is concerned. But a manager 'can hardly be held responsible for anticipating future changes correctly, if these changes depend entirely on the decision of the authority',[18] while at the same time, managers will be tempted to try to mitigate risks by direct appeal to, or pressure on, the price setters. And what happens if the price setters get it wrong? As Bergson notes, 'responsibility for such error might easily become controversial'.[19] Inescapably, managers will be dependent on their superiors for assessment, and so, 'in consequence all the difficulties will arise in connection with freedom of initiative and the assessment of responsibility which are usually associated with bureaucracy'.[20] Lange himself conceded as much:

> It seems to us indeed, that the real danger of socialism is that of the bureaucratisation of economic life...'[21]

Section B: Alternative Models of 'Market Socialism'

It was not so much the arguments of the anti-socialist theorists as the practical experience of central planning in the Soviet Union and Eastern Europe which provoked further attempts to come to grips with the problem of the market and socialism. What Hayek and other liberals concluded on the basis of logic had become evident in practice. 'Real Socialism' was both economically inefficient and undemocratic. In contrast to Lange's 'Competitive solution', the possibility which socialist theorists now contemplated was the use of a real, functioning market within the context of social ownership of the means of production. The theoretical task was twofold - to demonstrate the logical independence of the market from private property, and to show how a market was, furthermore, compatible with the socialist aim of production guided by the criterion of the 'social interest'.

The first attempt to tackle this task was made in Yugoslavia after 1950. Following the expulsion of the Yugoslav communists from the Cominform in 1948, the leadership came to see it as necessary to develop a full-blown alternative to Stalinist model, hitherto equated with socialism itself, for the the purposes of legitimating a regime now isolated and excommunicated from the world communist movement. The Yugoslavs took up the idea of self-management. (It should be noted that in the discussion of the model that follows, we will not be referring to the way in which the Yugoslav economy works in practice, but to the essential general principles which lie behind it.)

The basic principle of the model is maximum decentralisation, where

> ... decision-making is carried out on a lower level and... only those decisions are reserved to a higher level which otherwise would lead to damage of the interests of some individuals or groups.22

Self-management of the enterprise is exercised by a Workers' Council, elected by all members of the enterprise collective, which has basic responsibility for determining the goals of the enterprise. Day-to-day operational management is entrusted to a managerial board, headed up by the enterprise director, who is appointed by the Workers' Council, but who may, in the interests of effective coordination of the executive managerial function, nominate his own managerial subordinates, with the approval of the Workers' Council.[23]

Decision-making by autonomous self-managed enterprises is thus guided not by directive targets set 'from above' by a command plan, but by the self-interest of the members of the enterprise collective, realised on a competitive market. The 'vertical' system of coordination of central planning is thus replaced by 'horizontal' market-based relations.[24] The objective function of the self-managed enterprise is not the same, however, as that of the capitalist firm, since a collective, in pursuit of its members' self-interest, will tend to focus on maximisation of net income per employee, rather than profit. Thus labour-power is not a 'commodity', as it is in the capitalist system - reward is determined not as 'wages' according to supply and demand on the market, but as a share in the residual surplus earned from sales of the enterprise's products on the market, after deductions for depreciation, taxation, etc. The distribution of income within the enterprise - the shares to be allocated to members of the collective according to their contributions to the final output - is decided democratically by the collective. The broader social distribution, between enterprises, branches and regions, is, in principle, left to the market to determine.

This system does not, however, altogether exclude planning or the role of the State from the economy. But it is planning of a very different type from that envisaged by traditional socialists and their critics; and the role of the State is seen not as replacing the market but as complementing it:

> In this context, the state political centre emerges as the source of regulatory impulses which reflect the constant, previously anticipated rules of the market. On that basis economic decision-makers obtain reliable parameters for their decisions and, seeking to maximise their incomes, carry out the intentions of the plan by their own initiative. In that way the plan and its adequate fulfilment represent the necessary condition for the autonomy of enterprises.[25]

The type of planning involved here, in contrast to the 'command' model previously seen as the only possible form of planning, is 'indicative'. Like command planning, however, this form of planning is not specifically tied to socialist forms of economy, but can also be found in the experience of capitalist economies, such as France, where there have existed traditions of a strong central state, and of interventionism and cooperation rather than the competitive individualism assumed by Hayek.[26] The main characteristics of indicative planning have been defined by Egon Neuberger as follows:

Firstly, the plan is not drawn up by an autonomous team of experts, but emerges from a process of consultation and bargaining among representatives of the major groups involved in economic activity. In the French case, this has included business, employers', labour and consumer representatives, with the government participating merely as 'first among equals'. Regional representation might also be included. The object of bargaining would be to arrive at consensus on the broad, general goals of economic policy, and the focus would tend to be long-term rather than immediate.

Secondly, motivation to comply with the plan derives not from compulsion but from self-interest, and also from 'solidarity' - that is, the conscious and willing subordination of self-interest to the 'good of the community'. Nobody would have the right to enforce compliance upon enterprises. The only sanction would be economic, exerted through the market on an enterprise which wrong-headedly disregarded the plan framework. The enterprise thus has the right to disregard the plan if it considers it contrary to its interests.

Thirdly, the indicative plan produces not compulsory targets, but a centralised source of information on the current and projected future market, made available to all those engaged in economic activity. The assumption is that the provision of information alone is sufficient to influence enterprise behaviour. Given that the market provides only imperfect information on future prices, costs and demand, this may be able to overcome such negative features of the operation of the market was wasteful duplication of investment, the lack of information about the future intentions of other firms and so on, which can greatly improve the possibilities of rational planning within the firm.[27]

However, there are other aspects of the role of the State in this model which are necessary to its economic viability. A variety of state institutions is necessary in addition to the Planning Board.[28] Economic ministries would be established to carry out economic policy measures. The overall control of the money market would be maintained through a National Bank, with regulatory powers over commerical banks operating directly on the market. A Social Accounting Service would be responsible for verification of the legality of enterprise activity, without having any powers of command over enterprises. Horvat also envisages two Intervention Funds, with responsibility, and the resources, for smoothing out price fluctuations in agriculture and in materials supply. A third intervention fund would also back exports. This would be necessary to counteract 'unfair competition' on the world market, which is 'under the control of mammoth multinational corporations, international cartels, and state and intergovernmental organisations'.[29] There would also be an Arbitration Board for Incomes and Prices, both to combat abuse of monopoly and to check against government measures which discriminate against a particular industry (and to determine, where necessary, the level of compensation to be made). All these institutions are aimed at stabilising and equalising conditions on the market. A further essential function is the stimulation of growth, and, closely connected with it, the establishment of new enterprises.

A key set of problems of the self-managed market economy, manifesting themselves rather differently from in the capitalist case, is the establishment and entry on to the market of new firms, the associated problem of monopoly, and the broader question of investment.

In the context of self-management, responsibility for setting up new enterprises may rest not only with the central State, but also with local public authorities, enterprises, groups of workers and individuals. In practice, the possibilities of the latter two will be restricted in the context of a socialist economy by the improbability of their disposing of sufficient capital for setting up a firm independently, or of being able to obtain a sufficiently large bank loan. Furthermore, enterprises' willingness to invest in new firms is likely to be fairly low, given that, firstly, where resources exist in a firm over and above its own investment needs, there will be considerable pressure to distribute this for increased consumption; and that, secondly, there will be an absence of incentive to invest outside the firm, where the workers of an existing enterprise are not allowed to derive an income from such investment - since the only legitimate claim to an income is from participation in work at one's own enterprise. Thus the major role in the establishment of new firms will fall to state authorities at both central and local levels, which must therefore be able to draw resources in the form of taxation from existing firms. In principle, once the State has intervened to establish a new firm, it will withdraw, handing all decision-making authority over to the Workers' Council of the newly formed enterprise collective. The State will decide on where to invest in new firms according to information derived from the market, and it can use this form of intervention to counteract monopoly, which is likely to be a crucial problem for the self-managed economy, as for the capitalist economy; and to maintain full employment, which, while it is a vital condition of an identifiably 'socialist' economy, is also likely to be a problem area, for the reason given that the self-managed firm, maximising net income per employee, will tend to opt for more capital-intensive means of increasing output that the capitalist firm maximising profit.[30] In principle, short-run equilibrium will be reached at a lower level of employment, ceteris paribus, than in the capitalist economy.

It should be noted that, in principle, it appears that the State will have no direct control over the basic macro-economic decision on the overall rate of saving and investment in the economy. This is left to the market. The primary source of investment funds will be enterprise profit, supplemented to a greater or lesser extent by commercial bank loans. The instruments available to the State to promote economic growth will thus be limited to those available to the government of a capitalist economic system - for example, taxation policy. These instruments would be supplemented, but not radically altered in character, by Horvat's proposed Interventionary Investment Fund, which has two tasks:

> (a) to participate in financing those projects that require an exceptionally large concentration of capital and/or long period of construction; and (b) to intervene in eliminating disproportions in capacity...whenever for some reason the market does not succeed in balancing supply and demand.[31]

A further subdivision of the fund would concentrate on regional development:

> Economic growth can always be accelerated if pockets of insufficiently employed human and natural resources are eliminated, or in other words, if the development of underdeveloped regions is accelerated.[32]

In assessing this model, we can start from the point that it can be expected to maximise the accepted advantages of the market in terms of rationality and efficiency. Although it has been argued that a self-managed firm will operate rather differently from a capitalist firm under similar market conditions,[33] the State can be given resources to enable it to counteract dysfunctional tendencies, particuarly associated with employment levels. The role of the State, supplementing not replacing the market, would appear to go no further than that identified by Hayek as compatible with a market economy.[34] But precisely for this reason, it has been noted that 'it seems odd that many socialists who recognised the problems arising from decentralised capitalism with some acuity have not considered how far such problems may be endemic to all decentralised economic systems'.[35] For example, the problem of 'externalities', and the irrationalities associated with it will recur in the self-management model, since 'such problems as pollution are clearly not confined to capitalism'.[36] Yet more serious problems for a system purporting to be 'socialist' are income distribution, inflation and long-term development/investment.

Incomes, according to the socialist principle, are to be derived only from work - more precisely, from one's direct and immediate contribution to the work effort of a collective of which one is a member. 'Distribution according to work' means, in this model, 'distribution according to the results of work'[37] - that is, according to the judgement of the market on the results of work, rather than according to type of work, qualification and skill. Differentiation according to these latter criteria can be democratically decided within the enterprise in its decision-making about distribution of its own income among members; but the situation could well arise where an unskilled worker in a successful firm earned more than a skilled worker in an unsuccessful firm. This is likely to be controversial in the context of a socialist economy, as it will obscure the relationship between the individual worker's efforts and his or her reward, especially where the conditions for enterprises competing on the market are not equal. External factors, such as changes in the world market conditions, or the historical legacy of the past privileged conditions for a particular branch will inevitably intervene - in which case differences in incomes may be more accurately described as economic rent, rather than as reward for actual work performed.[38] This is especially likely where the predominant part of investment resources is left at the disposition of enterprises, since past success will secure future advantages for the enterprise in giving it greater opportunities to invest and modernise. Inequalities will thus tend to be cumulative, as 'success breeds success', and a concentration of capital occurs, with the result that

> The government is faced with the unpleasant choice of attempting to tax away excess profits from rich

> enterprises and to subsidise poor ones, thereby lessening incentives, or allowing highly inequitable income differentials to continue, with obvious political, social and economic consequences.[39]

The model also has implications for the problem of inflation. It has been argued by Jan Vanek that the self-managed economy may be less prone to inflation insofar as this is due to 'wage-push' factors in capitalist economies, since wage-labour is abolished and earnings are a residual.[40] But James Meade notes that this is a simplistic approach - wage-push is not the only cause of inflation.[41] In a self-managed economy, an increase in effective demand leads to firms raising prices. In a capitalist market, this situation increases the incentive to expand investment in capital equipment and to increase output. But in the same circumstances in the self-managed economy, there is no such incentive to invest. The incomes of workers in existing firms simply rise, without a corresponding increase in output. New demand has to be met by the State establishing new firms, but this further increases effective demand. It is not clear how the inflationary pressures generated in this way could be managed.

Criticisms of the implications of the model for long term development and the determination of the rate of investment refer both to the economic rationality of the model, and at the same time to its claim to be a 'socialist' form of economy. As noted above, the State has no direct control over the long term development and growth of the economy, while at the micro-economic level, the incentive to invest is limited by the inadmissibility of non-work incomes. Workers will only be persuaded to defer present consumption for the sake of expanding capacity if this will lead to greater future incomes from economies of scale. But why should an existing enterprise collective sacrifice its present consumption, if expansion only replicates the present marginal rate of productivity of capital with a larger workforce? The macro-economic implications of this are both unemployment and low growth rates.

It is difficult to assess the rationality of the model from a purely economic viewpoint, since the concept of 'rationality' itself implies some purpose towards which a system is directed. Unlike the capitalist market, the criterion of rationality is not maximisation of individual self-interest, but is claimed to be maximisation of the 'social interest'. Thus it is not enough for the model merely to demonstrate that it can replicate the same degree of functional rationality as the capitalist market, since the respective ends of the two economic systems are fundamentally different. Thus we must ask not only whether the model allocates resources efficiently, but whether it is also able to maximise the 'social-interest'. The key problem is whether the 'social interest' is understood as comprising merely allocative efficiency, or whether it also contains substantive goals of social justice. This problem will be analysed more fully in the following chapter, but for the purposes of the present argument, it is sufficient to note of the self-management model that it appears to reject implicitly the concept of a 'social interest' in substantive terms, insofar as it restricts the role of the State and plannng to supplementing the market rather than replacing it, and to this extent it falls within the individualist tradition espoused by Hayek (although the 'individual' here is not a physical person but an artificial one - the self-managing enterprise collective). The 'social interest' is seen not in terms of a concrete and specific set of hierarchically ranked priorities, but in a set of conditions - worker self-management, enterprise autonomy, maximum scope for the market - as ends in themselves.

But if the 'social interest' is taken to mean equality in income distribution, or at least some concept of a socially just distribution, plus macro-economic control over the price level and the pattern and rate of long-term development, then the self-management model appears not appreciably superior to the capitalist market system in achieving these ends. Leaving discussion of the relative merits of these alternative concepts of the 'social interest' to the next chapter, let us consider a further possible model which attempts to combine the advantages of the market in terms of achieving a micro-economic efficiency with the pursuit of such substantive social goals which have normally been at the heart of socialist thinking. This is the 'regulated market' model of Włodzimierz Brus.

For Brus, an economic system can only properly be regarded as 'socialist' insofar as it fulfills two basic criteria: (1) the means of production must be employed in the interests of society, and (2) society must have effective disposition over the means of production it owns.[42] These two crieria do not per se rule out the use of the market. On the contrary, the non-market 'etatist' model falls down on both counts. In the first place, the poor economic performance in practice of the etatist model in the

Soviet Union and Eastern Europe undermines the ideological assertion that the transfer of the means of production from private ownership into the hands of the State is enough of itself to guarantee that they will be used in the 'social interest'; and in the absence both of the market as a source of objective information, and of democratic control over the State, there is no means of verifying that the State does in fact represent the general interest of society, rather than the narrow self-interest of a self-appointed elite group monopolising the State.[43]

Thus the market plays an essential role in the socialist economy, Brus argues, not merely for guiding individual choice of profession, place of work, and expenditure of personal income (which is not excluded in the etatist model either), but also as a basis for decision-making in the enterprise and industrial branch concerning the size and structure of output, sources of supplies and direction of sales, structure of personnel and the form and methods of remuneration within the enterprise or branch.[44] Brus accepts the basic arguments in favour of the market in terms of increasing efficiency, making producers more responsibe to customer requirements, providing incentives and fostering the development of creative initiative at the local level. He also recognises the link between enterprise autonomy provided by the use of the market and the creation of the 'real preconditions for workers' self-management as the vital element in socialist democracy'.[45] To the extent that the market makes self-management possible, it thus enhances 'effective disposition' by members of society over the means of production. It also enhances the effectiveness of general control over the economy by the State, in supplying more accurate economic information on which the central authorities can base their decision-making. But in so doing, it only improves the process of planning, but it cannot replace it. While the market is a necessary component of the socialist economy, it too has what Brus identifies as 'objective limitations': 'a socialist society is, in the last analysis, the producer of use-values'.[46] The advocacy of the primacy of the market, as in the self-management model, implies the dominance of production for exchange, or, in Marxist terms, 'commodity fetishism', with 'the disappearance of the hierarchical structure of aims... as well as the priority accorded to the production of use-values for which the production of exchange values can only be an effective means but which cannot be a substitute'.[47]

Thus, Brus argues, the self-management model, by depriving the State of effective control over macroeconomic decision-making, which it leaves to the spontaneous operation of the market, avoids the basic responsibility of a socialist economy for the 'social interest' by de-politicising what are 'in the nature of things political decisions since they set and assess the objectives of the economy, they establish the general criteria and the framework which give economic calculation a definite character...'[48] In the practice of the model in Yugoslavia, he notes, there is a clear tendency to attach pejorative overtones to the adjective 'political', as being synonymous with arbitrariness and irrationality. But 'political decisions can obviously be arbitrary and mistaken, but this does not mean that they should (and can) be eliminated at any price in favour of partial decisions based on free market criteria...'[49] If political decision-making is regularly arbitrary and irrational, this is a symptom of the lack of effective democracy in the political system, he argues.

Brus' model falls into the category of what have been described as 'visible hand' systems,[50] as 'an attempt to reap the benefits of central planning while avoiding some of the costs'.[51] Central authorities are required in this model to relinquish their power to intervene in micro-economic decision-making by the individual enterprise, but to retain power over key decisions in the name of assuring the 'social interest'. This is realised through the following functions of the centre:[52]

1. Basic macro-economic decision-making, especially as concerns long term development. This involves the division of the national income between accumulation and consumption; the determination of the main areas of investment; and the distribution of consumption income between different groups of the population. The key factor is 'to ensure central control over the basic flow of investment outlays' by giving the central authorities sufficient resources to be able 'decisively to affect the size and structure of growth of productive capacities'.[53]

2. Central determination of the 'rules of behaviour'

for the enterprises. The 'natural' objective functions of enterprises, whether maximisation of profit, or of net income per employee, are not sufficient: 'It is necessary to lay down objective functions for the subsystems (i.e. enterprises) using crieria drawn from consideration of the system as a whole'.[54] This involves centrally set rules concerning the formation of enterprise funds for investment and wages. Thus the central authorities can ensure that the wage fund is 'compatible both with market equilibrium and with the social structure of incomes'.[55]

3. Central control over prices, to ensure that they 'express the preferences of society as a whole', in order that they guide economic units toward socially rational decisions. The 'parametric' character of prices should be maintained, but direct intervention by the centre may at times be necessary. This, however, should be regarded as exceptional 'if the logic of this mechanism for the functioning of the economy is to be maintained'.[56]

The principles of 'solidarity' and 'mutual responsibility' inherent in socialism also require an active role for the State in those areas where 'social and individual preferences diverge to such an extent that to leave the provision of such services to individual choice would endanger the satisfaction of socially important needs',[57] - for example, in health, welfare, education and defence. The State also has a role in compensating for inequalities of income, where the incentive effect of income differentiation is less socially desirable than the positive effects of ensuring 'equality of opportunity'. Of course, this function is not excluded in either the Lange model, or the self-management model; nor, of course, is it absent from capitalist economies.

Enterprises in Brus's model are legally autonomous. Although they do not own their assets, they have full right of disposition over them. They draw up their own plans covering product mix, the introduction of new products, technological development and the use of their own internal investment resources, and the distribution of the wage and bonus funds. They are fully responsible for their debts up to the limit of their assets. The State is not allowed to take assets from the enterprise in order to transfer them to another at will; nor can the State issue direct orders to enterprises to produce a specific item, except in emergencies or special circumstances (e.g. for defence purposes or to meet unexpected foreign trade needs). If fulfilling such an exceptional task involves the enterprise in financial loss, the State is obliged to provide compensation. The expansion of the enterprise is not entirely a matter of its own decision, however. While enterprises will have some investment funds at their disposal, major expansion will only be possible in conformity with the objectives of the centrally set plan. While banks will have funds to allocate on commercial terms to competing enterprise projects, there will be centrally set investment quotas for branches, and banks will act as an arm of central policy, exercising financial supervision over the execution by enterprises of investment projects basically financed centrally according to the planned concept of development.

Although Brus sees the degree of enterprise autonomy created in the 'regulated market' model as providing the conditions for effective worker particiaption in enterprise management, it should be noted that there is no necessity for this form of organisation as an inherent requirement of the model. A more traditional hierarchical system of authority within the enterprise could also be retained. But various problems are associated with this - firstly, who would then be responsible for managerial appointment? It would inevitably devolve upon the State. However, if this meant a continuation of the practice, found in the traditional Soviet model of managerial appointment by industrial branch ministries, there would arise the danger of reproducing the relationship of personal dependence of the enterprise manager on his bureaucratic 'superiors', with serious implications both for the autonomy of the enterprise and the objectivity and impartiality of central economic policy. This would be a particular problem for reform of the 'regulated market' type in the specific context of Eastern Europe, where deeply ingrained habits and attitudes derived from long years of experience of the Soviet-type system would strengthen this tendency by provoking resistance on the part of both managers and ministerial officials to the 'cutting loose' of the enterprise from its familiar and security-enhancing network of contacts. But it is not 'merely' a problem of the subjective perceptions of the participants based on their habits of mind and assumptions inherited from former organisational patterns. The problem is to create an arm of the State institutionally separate from the economic policy-making and -implementing arm, with the special function of managerial appointment. What is required is a form of 'separation of powers' within the central authorities themselves, while at the same time maintaining a coherent and unified definition of the 'social interest'. Who would appoint the appointers of managers? Obviously not the policy-making and -implementing apparatus. The answer would appear to lie in the representative parliamentary institutions of the political system.

Such a system would appear in principle to be feasible, but it is not clear why it should be preferred on economic grounds to election of the manager by enterprise employees. The dangers of self-management pointed out above would be unliklely to recur in the very different economic context of the regulated market, where the enterprise is structurally conditioned,by the constraints exercised by the central authorities, to pursue the centrally determined 'social interest' in pursuing its own interest. Moreover, the considerable advantages of worker self-management in terms of motivation, which Brus emphasises, would be forgone. Effective motivation 'demands not only that the whole workforce understand its target, but also that it identify itself with the aims of the organistion'.[58] This is especially true of a more sophisticated modern workforce. Self-management also has an important socialising function: 'Real self-management at the enterprise level should have enormous educational significance for the development of socialist attitudes to work and ownership at a general level'.[59] This in turn would bring economic advantage in terms of motivation and commitment, and avoid the losses associated with careless and irresponsible use of equipment and theft of common property.

Furthermore, participation in enterprise decision-making could compensate to some extent for the lower material incentives available in the model due to central wage regulation. This feature of the model is likely to cause serious problems only to the extent that (a) the central wage policy is perceived as unjust and (b) material incentives are in fact the most important motivating factor. It should be noted that the model assumes a high degree of social consensus in favour of a relatively egalitarian distribution pattern (this point will be pursued in the next chapter), but also it builds in the possibility of differential reward. This in turn could be legitimised, as in the self-management model, by democratisation of decision-making within the firm on the distribution of the wage fund. Given general social consensus in favour of egalitarian principles, the model also builds in safeguards to counteract the possibility of excessive differentiation, through general control of the operation of the market, the prevention of cumulative inequality between enterpises, and state social welfare measures which both presuppose and reinforce the sense of 'social solidarity' and 'mutual responsibility'.

On point (b), Brus argues that material incentives are likely to decline in importance for motivation once a certain level of affluence has been reached, and the workforce itself becomes more sophisticated.[60] Indeed, it could be argued that the more sophisticated the economy, the more difficult it becomes to create a really effective incentive system based on accurately rewarding each individual's contribution, when the end product is inextricably a result of cooperation. Under these circumstances, it would appear that the more democratic form of internal enterprise organisation is likely to prove economically more successful than the 'technocratic' or authoritarian variant.

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CHAPTER TWO

POLITICS

Our task in this chapter is to elaborate on the political implications of the respective models of a socialist economy. Each model embodies a particular understanding of the 'social interest' in terms of their implications for freedom and democracy in the political system. The basic question is the relationship between individual and group 'private' interests and the 'social interest'.

The chapter looks at this issue in four sections. First, in Section A, we examine Hayek's critique of planning as inherently despotic; and consider the objection that Hayek's implicit alternative of the market economy based on private ownership neglects the impact that inequality can have on the realisation of freedom. Section B examines the self-management model, which is built upon a critique of central planning very similar to that of Hayek. While it is concerned to some extent with equality, this model is also based upon a form of private ownership. It shares with Hayek an ambiguous, negative definition of the 'social interest' and an incoherent theory of the State. The following section,(C) argues that Brus's model, combining plan and market, can sustain a coherent definition of the 'social interest' in democratic terms, and is thus not incompatible with freedom; on the other hand, it cannot be shown that it is necessarily accompanied by democracy.

Given the high degree of social consensus it assumes, it is likely to be realised in its democratic variant only exceptionally; it is thus more likely to be realised without democracy. The final section (D), draws out the conclusions from the preceding analysis of the internal logic of the respective models, and relates them to the question of change, of movement from one model to another, thus in turn introducing the empirical material to be covered in Part Two of the thesis; the comparison of reform in Czechoslovakia and Hungary.

Section A: Hayek, planning and freedom

The first model of socialism presented in the previous chapter was that of central planning, based on the assumption of the possibility of objective determination of the 'social interest' in detail by an omniscient centre, with the role of the market limited to individual choice of occupation and pattern of personal consumer expenditure, within the range of alternatives made available by the State. Hayek's attack on socialism referred to this model, and was not limited to the question of its economic rationality, but was developed, in his work The Road to Serfdom[1] into a political argument against planning as a threat to freedom and democracy.

The essence of the threat was seen to lie in the very concept of a 'social interest' itself. It was not just that the task of defining the 'social interest' in the degree of detail required for central planning was in practice likely to prove difficult, but that, in Hayek's view, in principle such a thing cannot exist: the basic flaw in the socialist programme was in the assumption of the possibility of omniscience. Hayek's central point is that knowledge is necessarily limited. It is simply not possible to know what the 'social interest' is. The range of possible interests is infinite, and the ordering of priorities can only be done by each individual for himself on the basis of his own knowledge of his circumstances and his own value system. People's perceptions of their interests, Hayek assumes, inevitably differ, and differ irreconcilably. The possibility that people might have interests other than those which they themselves determine is ruled out. Thus the only possible meaning of the 'social interest' is in the establishment of a legal framework within which individuals can maximise their self-interest, which will guarantee the security of their persons and property, enforce contracts and provide stability of expectations. The idea of the 'social interest' as a set of common goals can only be accepted in the case where the ends individuals define for themselves coincidentally agree:

> What are called 'social ends' are... merely identical ends of many individuals - or ends to the achievement of which individuals are willing to contribute in return for the assistance they receive in the satisfaction of their own desires.[2]

Moreover, the probability of agreement on common ends diminishes with the scope of collective action envisaged. Planning raises just this problem since it requires us

> to agree on a much larger number of topics than we have been used to, and... in a planned system we cannot confine collective action to the tasks on which we can agree, but are forced to produce agreement on everything in order that any action is taken at all.[3]

The result inevitably is the resort to coercion, since 'we can rely on voluntary agreement to guide the action of the State only so long as it is confined to spheres where agreement exists'.[4]

The attempt by Lange to preserve individual freedom within the framework of central planning by allowing free choice of occupation and of personal consumption patterns is seen as wholly inadequate, since the most important decisions which ultimately determine these choices - decisions on investment, the allocation of resources between individual and collective consumption - are determined centrally by the State. Moreover, the somewhat vague reference by Lange to the State's right to interfere in the price mechanism in the interests of some conception of 'social welfare'[5] further restricts the meaning of freedom of individual choice.[6]

> We can unfortunately not indefinitely extend the sphere of common action and still leave the individual free in his own sphere. Once the communal section, in which the State controls all the means, exceeds a certain proportion of the whole, the effects of its actions dominate the whole system... There is, then, scarcely an individual end which is not dependent for its achievement on the action of the State, and the 'social scale of values' which guides the State's action must embrace practically all individual ends.[7]

It is not enough that a society should be unanimous on the necessity of central planning for planning to be non-coercive, since it would not follow from this that there was also agreement on the <u>ends</u> to which planning must be directed. This would be

> rather as if a group of people were to commit themselves to take a journey together without agreeing where they want to go: with the result that they may all have to make a journey which most of them do not want at all.[8]

The idea that planning could be made non-coercive by subordinating it to the control of a democratically elected Parliament is also rejected. Parliamentary representatives are no more likely than individuals to be able to reach agreement on the unitary goal or scale of priorities which planning requires. The result of this, where an electorate wishes to see planning introduced, would be increasing popular impatience with Parliaments as 'ineffective talking shops, unable or incompetent to carry out the tasks for which they have been chosen'.[9] The solution would then be found in removing essentially political decisions from the democratic arena and transferring them to 'experts, permanent officials or independent autonomous bodies'.[10]

Nor could Parliament approach the problem by delegating its powers to groups of experts on individual elements of the plan, while maintaining ultimate control over the final plan, since

> an economic plan, to deserve a name, must have a unitary conception... A complex whole where all the parts must be most carefully adjusted to each other, cannot be achieved by compromise between conflicting views.[11]

Thus

> the body charged with planning has to choose between ends of whose conflict Parliament is not even aware, and... the most that can be done is to present to it a plan which has to be accepted or rejected as a whole.[12]

The role of Parliament is thus reduced to at best 'a useful safety valve'.

> It may even prevent some flagrant abuses and successfully insist on particular shortcomings being remedied. But it cannot direct. It will at best be reduced to choosing the persons who are to have practically absolute power.[13]

For Hayek, the choice is stark: either 'individualism', the market and freedom, or 'collectivism', planning and serfdom. The place of democracy, however, is rather more ambiguous. 'Freedom' for Hayek is wholly 'negative',[14] as freedom <u>from</u> arbitary power, which is represented by the State as soon as it steps beyond its sole proper function of defining and preserving the legal framework within which individual freedom is maximised:

> ... it is not the source but the limitation of power which prevents it from being arbitrary. Democratic control <u>may</u> prevent power from becoming arbitrary, but it does not do so by its mere existence. If democracy resolves on a task which necessarily involves the use of power which cannot

> be guided by fixed rules, it must become arbitrary power.[15]

It is not democracy, but the market itself, and the minimal State, which ultimately guarantee freedom. In fact, democracies by their very nature, being vulnerable to mass pressure to extend state power into the economy in the name of some concept of 'social justice' or equality, are potentially inimical to freedom:

> ... it is at least conceivable that under the government of a very homogeneous and doctrinaire majority democratic government might be as oppressive as the worst dictatorship.[16]

The peculiarity of Hayek's definition of freedom is in the assumption that it can be realised in the absence of equality. The only equality which Hayek sees as relevant to freedom is equality before the law. The idea that freedom might be conditional upon equality is seen as confusing 'freedom' with 'power', a confusion which Hayek maintains is 'as old as socialism itself'.[17] Freedom is seen purely 'negatively', in Isaiah Berlin's terms, as the absence of coercion; 'equality', however, requires the exercise of necessarily coercive power by the State, to redistribute resources in opposition to the results obtained on the 'free' market. However, it is neither uniqueley socialist, nor necessarily a 'confusion' to point to the possibility that the market itself might have coercive aspects. Hayek's distinction between freedom and power is hard to maintain, since freedom 'from' necessarily also implies freedom 'to' do or avoid doing something. Freedom is the unobstructed realisation of some goal, 'the power of doing what one would choose without interference by other persons' action'.[18] (Indeed, it is ironic in this respect that one of Hayek's contemporary disciples entitled his book propounding a similar 'negative' concept of freedom is 'Free to choose'.)[19] To the extent that men are unequally placed on the market, they are unequal in their opportunities to realise their goals. Unless we assume (a) that resources are not limited (and therefore that one person's advantage is not necessarily realised at the expense of others'), and/or (b) that men are fundamentally unequal also in their goals (in which case it is hard to see the justification even for 'equality before the law'), market inequality will also produce political inequality, and necessarily imply the limitation of freedom.

This is particularly clear where freedom leads to the concentration of ownership of the means of production. Non-owners have no choice - they are coerced - to submit themselves to the authority of those who own and control as a condition of their existence. Milton Friedman has argued that in circumstances where not all are owners of the means of production, non-owners are still free insofar as they are not obliged to contract themselves as labourers to any particular capitalist.[20] But, as C B MacPherson points out,

> The proviso that is required to make every transaction strictly voluntary is not freedom not to enter into any particular exchange, but freedom not to enter into any exchange at all.[21]

Moreover, insofar as a capitalist economy is unable to guarantee full employment, non-owners are faced with the possibility of no choice at all between possible employers. In this case, the lack of opportunity to pursue their goals, their lack of 'freedom to choose', is as absolute in the context of dispersed but unequal access to the means of production of the capitalist economy as it would be where the State was the sole source of employment.

Furthermore, insofar as equality before the law requires some material resources for its realisation (eg for legal fees), inequality of income may also lead to unequal ability to realise legal rights, and thus to political inequality. For such reasons, liberal theorists, and not only socialists, have seen freedom and equality as mutually supportive, rather than mutually exclusive. 'Equality of estates causes equality of power, and equality of power is liberty', concluded Harrington in the seventeenth century.[22] The use of taxation to redistribute income certainly restricts the liberty of some, but also increases the liberty of others; but insofar as those deprived of part of their income are wealthy, thus enjoying superfluous income, while those who receive redistributed resources lack basic means of livelihood, liberty overall must be increased:

> To be forcibly deprived of superabundance or even of conveniences impairs liberty less than to be forcibly prevented from appropriating necessities.[23]

In this respect, the loss of liberty involved in taxation is no different from the loss of liberty involved in subordinating ourselves to the rule of law itself since this also implies a restriction on our ability to do whatever we choose, but at the same time increases liberty in general by making such restrictions apply equally to all.

Section B: Self-management, inequality and the 'social interest'

Let us now turn to an examination of the self-managed model, which is founded upon a critique of the central planning model of socialism in many ways similar to that of Hayek. However, as an economic system it is not based on individual private property, but on what is argued to be a 'socialist' form of ownership of the means of production.

The self-management model originated in a critique of both individual private and state forms of property as 'alienated', since in neither case, it was argued, were workers actually able to realise their rights to control the means of production. This would only meaningfully be realised in the self-management of enterprises, formally 'owned' by 'society as a whole', while actual disposition over the means of production was enjoyed by the members of the enterprise work collective. The market, it was appreciated, was a necessary condition of realising self-management, and to that extent was necessary to the realisation of freedom in socialism. Effective workers' control could not be realised under central planning, since all major decisions would be made by others. The self-management model thus shares with Hayek a profound suspicion of the State, as liable to develop an interest of its own, separate from that of workers, as soon as its functions are extended beyond merely guaranteeing the conditions within which autonomous enterprises exercise their decision-making rights. The proper functions of the

State in this model, as explained in the previous chapter, are the provision and enforcement of a framework of rules of behaviour, and the support of the operation of the market. To this extent, the model shares Hayek's approach to the question of the 'social interest' which can be no more than a shared interest in these limited functions of the State, and/or the coincidental agreement of partial (in this case, group rather than individual) interests. Work collectives, as 'artificial individuals', can be relied upon to arrive spontaneously at the social good by pursuing their own interests; the 'social interest' cannot be identified substantively as consensus on a concrete, specific end or unified hierarchy of ends, but resides in the condition of minimum restriction on the individual's (Hayek) or group's (self-management) pursuit of his/its ends.

While democracy is essential to the self-management model at the level of the firm, as the essential means by which the interest of the work collective is defined, democracy at the level of the whole society, in the State, appears, as in Hayek's argument, to be possible, but not necessary. In practice, of course, in Yugoslavia, the self-managed model has been found compatible with the maintenance of one-party rule. This might even be argued to have been the <u>condition</u> for the continuing viability of the model in practice, since greater democracy at the level of the State, in a country such as Yugoslavia with profound regional socio-economic equalities, would inevitably have led to the type of mass pressure on the State which Hayek feared, leading to redistribution of resources by the State between regions, sectors and enterprises, thus undermining the market, enterprise autonomy and workers' property rights in the name of a substantive concept of the 'social interest' which is held to be incompatible with the aims of the model.

However, property rights in the self-management model are described by its advocates as 'socialist' in character, not private and individual, which would also lead to 'alienation' of the workers. What difference does this make? C B MacPherson defines property as 'a right in the sense of an enforceable claim to some use or benefit of something, whether it is a right to share in some common resource or an individual right in some particular/things'.[24] He identifies basically two forms of property - common and private:

> Common property is created by the guarantee to each individual that he will not be excluded from the use or benefit of something; private property is created by the guarantee that an individual can exclude others from the use or benefit of something.[25]

It is acceptable to argue that property in the self-managed model is not 'private' but 'common' (which would appear to be necessary in order for the model to be described as 'socialist')? To the extent that workers enjoy full autonomy in their decision-making, and receive in full the fruits of their use of the means of production assembled in the enterprise, the work collective would appear to be in fact the <u>private</u> owner of it. What we have is a new form of corporate private property. Access to the means of production and the right to income from its use is not open to <u>any</u> member of the whole society, but only to the members of the work collective of a specific enterprise. This in itself must cast doubt on the definition of the model as 'socialist'.

On the other hand, a peculiar feature of this form of private property is that while it excludes non-members of a work collective from the rights to property in a specific enterprise, it also provides the possibility for all members of society to enjoy ownership rights in some enterprise. The role of the State is to guarantee that all have the opportunity to become part of a corporate private owner, by establishing new enterprises, which is both necessary to the market in providing effective competition, and at the same time, deals with the problem of unemployment. The role of the State is to guarantee that all have the opportunity to become part of a corporate private owner, by establishing new enterprises, which is both necessary to the market in providing effective competition, and at the same time, deals with the problem of unemployment. Thus the private nature of enterprise property does not lead to fundamental inequality in the sense of division of society into owners and non-owners of the means of production. The model can in this respect provide greater equality than the capitalist market economy, and to this extent, greater freedom.

However, the model also will produce distributive inequality, insofar as the market is unrestricted and enterprise autonomy is guaranteed. The legitimacy of such distributive inequality depends on the assertion that incomes derive solely 'from work', not from property itself.[26] This in turn requires equality between competing enterprises, which their very autonomy makes impossible, since it allows successful enterprises to enhance their future advantages by retaining, within limits which can be set by the State, their profits from past performance which they may reinvest. Their future income will depend not only on future work but on past work; income thus acquires in part the character of property income, or economic rent. Not only would it contradict the economic logic of the model to tax away that element of income from enterprises - it would furthermore be illegitimate on the part of the State, as an infringement of the basic property right of the work collective. The only legitimate basis of taxation would be to provide the State with the necessary resources to establish new enterprises, which is a condition of the system functioning at all, as explained in Chapter I.[27] This need not necessarily remove all rent income from enterprises - there is no reason why the quantities should be the same. In any case, in principle taxation cannot be based on the idea of removing rent income, but can only be justified by the requirements of maintaining market equilibrium, which alone is held to constitute the 'social interest'. It is, as in Hayek, <u>assumed</u> that all have an equal interest in the maintenance of market equilibrium, but insofar as there is inequality between enterprises, this cannot be so.

The source of the problem, common to both Hayek and the self-management model, would appear to lie in their rejection of a substantive, or positive, concept of the 'social interest' as implying equality. This leads to an incoherence in their respective implicit theories of the State.

Both Hayek and self-management theory reject central planning as inherently despotic, since it rests on a monolithic substantive concept of the 'social interest' which denies the legitimacy of individual and group interests, and can only be realised through coercion. Up to this point, their analysis is convincing. But they then proceed to suggest that any substantive concept of the 'social interest' must be monolithic and therefore inimical to freedom for the individual. The assumption is that individual and/or group interests are the only legitimate, meaningful interests, with the further implication that conflict is normal, necessary, natural; consensus is sporadic, exceptional and very possibly forced. What then holds society together? The common framework of rules guaranteed by the minimal State. But this itself assumes a fundamental social consensus, deeper than the conflict of individual and/or group interests. There must be consensus on the rules, and shared principles of justice, in order for conflicting parties to agree to be bound by the arbitration of the State.[28]

On what basis might such consensus be achieved? It must depend on equality of individuals and groups, leading to their conviction that their interests are served equally by the framework of rules adopted. But the market and enterprise autonomy serve to produce cumulative inequalities. Thus the role of the State cannot be impartial - its role of enforcing the rules of the game and stabilising the market serves the interests of some more than others. In the absence of equality as the basis of consensus, both Hayek and the self-management model assume consensus on the justice of the unequal distribution of resources, which implies that the disadvantaged accept that it is in their interest to be disadvantaged. Now this is only rational if the disadvantaged are so temporarily - if they have equal opportunity to become advantaged. This they cannot have insofar as the market allows the cumulation of inequalities. Equality of opportunity requires the active intervention of the State in the redistribution of resources.

In other words, where what divides men in a society is more important that what holds them together, the role of the State cannot be impartial, but will favour particular interests, and not serve the 'social interest', no matter how limited it is in scope. On the other hand, if the State is to play the role of impartial arbiter of the rules of the game, there must be a consensus, ie, that what holds men together be stronger than that which divides them. This in turn requires equality, or legitimation of inequality by the provision of equality of opportunity and the prevention of cumulative and self-perpetuating inequalities.

It follows from this that the concept of a 'social interest' does not necessarily have to mean unanimity, total consensus; all it implies is at least a minimal consensus. Where minimal consensus coexists with conflicting individual and group interests, it would appear also that a necessary condition of the impartiality of the State is democracy. It is therefore hard to accept Hayek's arguments against democracy, particularly his suggestion that domocracy could prove more tyrannical than non-representative forms of regime. One can accept Hayek's point that majority rule may develop in a tryannical way where society is dividied into relatively permanent majority and minority factions.[29] Minority rights must also be institutionally guaranteed and protected. But this is not an argument against democracy *per se*, but only an illustration that democracy is unlikely to survive without broad social consensus. If a permanent majority persists in exercising its rights at the expense of a minority, this would lead to a violation of the fundamental consensus, leading either to civil war, the breakdown of the society and the secession of the minority, or the volunatry adjustment of the rules of the game by the majority, to rectify the position of the minority, indicating that the majority accepts the continued membership of the minority in the society as being in its *own* interests - thus reaffirming the initial consensus.

Section C: The 'Regulated Market', Consensus and Democracy

Now, if the notion of a substantive 'social interest' is not unique to socialism, but is implied to some extent also in liberal theory (whether individualist or pluralist), then the argument against planning as inherently undemocratic and inimical to freedom must be modified.

Firstly, it is logically possible that a society characterised by complete homogeneity and equality could in fact democratically sustain full consensus on a unified hierarchy of ends, and thus combine central planning of the detailed 'monolithic' type with full individual freedom. In such a situation, there could be no conflict between individual and group interests and the social interest.[30] Of course, in practical terms the achievement of such a situation is unimaginable without the initial application of a very high degree of coercion to ensure total equality, and a sustained programme of enforced indoctrination to produce a homogeneity of values - thus fundamentally vitiating the quality of the consensus achieved. There is, moreover, no evidence that when such an attempt has been made (for example, in Cambodia under Pol Pot) that it has come anywhere near succeeding. This possibility is thus put forward for consideration not as a practical proposition, but as an abstract logical point.

But let us consider a less extreme position. Hayek asserts that:

> ... in a planned system we cannot confine collective action to the tasks on which we can agree, but are forced to produce agreement on everything in order that any action is taken at all.[31]

But is this in fact the case? If the 'social interest' assumes consensus, but not necessarily total unanimity, why must planning itself be all-embracing? We have seen how Brus's concept of planning does not require that everything be planned, but that it be limited to specifically political decisions at the macro-economic level, which can be left to the market, but which ought not to be, since this would produce a result contrary to the 'social interest'. In this case, planning requires not 'agreement on everything' but merely the existence of basic social consensus on substantive goals such as the distribution of income, the long term objectives of development, the rate of saving etc. In principle, there is no reason why agreement on such matters should not be reached - under certain practical circumstances, to which we will return below. At this point, however, we should pause to note that while Brus defends his 'regulated market' model as the embodiment of socialist principles, it is not necessarily incompatible with the realisation of freedom and democracy in liberal terms. Following from the arguments presented above, in principle, it might even realise these goals more fully than either the capitalist market or the self-management systems.

To return, however, to the question of consensus. It is clear that Brus's model requires not merely basic consensus, but a rather high degree of consensus in practice - otherwise its implementation does indeed raise all the problems of enforced compliance which Hayek quite rightly identifies. The question is not whether consensus is in principle possible, but whether in practice this high degree of consensus is unrealistic, therefore only sustainable through coercion. Some degree of consensus is essential to the existence of a democratic society; the degree of consensus achieved, and therefore the democratically acceptable limits to the role of the State, will vary according to historical circumstances and the equality and homogeneity of the society. Both historical and systemic factors affect this:

The size of a country in which the model was introduced might be highly relevant to the formation of consensus. A small country is more likely (although it is by no means guaranteed) to generate a strong sense of community through the high degree of personal interaction possible among its members. This would be enhanced by ethnic, cultural and linguistic homogeneity within the society, especially where this led to the development of a strong sense of national identity, which has often legitimised an interventionist State. Alternatively, even a deeply divided society might be united in the face of an external threat, in the form of larger neighbouring powers with suspected imperialistic designs. This fear might be real enough to induce sectional leaders to tolerate and promote a highly regulated framework of interest reconciliation, to prevent centrifugal pressures from threatening the integrity of the State.[32]

In systemic terms, the degree of consensus required by Brus's model presupposes that the pattern of property ownership should not produce irreconcilable division of socio-economic interests. This would appear to require either equality of private ownership, or a form of communal ownership. As we have already seen, however, the rights implied in private ownership (whether the individual or group type) necessarily lead to cumulative inequality and non-work incomes, since the State cannot legitimately intervene to control and redistribute investment resources. Communal ownership entails the 'right not to be excluded from the use or benefit' of the means of production.[33] The question is whether Brus's model can satisfy the criterion of this form of ownership.

The model is similar to the self-management model insofar as it posits a right for all members of society not to be excluded from access to the means of production; but it differs from the self-management model in that workers' property rights in the enterprise in which they work are limited by correspondingly greater rights of the State, particularly in the field of investment, and in controlling the rules by which workers' personal incomes are to be formed from enterprise income. The operation of the market is limited by the State's powers of regulation in such a way as to maximise equality of opportunity. Income inequality is related to differential results of work realised on a market which is regulated by the State according to a concept of the 'social interest' embodied in economic policy covering investment, prices and incomes. The possibility that inequality may become cumulative is counteracted by the State's right to control the use of, or to remove resources from the enterprise for investment purposes; by the existence of a statutory incomes policy; and by a high degree of provision for collective consumption of goods and services necessary to maintain equality of opportunity (health, welfare and education). Incomes are thus derived from two sources - from work, and from redistribution by the State, as a share in socially-owned property.

To this extent, property in Brus's model would appear to be 'communal' in character, and as such, is likely to be supportive of social consensus.

There is thus a certain circularity in Brus' model. For the degree of State intervention which it implies to be compatible with democracy, there must be a high degree of social consensus. Such consensus requires a highly egalitarian property and distribution system - for which the model also provides. On the other hand, if the State is not subject to democratic control, the whole logical chain of connections breaks down, since the State's claim to represent the 'social interest' cannot then be legitimate. In this case, the means of production cannot be said to be 'socially owned', and the position of workers, their freedom, is as restricted as under full central planning of the 'etatist' type. The pluralism of decision-making by relatively autonomous enterprises becomes a sham - they are not 'free' in their relations with the market, but manipulated. Democracy, Brus therefore argues, is a 'necessary' element in the model. But here what is meant by 'necessary' is logical, definitional necessity - it is necessary, for the model to be described as 'socialist', that it incorporate political democracy. But Brus also wishes to argue that democracy is an 'objective' necessity. This implies something different: that the model is practically unworkable without democracy; and also, that the model provides not only the necessary, but sufficient conditions for democracy.

An argument for the objective necessity of democracy would have to show that without it, the behaviour of individuals, groups and the State itself would be radically different, and in particular, that they would act significantly less rationally in economic terms. It would appear to be possible to demonstrate quite convincingly the economic advantages of democracy in this model; however, it cannot be shown that the economic losses incurred by a non-democratic variant of the model would be sufficient to render the model wholly unworkable.

Firstly, we have seen in Chapter I that Brus argues that democracy has a significant impact on motivation, and that this may have clear economic advantages.[34] But he does not demonstrate that without democracy at either the level of the enterprise or of the State, the model would cease to function. It seems possible that the motivational advantages might be forgone without systemic collapse. The system would simply not be maximising its full potential - a fairly common state of affairs in the real world.

Further arguments put forward by Brus are similarly ultimately inconclusive. Without the check of open, competitive politics, it is certainly possible, even likely, that less competent and able people will be appointed to key positions in the State, since, if not crude favouritism, at least patronage will hold sway.[35] However, democracy itself cannot be a watertight guarantee that the most able will in fact hold power - by definition there can be no requirement of minimum IQ, or even education and qualification for holding elective office. The possibility of incompetents coming to power cannot be ruled out. Their tenure on office may, however, be less secure.

It follows from this that the problem of democratic control over the process of planning remains to be dealt with. As Hayek pointed out, planning necessarily requires the use of experts, who, by virtue of their own expertise and the amateur status of politicians in a democracy, are in a position to exercise great influence over the entire process of defining the 'social interest'.

There is an assumption in Brus's argument that the broad objectives of policy will be accessible to the non-expert but educated and informed politician; and that a democratic framework will bring forth coherent variants of plan and policy for discussion.[36] This does not seem an unreasonable argument. It does assume that the electorate will tend to favour the educated and informed candidate over a populistic demagogue. It also assumes that there will be more than one centre of planning - possibly universities might be commissioned to put forward rival plans to those produced by the State Planning Board. Neither of these assumptions would appear to be infeasible.

It is furthermore worth noting that Hayek's depiction of planning as 'rule by experts' is not accurate when applied, for example, to Soviet practice itself. The undisputed centres of power are the General Secretary, the Central Committee Secretariat and the Politburo of the Party. The majority of men who have occupied these posts have not been 'experts' themselves, but have evolved a highly effective set of means of maintaining political control over the experts, chiefly through the system of 'nomenklatura'. Thus the Planning Commission, while itself a very powerful institution, is nevertheless subordinate to the Party. This would appear to demonstrate, in contradiction to Hayek, that experts and planners can be brought under political control. However, on the other hand, one may have justifiable doubts as to whether a democratic political system could evolve a similarly effective means of supervising its planners.

A third line of argument in favour of democracy in the model points to the danger of suppression of valid criticism where there are no guaranteed rights to free expression, publication and discussion. Democratic debate, discussion and criticism of the State can provide an effective check on 'voluntarism' or wishful thinking in the plan and economic policy.[37] It is not just that without free discussion and the observance of democratic procedure in policy-making, the legitimacy of the State's claim to represent the 'social interest' is undermined, but that this may lead it to produce bad policies. The example of Poland under the Gierek regime springs readily to mind.[38] However, at the same time, it cannot be completely ruled out in principle that a regime of 'enlightened absolutism' could construct a rational and coherent plan and economic policy. This could not legitimately be described as being in the 'social interest' in the absence of democracy, but this need not in itself affect the economic rationality of the model. All one can argue is that, on balance, a democratic regime is less likely to produce an economic catastrophe than a self-appointed elite.

A further argument which is relevant to the case concerns the impartiality of the State and the role of sectional interests. It can be argued that, without democracy, the ability of the State to act impartially must be impaired, and that this is likely to reduce economic rationality substantially.

The model concentrates control over substantial economic resources in the hands of the State. This must make the State the focus of very strong sectional pressures for the allocation of resources in a particular way - in the interests of particular sectional groups, which inevitably will present their claims in terms of the 'social interst'. If the State is not sufficiently strong or independent to resist certain sectional pressures, or if political leaders are in fact merely representatives of some (the most powerful) interests in society, then the result in the plan and economic policy might be the sacrifice of overall economic rationality in social terms to the protection of partial vested interests.

Hayek fears that precisely this would be the case - any definition of the 'social interest' in substantive terms will be a mere facade concealing sectional self-interest. Moreover, democracy is more likely to lead to such irrational bias than non-democratic regimes, in his opinion. But Hayek assumes that his own 'Leviathan' could be impartial without democracy, merely by virtue of its being limited in scope - which, as we have already argued, is a highly problematic position. On the other hand, it can be argued that it is precisely democracy which can provide the way out. The ability of the State to resist sectional pressures must be enhanced by the relative openness of group activity in a democratic context. Open debate and public criticism, on the one hand, serve to expose spurious claims by sectional interests to represent the 'social interest'. On the other hand, the state's authority, its ability to override sectional pressures in the interests of overall rationality, of the pursuit of the 'social interest', would be strengthened by its democratic credentials, which enable it to claim legitimately that its definition of the 'social interest' must prevail.

Of course, democracy is not fail-safe - under certain conditions a democratic political framework might produce irrationality. Democratic theory does not necessarily assume that politicians are motivated by the disinterested pursuit of the common good; but it does assume that electoral politics leads politicians to play a role of aggregating and harmonising diverse interests.[39] This in turn assumes what we have already argued to be necessary conditions for democracy to work - that political resources are dispersed, and dispersed fairly equally through society; and that the diverse interests in society are predisposed, by an underlying social consensus, to bargain, accomodate and compromise. However, where interest conflicts are irreconcilable, where there is cumulation rather than dispersal of political resources and inequality, politicians may well turn to the exploitation of differences, and the pursuit of a sectional line in policy making.[40]

Again, our conclusion on this point cannot be clear-cut. Thee is no reason to hold, as Hayek does, that democracy will be <u>more</u> vulnerable than non-democratic regimes to sectional bias; democracy provides significant checks against this; but under certain adverse circumstances, even a democratic regime cannot guarantee that a plan and economic policy will be rational in terms of the 'social interest'. The biggest problem for empirically-based argument on this question is that most democracies in practice for the most of the time are operating under less than ideal circumstances.

Moreover, ultimately Brus's model cannot guarantee the ideal circumstances requires for it to work both rationally and democratically. It does indeed provide the possibility of assuring a high degree of socio-economic equality which will promote consensus, but it does not on the other hand guarantee it: there are, after all, other sources of conflict than socio-economic inequality - for example, value conflict on religious or national grounds. While the origins of such conflicts can usually be traced back historically to socio-economic inequality and exploitation, they do not necessarily melt away with the equalisation of society. Value conflict cannot ultimately be reduced to conflicts of material interest. Where a society is deeply divided along religious or national lines, Brus's model might only be workable <u>in the absence of</u> democracy in the State. While the model is in principle certainly not incompatible with democracy, it is not necessarily democratic. While the assumption of a high degree of consensus which it embodies is not in principle wholly unrealistic, in practice, the circumstances in which the model might be realised, as both rational <u>and</u> democratic, are likely to be exceptional.

Section D: The dynamic perspective - marketisation, pluralisation and democracy

In the preceeding three sections we have examined in a theoretical way the political implications of the respective models of socialism from what might be described as a 'static' perspective, by identifying the internal logic of the given model. In this final section of the chapter, we will relate the conclusions derived from this approach to a 'dynamic' context, of change from one model to another - specifically, in the context of the introduction of market-type reform into a centrally planned economy.

We have seen how the monolithic definition of the 'social interest' inherent in the centrally planned model necessarily produces a political system which is totalitarian, in the sense of denying the legitimacy of group and individual autonomy, or relegating them to a position of secondary, residual importance, permitted to exist only within a framework which is controlled and dominated by the superior 'social interest'. An economic system based on these assumptions is only compatible with freedom and democracy where the society is characterised by absolute consensus. Since such consensus is practically unobtainable, the model has always been accompanied politically by a high degree of coercion exercised by a single Party. The legitimation of the model as based on the 'social interest' rather than the interests of the self-appointed party is derived from the Party's assertion that it possesses 'objectively correct' knowledge. Democracy as a means of defining the 'social interest' on the basis of individual and group participation is ruled out as superfluous, or even possibly counter-productive, since individual and group perceptions are necessarily of a lower order and subject to 'bias'. Coercion is redefined as 'freedom', since coercion is held to be necessary to the realisation of the 'true' interests of groups and individuals.[41]

The introduction of market-type economic reform, whether of the self-management or regulated market variety, necessarily challenges the totalitarian political framework of the centrally planned system in a fundamental way, since it requires recognition of group and individual interests as both 'objectively necessary' and legitimate. Market-type reform thus requires a fundamental revision of the Party's legitimation doctrine, since it is not compatible with the requirements of market models that the 'social interest' be understood as all-embracing and monolithic, standing above individual and group interests and enjoying _a priori_ superiority over them. It thus requires the definition of the limits of the role of the State, and the acceptance of a degree of pluralism.[42] But does it imply the necessity of democracy in the State itself? The answer is clearly no - we have already seen that neither the self-management nor the regulated market model requires democracy at the level of the State. Both are logically compatible with either a democratic, or a non-democratic (single party) regime.

The central point is to avoid the confusion of 'pluralisation' with 'democratisation'. 'Pluralisation' should be regarded as a quantitative measure, rather than as a qualitative, systemic characteristic of a political system. 'Democracy' is such a qualitative characteristic, referring not to the existence of separate group and individual interests, but to the context in which they emerge and the manner of their reconciliation. 'Democratisation' as a process can only refer to improvement in the operation of already existing political guarantees embedded in democratic institutions. The transition from a non-democratic to a democratic regime cannot be achieved simply by moving along the quantitative axis of pluralisation, but requires a leap, a 'transformation of quantity into quality', in the form of a political revolution, establishing institutional guarantees of basic rights and freedoms for individuals and groups. The lists of such guarantees is familiar: freedom of association, of alternative sources of information, and of expression; the right to vote in free and fair elections; the right to stand for election, to compete for political support; and the periodic repetition of elections.[43]

'Pluralism' and 'democracy' are thus logically separate. A democratic regime may be more or less pluralistic: it may even, as in Rousseau's individualistic-participatory model, be non-pluralistic, in the sense that Rousseau rejects the legitimacy of organised groups as participants in the process of defining the 'General Will'. On the other hand, non-democratic regimes need not necessarily be totalitarian. Indeed, the pure model of totalitarianism has long been recognised as inadequate to the understanding of the realities of politics in communist one-party states. As an ideal type, it has never existed except as an aspiration - as indeed, neither has pure pluralism. Communist regimes have been categorised along a continuum of pluralisation by H G Skilling, who identifies 'quasi-totalitarian', 'consultative authoritarian', and 'democratising and pluralistic authoritarian' variants of single party rule,[44] none of which can properly be regarded as democratic. The latter stage, however, is inherently unstable, and describes a revolutionary situation, being the point at which the quantitative degree of pluralisation provokes systematic crisis by putting the establishment of democratic institutions on the agenda.

In identifying the political implications of market-type reform of centrally planned socialism of the Soviet type, we need to distinguish between political change as spontaneous, evolutionary and incremental adaptation, and conscious and active remodelling of a system such as takes place in a revolution. Whether marketisation leads to revolution will depend not on the 'objective requirements' of the reform model itself so much as the 'subjective' element in the particular historical context, including the willingness of the Party leadership to undertake reform and the adaptation which it requires. This is not to suggest that marketisation will not be a politically fraught process; nor that marketisation can be introduced without democratisation without some costs in terms of efficiency. But it is implied here that marketisation is possible without the collapse of one party rule and democratic revolution; and that the costs of avoiding democratic political transformation need not be intolerably high.

The aim of Part One of the thesis has been to elaborate in abstract theoretical terms the nature of the underlying problems of socialism, economic rationality, freedom and democracy. Part Two involves a comparative study of two cases of market-type reform, in Czechoslovakia and Hungary. Thee two countries have been selected for the similarity of their starting point as socialist systems based on the centrally planned model; for the similarity of their initial choice of reform model, of a regulated market type; and for the contrasting political developments they experienced - Czechoslovakia undergoing an 'interrupted revolution' in 1968, Hungary developing through the 1970s, not without conflict, but without systemic political crisis of the revolutionary kind. The aim of the comparative empirical study is to demonstrate how these cases illustrate the theroetical points presented in Part One of the thesis.

Firstly, in Chapter III, we will look at the political starting points of reform - the respective contexts into which economic reform was introduced. This background material will highlight the extent to which the differing patterns of political change which took place alongside economic reform were products of a particular, unique historical context, rather than of the functional requirements of the economic reform itself. Chapter IV focusses on the immediate political circumstances in which the decision to undertake reform was made in the respective countries. The major contrast to emerge is between the unity of the Kádár leadership, and its positive commitment to a coherent model of economic reform, and the political disarray of the Czechoslovak ledership, divided on many issues including the real meaning of reform. In Chapter V, we return to the theoretical issues raised in Part One. The chapter traces the development of reform thought in Hungary and Czechoslovakia. In both countries, intellectuals were aware of the political implications of the economic reform as a reconceptualisation of the 'social interest', but in Hungary, public discussion of political reform as a necessary concomitant of economic reform was stifled, while in Czechoslovakia, the blossoming of sociology and political science promoted a much more far-reaching examination of the economic reform's social and political ramifications. In Chapter VI, we describe the political circumstances in Czechoslovakia which allowed economic reform to become a component part of a political movement of the intelligentsia driving towards 'democratisation' - the legitimation of pluralism and its incorporation, via political reform, into the institutions of the political system. The 'politicisation' of the economic reform in Czechoslovakia, the chapter argues, was not a product of the 'objective' requirements of economic reform in practice, since very little of it was ever implemented. It was rather a product of the peculiar nature of the Novotný regime, which alienated a large part of the intelligentsia and thus focussed attention on the need for systemic political change not merely as a functional prerequisite of economic reform, but as an absolute good in itself. When we turn to Hungary in Chapter VII, we see a contrasting picture of economic reform introduced without either radical reform of the political system or political crisis as occurred in Czechoslovakia. The question raised by the Hungarian experience is, however, whether this 'depoliticised' reform, avoiding political change as far as possible, did not require compromises in the consistency of its implementation which eventually were to threaten the effectiveness of the whole endeavour.

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21. C B MacPherson, <u>Democratic Theory</u>, Oxford: Oxford University Press, 1973, p 146.

22. Quoted by Carritt, <u>op cit</u>, p 140.

23. <u>ibid</u>, p 139.

24. C B MacPherson (ed), <u>Property</u>, Oxford: Basil Blackwell, 1978, p 3.

25. *Ibid*, p 5.

26. See B Horvat, 'An institutional model of a self-managed socialist economy' in J Vanek (ed), *Self management*, Harmondsworth: Penguin Education, 1975, p 128.

27. See Chapter I, pp 19-20.

28. See J Lively, 'Pluralism and Consensus' in P Birnbaum *et al* (eds), *Democracy, Consensus and Social Contract*, L and Beverley Hills: Sage Publications, 1978.

29. See Hayek, *op cit* (1944), p 52.

30. Similar point is made by C Lindblom, *Politics and Markets*, N Y: Basic Books Inc, 1977, p 266.

31. Hayek, *op cit* (1944), p 46.

32. This point is especially relevant to smaller European democracies - see M O Heisler (ed), *Politics in Europe*, N Y: Pared Mackay Co, 1974; K Steiner, *Politics in Austria*, Boston, Mass: Little, Brown and Co, 1972; A Lijphart, 'Consociational democracy' in *World Politics* vol XXI; no 2 (January 1969).

33. C B MacPherson (ed), *op cit* (1978), p 5.

34. See Chapter I, pp 32-34; and W Brus, *Socialist Ownership and Political Systems*, L and Boston: Routledge and Kegan Paul, 1976, pp 68-70.

35. Brus, *op cit*, pp 200-201.

36. *ibid*, pp 195-199.

37. *ibid*, pp 191-195.

38. See J Woodall (ed), *Policy and Politics in Gierek's Poland*, L: Francis Pinter, 1982.

39. See J Lively, *op cit*, p 195.

40. *ibid*, p 198.

41. See G Brunner, 'Legitimacy doctrines and legitimation procedures in East European systems' in T Rigby and F Feher (eds), *Political Legitimation in Communist States*, L and Basingstoke: Macmillan, 1982.

42. W Brus, 'Political pluralism and markets in communist systems' in S G Solomon (ed), *Pluralism in the Soviet Union*, L and Basingstoke: Macmillan, 1983.

43. Derived from R Dahl's list in *Polyarchy*, New Haven and L: Yale University Press, 1971, pp 2-3.

44. H G Skilling, 'Group conflict and political change' in

C Johnson (ed), Change in Communist Systems, Stanford, Calif: Stanford University Press, 1970.