SOCIALISM AND THE MARKET

The following pieces by Maurice Dobb, Charles Bettelheim, and a specialist on the Soviet economy teaching at a large American university continue a discussion initiated by the Review of the Month for December, 1964. Bettelheim contributed a commentary which was published along with a rejoinder by us in the April, 1965, issue.

Maurice Dobb, the well-known economist, is a Fellow of Trinity College, Cambridge, and author of two MR Press books (An Essay on Economic Growth and Planning and Capitalism Yesterday and Today). Charles Bettelheim is Professor of Economics at the Sorbonne, Paris. His piece was translated from the French by Joan Pinkham.—The Editors

BY MAURICE DOBB

With the major part of Professor Bettelheim's apt and lucid remarks about planning in socialist countries (MONTHLY REVIEW, April, 1965), I so warmly agree that I am reluctant to express dissent from them at any point. But his brief review of the place of the market in planning is, to my mind, spoiled by some adverse remarks at the end about recent tendencies towards greater use of "material incentives" in socialist countries, including enterprise incentives geared to the "net income" or profitability of the enterprise—remarks which the Editors in their Reply underline. This seems to me, if I may say so, a piece of rather romantic dogmatism that is out of accord with the real needs of a socialist planned economy and with historical experience. One wonders, indeed, whether such doubts would have been voiced, let alone given prominence in the first place, had not Peking recently thrown in some rather infantile leftist criticism of other socialist countries for good measure in the current ideological controversy.

I wonder whether Professor Bettelheim objects to the use
of “material incentives” at all or merely to their greater use? If the latter, I should have thought that this was a question to be decided empirically and was not a question of principle. If he objects to their use at all, then it would seem that he must logically object also to any system of payment by results—perhaps even more so, since nothing could be more “individualist” than piece-work wages. If so, then, of course, the criticism of “motivations foreign to socialism” must apply, not only to recent Soviet developments, but to quite early days in the history of the Soviet Revolution when Lenin advocated (against romantics and utopians among the Bolsheviks of that time) the use of just these motivations and material incentives. Indeed, to deny the “socialist” character of material incentives, even on an individual and not a collective or group basis, is, surely, to confuse the distinction between the socialist stage of development and the communist: in which connection one may recall Lenin’s statement that “to attempt in practice today to anticipate this future result of a fully developed, fully stabilized and formed, fully expanded and mature communism would be like trying to teach higher mathematics to a 4-year-old child.” (Left Wing Communism: An Infantile Disorder)

But perhaps it is the relation of enterprise-incentives to profitability or net income of the enterprise that is the real ground of objection. It is on this, at any rate, that the Editors seem to focus most attention. It is presumably admitted that some incentive at the enterprise level is needed to harmonize the interests of individual enterprises (as operational units in the economic field) with the social interest and with the policy embodied in the economic plan. (I do not see how this can possibly be denied except by one who denies the possibility of so-called “non-antagonistic contradictions” arising between the interests of an enterprise and the collective whole, or else thinks that if these do arise they can be exorcised either by propaganda or by administrative discipline.) If there are to be such incentives, what is it that makes one geared to the net balance-sheet result of the enterprise’s activity worse than other types of such incentives, such as those geared to fulfillment of a gross production target or to a set of so-called “qualitative” indices—all of which

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have been shown by past experience to have serious practical defects? At any rate, there is nothing new (or Khrushchev-“revisionist”) about using a balance-sheet or profitability incentive; here I can’t help feeling that the Editors have been misled by the short memories of either bourgeois or Peking journalists. The idea of profitability as a criterion of the operations of the enterprise goes back to the first affirmations of Khozraschot in the 1920’s—i.e., it goes back to the time of Lenin; it was reaffirmed as the principle governing the operational independence of the enterprise in 1929, at the beginning of the planning period. The introduction of an enterprise-incentive linked to profitability followed in 1936 with the institution of the Director’s Fund (later renamed the Enterprise Fund). Until now, this has not been the only type of incentive, being combined with others, such as the bonuses for plan-fulfillment, and payments into the Fund have been subject to a fairly low ceiling in relation to the total wage-bill. The innovation represented by schemes like those of Liberman and Sik is simply to make profitability (measured over a period of years) the primary basis for incentives (both collective and individual) and a “synthetic” index of enterprise achievement.

It seems hardly necessary to emphasize that “profitability” in this sense, as the balance-sheet surplus or net income of the socialist enterprise, set firmly within the framework of a planned economy, with numerous instruments and levers for setting and steering at least the macro-economic structure, is something entirely different in its significance from profit-motivation and profit-maximization as the fulcrum of economic activity under capitalism. Any analogy between them is a purely formal one; and to emphasize it, I suggest, is to sow confusion (one reason, no doubt, why bourgeois journalists are so keen on this analogy). The question at issue today is simply whether these “instruments and levers” for controlling the economy should be primarily compulsory “administrative” ones (as in the past, with some serious negative results) or should be (as regards micro-economic decisions, at least) less direct “economic” ones operating through the media of prices and incentives.

I entirely agree with both the Editors and with Professor
Bettelheim that this planned framework needs to include control over prices charged by enterprises—whether in the form of detailed price-fixing as heretofore or in the form of price-ceilings imposed on, at least, the majority of products—as it also needs an economically correct structure (in some sense) of relative prices. I should also agree that at one time the Yugoslav economy probably went too far in this respect in “freeing” the enterprise from controls. But it is incorrect to say that there is no planning of prices in Yugoslavia today. Price-controls have been reintroduced and extended over the past five or six years, and in 1962 there was instituted a Federal Price Control Board to this end.

May I conclude by quoting from an excellent and lucid summing-up of the position in a recent article by Professor Ota Sik of Prague in relation to his own proposals (which in certain respects go beyond those of Professor Liberman)?

In the period of the Stalin cult, the material interests of the enterprises as communities of producers were disregarded more and more. While formally cost accounting was practiced, the material stimuli to reduce production costs and increase the quantities of value produced and realized, and corresponding to the consumer demand, diminished. . . . Socialist commodity-money relations in conditions of socialist planning presuppose a large measure of independence of the enterprises not only in drawing up plans but also, and even more, in carrying them out, in solving the multitude of problems that crop up from day to day. . . . At the present stage of development of the productive forces, and owing to the present nature of labor processes, material incentives are unquestionably the chief stimulus. The gearing of incentive to quantitative indicators has hitherto been one of the main obstacles to greater efficiency. . . . The new system of management is aimed at creating an economic climate in which the workers, when taking relatively independent decisions concerning their production programme, will have the maximum material incentive to work for the fullest possible satisfaction of the requirements of society and make the most effective use of both labor and means of production.

On the wider question of the relation between planning and the market, he summed up the matter in general terms thus:

Until recently, the connection between planning and the market was incorrectly understood and the concept of the market was applied to the socialist economy in a sort of shamefaced way.
It was held, wrongly, that planned social coordination, planned management of production, was the absolute antipode of orientation on the market, of utilizing market levers. Planning was assumed to be an attribute of socialism alone, and production for the market a feature solely of capitalism. These tenacious theoretical premises brought much harm. . . . The difference does not consist in production under capitalism being necessarily geared to the market whereas under socialism the market plays no role whatever. Socialist planned production should consistently seek to satisfy market demand. . . . Our production differs from capitalism, not in that it should not meet the requirements of the market, but that it is a different kind of production catering for a different kind of market. (World Marxist Review, London, 1965, No. 3, pp. 17-19.)

BY CHARLES BETTELHEIM

The facts show that the highly centralized forms of planning suitable for a relatively simple economy lead to increasing waste when the economy becomes more complex. The result may be a lower rate of development and even economic stagnation. The Czech economy in recent years can be cited as an example.

The reason for this is that there is no method by which precise and sufficiently detailed information can be made rapidly available, and no coherent, coordinated system of making decisions, both of which are necessary to such forms of planning in a complex society. Hence, there is an increasing waste of resources.

If one wishes to maintain intact the centralized system which was efficient for a simpler economy, it is impossible—given mathematical techniques presently available—to replace on a national scale the bureaucratic and administrative system now functioning in the socialist countries by a system of electronic computers capable of dealing rapidly with all the information necessary to reach effective centralized decisions. Taking into account all possible technical progress, specialists believe that
for heavy industry alone, it will be around 1980 before the Soviet Union can achieve a completely automated system of management, and this may be an optimistic estimate. As for the present rules of centralization, we know that if they were maintained under current methods of handling information, there would be a huge expansion of the planning organs (whose personnel would have to increase two or three times faster than the social product), and the result would only be less and less well-coordinated decisions.

The facts also show that beyond a certain point, waste of resources has a demoralizing effect which can lead to the opposite extreme: a relaxation of all planning discipline.

In practice, this relaxation of discipline makes its way into the economy first of all through the establishment of a parallel system of decision-making. We have witnessed this phenomenon in various places throughout those socialist countries where the economy has reached a high degree of complexity but where they are trying to maintain the extremely centralized system of decision-making that functioned before. We find, on the one hand, an explicit system of centralized rules, which operates more and more slowly and with less and less effectiveness; and, on the other, an underlying system through which those who are actually responsible for production make an increasing number of decisions—which, at the moment, are in violation of the formal rules. This underlying system must be tolerated in practice because without it the economy would lapse into total paralysis.

I think that when we are talking about an enterprise whose profits are collectively owned, it is an arbitrary confusion to identify production "for profit" with profit as "indicator of the efficiency of the management." In such an enterprise, the profit realized on the basis of planned prices and wages is only one of the indicators of the quality of management, the activity of the enterprise—its production and investments—being determined by the Plan, and therefore by social priorities.

Accordingly, I do not think the tendencies to slide into production "for profit" are of the nature and scope attributed to them in MR's reply. They prove that it is necessary to profoundly modify the system of planning and management inherited from the initial phase of socialist construction. On the
other hand, certain disturbing aspects of these tendencies flow precisely from the absence of sufficiently solid theoretical thought regarding the role of profit as an indicator of the efficiency of management. This is particularly true when no distinction is made between an "indicator of the Plan" and an "incentive." If the present tendencies prove anything, they prove that only by making the necessary distinctions and the preliminary analysis that these imply, can one avoid the double danger: waste and stagnation, or restoration of profit as the goal of production.

We are thus brought back to the need for theoretical analysis of the real social content of state ownership, of the nature of the economic and legal subjects, and of the transformation of socialist relations of production in connection with the development of productive forces.

BY A SPECIALIST

The recent reforms in the economies of the Soviet Union and Eastern Europe are far from perfect, but they deserve some defense against the all-out attack of Sweezy and Huberman in the April 1965 issue of MONTHLY REVIEW.

(1) Why use profitability as a measure of the firm manager's performance? The reason lies in the very difficult problems that have arisen in using the fulfillment of the plan as the only indicator of performance. In the first place, managers have often tried to get lower plan assignments by understating their firm's capacity. Second, there has been a very serious problem of poor quality goods, since the manager is not penalized for poor quality if he meets the physical volume target. Third, managers have little incentive to overfulfill the plan by much because then next year's target will be raised. Fourth, managers have little incentive to try to introduce new technology because it risks losing bonuses while the change-over is made, and because the plan target will be raised after the change-over is made. Fifth, managers pay little attention to cutting costs, and often spend excessive amounts
in wasteful ways, because the bonus depends on meeting the target with very little deduction for excess spending. Many other problems in the old system could be mentioned, but these are enough to explain why the manager is asked to concentrate on profitability in the future.

(2) But won't a bonus system for workers and managers based on profitability of the firm lead in the direction of a bourgeois psychology? It is hard to see how any psychology could be more bourgeois than the methods enumerated above for getting bonuses under the old system.

(3) Why is it introduced now? Because the socialist economies are moving into a much more advanced stage of development. Purely central planning is much easier in a simpler, less-developed economy. Czechoslovakia, for example, maintains that central planning did bring it a rapid development in the very obvious tasks of the immediate postwar period. But in 1963 the national product of Czechoslovakia (the most economically advanced of the East European countries) actually fell, and they attribute much of this fall to the inaccuracy of central planning. They feel the economy will grow much more rapidly with many more day-to-day decisions left to the workers and managers on the spot, with their performance judged by the over-all indicator of profitability.

(4) Is this a step in the Yugoslav direction? Certainly, but Yugoslavia is also moving back toward more central control of some things—for example, central control of prices. Even in Yugoslavia, no one gets a share in profits except according to his work in the enterprise. And no one in the other countries is proposing to turn the firm over to workers' councils, but to keep central control by appointing the managers and by other more indirect controls.

(5) Does this detract from central planning? On the contrary, the argument is that the planners will be freed from so much detail in order to concentrate on long run plans, especially investment planning.