

# ECONOMIC CALCULATION AND MOTIVATION

## the Case for Collectivism

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According to the prevailing wisdom, a collectivist economy cannot perform efficiently and rationally.<sup>2</sup> This view is reflected both in economic theory and in the conclusions that most people have drawn from the experience of the eastern bloc. The purpose of this paper is to challenge this orthodoxy and also to argue that a genuinely collectivist economy would perform better than a capitalist one.<sup>3</sup>

I begin by disputing the view that only capitalism can employ rational economic calculation to allocate resources efficiently.<sup>4</sup> This entails refuting the notion that collectivism requires excessive central direction of the economy and that the price mechanism requires the presence of market relations. In the course of this discussion, I re-examine the Lange model

1 This is a revised version of a paper presented to the Economic Society of Australia Conference, Adelaide, 1989.

2 The word 'collectivism' is meant to convey the same meaning as the original usage of 'communism'. The former word is favoured simply because of the latter's association with the police state regimes in the eastern bloc. The essential feature of collectivism, at least for our purposes, is that the means of production (ie, intermediate inputs) are collectively owned. The term 'socialism' is also used. For Marxists this refers to an immature or transitional stage of collectivism where many of the old features of capitalism still remain. However, the characteristics and problems of this phase are not discussed.

3 Our attention will be confined to the 'microeconomic' as apposed to the 'macroeconomic' aspects of this claim. In other words, I do not take account of capitalism's tendency to generate unemployment and crises.

4 An economy is allocating its resources efficiently if the output of one good can only be increased by reducing the output of some other good (production efficiency) and if the output combination chosen from the possible alternatives better meets consumer needs than any other choice (consumption efficiency).

of decentralised socialism which has been the focus of most of the debate to date on the ability of collectivism to make use of the price mechanism and conclude that the model's weaknesses are reflections of its neoclassical framework rather than of collectivism as such. The argument that collectivism suffers from the absence of market incentives is countered by contending that the collectivist transformation of the relations of production would create a new driving force based on people wanting to work for the common good and on work becoming one of life's prime wants rather than an alienating drudge performed simply as a means to an income.

I then present the case for collectivism's economic superiority. This rests on the system's ability to make better use of the price mechanism than capitalism and the greater effectiveness of its driving force compared with market incentives.

The paper also looks at the implications for collectivism of the economic and social malaise in the eastern bloc. I argue that this situation does not reflect poorly on collectivism for the reason that these countries are not collectivist nor have they been in transition to such a system. This is reflected particularly in the continuation of the social division of labour and of social hierarchy, and the presence of governments committed to the preservation of these conditions. Finally the future prospects for collectivism are discussed and reasons offered for long term optimism.

## Collectivism and Rational Economic Calculation

### Does collectivism require excessive centralisation?

It is frequently argued that ownership by society of the means of production implies central direction of economic activity which in turn results in



inefficient and ineffective dissemination of information and decision-making. This view rests on the belief that communal property rights can only be exercised through some central authority acting as its representative.<sup>5</sup> I would argue, on the contrary, that a necessary and sufficient condition for the means of production to be collective property is simply that people treat them as such. In other words, they are the property of the collective if those using them or directing their use endeavour to employ them to maximise economic wellbeing.<sup>6</sup> A corollary of this is that collective property rights are attenuated or undermined to the extent that individuals who control the use of common property employ it for their own gain, at the expense of overall welfare. If this is the rule rather than the exception, eg as in the eastern bloc countries, collectivism can be said to exist in form but not in content.

The substitution of conscious coordination for the anarchy of the market does not mean centralisation of all decision-making either. What it does mean is a level of communication and coordination that cannot exist in the presence of market competition. For example, competition limits the ability of enterprises in the same industry or in industries producing substitutes to coordinate their investment decisions. As a result there is a greater need for blind ex post adjustment.

### **Does the price mechanism need the market?**

There is a strong presumption among economists that using the price mechanism to make decentralised resource allocation decisions automatically means the presence of markets. In other words the price mechanism is seen as synonymous with the exchange of private property rights.

5 A famous exposition of this view can be found in von Mises (1982: 112).

6 This of course is not the case in a capitalist economy where economic units endeavour to maximise profits and other forms of sectional gain. Only with the strong assumptions of the neoclassical model do the two objectives correspond. This issue is discussed at length later in the paper.

Hence, economic calculation is considered impossible in a collectivist economy where the transfer of output from one industry to another does not represent a change of ownership. This view stems from a confusion over the role of price as the rate at which commodities are exchanged and its role as an indicator of opportunity cost.<sup>7</sup> It is only the latter role that is required for the efficient allocation of resources. Lange expressed it this way.

'As Wicksteed has pointed out, the term "price" has two meanings. It may mean either price in the ordinary sense, ie, the exchange ratio of two commodities on a market, or it may have the generalized meaning of "terms on which alternatives are offered". Wicksteed says, "'price", then, in the narrower sense of "the money for which a material thing, a service, or privilege can be obtained", is simply a special case of 'price' in the wider sense of 'the terms on which alternatives are offered to us'. [Wicksteed, 1933: 28] It is only prices in the generalised sense which are indispensable to solving the problem of allocation of resources.' (Lange, 1938: 60)

The price mechanism as an indicator of opportunity cost (or 'the terms on which alternatives are offered') enables individual economic units to make efficient decentralised economic calculations and decisions. It aids efficiency by indicating the most valued use for resources.

'When any one decision maker uses a price in his accounting calculations, he is unconsciously taking into account the entire complex of consumer and producer evaluations that resulted in that price being what it is. Without some social institution such as price to connect the separate production decisions, the partially coordinated anarchy of production would degenerate into total chaos.' (Lavoie, 1985: 54)

'The choice of which ends to pursue and of which means to employ for the various ends is not simply a problem of engineering but is a problem of valuation. When deciding what industrial use to make of, say, a gasoline engine, it is not enough to learn

7 Opportunity cost is the cost of using a resource for a particular purpose expressed in terms of the value of that resource in its most highly valued alternative use. In the case of an auction the opportunity cost is the price you would have to outbid in order to walk away with the good.

that the engine yields so many ergs of physical energy from the burning of so many liters of gasoline. We also have to know whether to use the engine to pump water from a well or to propel a car that can transport workers to a coal mine. This decision depends on our prior assessment of the value of coal and water, which in turn depends on our need for each of these for other productive purposes. Consumer evaluations are imputed, via the price system, through a complex and continually changing structure of production, to producer evaluations of each higher order [ie, intermediate] good.' (Lavoie, 1985: 55)

To confirm the possibility of prices without markets one need look no further than the transfer prices used by capitalist firms in the *internal* allocation of resources. For example, the management of a car assembly plant will look at these prices when determining from which one of the company's gear box plants to order supplies.<sup>8</sup>

### The price mechanism in a collectivist economy

There is no great difficulty in conceiving how a collectivist economy could make use of the price mechanism. It can be illustrated as follows.

As already indicated, the means of productions must be the property of society as a whole. This means that transfers of production inputs between enterprises, industries or any other units of the economy do not involve a transfer of property rights. However, we will assume for the time being that there are markets for labor and consumer goods. These markets would disappear<sup>9</sup> if the connection between work and income were eventually broken.

8 For a discussion of transfer pricing see Kovac and Troy (1989).

9 This can be appreciated if we understand that markets involve the exchange of one property right for another, a fact obscured by money dividing the process into two separate actions. If workers receive a wage in return for transferring property rights over their labor power to the collective and this wage is used to purchase consumer goods, one can then talk about markets for labor power and consumer goods. If, however, workers receive an income independently of work performed, it is not mediating an exchange of labor power for consumer goods and there is no longer a market for either of them.

Enterprises or industries endeavour to minimise costs on the basis of their knowledge of the alternative technologies and the prices of potential inputs. They are free to set prices to cover production costs plus whatever charge is needed to ration the good to its most highly valued use in the case of excess demand. Users of the good are free to express their willingness to pay which is determined by an assessment of the demand for their product and the costs of substitute inputs.

Ideally, economic efficiency and the welfare of consumers is best served by producers producing up to the point where marginal cost equals average revenue or marginal benefit. In other words they keep producing as long as someone is willing to pay the cost of additional units. However, this picture is complicated by the presence of fixed costs unrelated to the level of output. These include depreciation on plant that will be technologically obsolete long before it actually wears out, research and development, plant set-up costs and many management costs. Ideally, fixed costs should be covered by a different charge on each user based on willingness to pay, while price per unit would remain equal to marginal cost. The practicality of such an arrangement would vary from one industry to another. Suffice it to say that a collectivist economy would be in no way more constrained than a capitalist economy in its choice of cost recovery measures. In fact it would have a greater range of 'second best' options given that the books only have to balance at the economy wide level rather than at the firm level in a capitalist economy.

The price mechanism applies as much to durable means of production as to variable inputs such as raw materials. Economic organisations hire the former from supply agencies for a rental that reflects the opportunity cost of their use. And the supply of investment funds (centrally determined) is also rationed to their most valued uses.<sup>10</sup>

10 The orthodox economic wisdom is that this rationing should be achieved by charging a rate of interest. An alternative view holds that it should be achieved by pushing up the costs of projects by increasing wages until all excess demand for investment funds is choked off. Investment funds could come from the profits of inframarginal (ie low cost) enterprises and the profits of marginal enterprises where there is excess demand for their product. They could also come from a non-distorting head tax on the adult population. Their may also be a role for individual savings.

The position in the economic hierarchy where a resource allocation or price setting decision is made may in many cases be very different from where it is made in a capitalist economy. The removal of ownership barriers will allow some decisions to be more effectively assigned to a higher level. Other decisions will be more effectively made at a lower level given that the changes in the relations of production discussed later in the paper will mean that trust can be placed in the 'lower orders'.

### **The Lange model**

Oskar Lange's 1938 model of decentralised socialism has been the focus of most of the discussion to date on the ability of a collectivist economy to make use of the price mechanism.<sup>11</sup> It is a collectivist parallel to the perfectly competitive equilibrium model of neoclassical economics. The model has collectively owned industries and enterprises that act like the atomistic firms of the competitive model in that they equate marginal cost with a parametric (ie given) price. And prices are set in a way comparable to the Walrasian auctioneer, by a Central Planning Board observing the movement of supply and demand.<sup>12</sup>

This mirroring of the neoclassical model has created a number of openings for attack by economists of the Austrian school such as Hayek. Unfortunately in these Austrian polemics a lot of the problems of Lange's neoclassical framework are seen as problems necessarily faced by a collectivist economy as such. The criticisms have concentrated on the centralised method of price adjustment and the inability of such a collectivist economy to accurately assess costs and to function without market incentives. These issues are discussed in turn.

11 For recent reviews of the debate on the Lange model see Lavoie, 1985 and Keizer, 1989.

12 The parallel is not total in that the trial and error process undertaken by the Central Planning Board allows 'false trading' at disequilibrium prices whereas the Walrasian process does not.

*Centralised price adjustment*

While the price of consumer goods and labor power are market-determined, intermediate inputs (ie means of production) are set by the Central Planning Board which acts like an auctioneer.

'Let the Central Planning Board start with a given set of prices chosen at random. All decisions of the managers of production and of the productive resources in public ownership, and also all decisions of individuals as consumers and as suppliers of labor are made on the basis of these prices. As a result of these decisions the quantity demanded and supplied of each commodity is determined. If the quantity demanded of a commodity is not equal to the quantity supplied, the price of that commodity has to be changed. It has to be raised if demand exceeds supply and lowered if the reverse is the case. Thus the Central Planning Board fixes a new set of prices which serves as a basis for new decisions, and which results in a new set of quantities demanded and supplied. Through this process of trial and error equilibrium prices are finally determined.' (Lange, 1938: 86)

Hayek pointed out that such a representation of price adjustment abstracts from the very means by which prices are actually set by participants in the real market place. As a result he argues that centralised price setting would have the following shortcomings.

(1) It would be slower.

'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. How great the difference in this respect would be between a method where prices are currently agreed upon by the parties of the market, and a method where these prices are decreed from above, is, of course, a matter of practical judgement. But I find it difficult to believe that anybody would doubt that in this respect the inferiority of the second method would be very great indeed.' (Hayek, 1949: 188)

(2) There would be less price differentiation on the basis of quality and circumstances of time and place.

'That the price-fixing process will be confined to establishing uniform prices for classes of goods and that therefore distinctions based on the special circumstances of time, place, and quality

will find no expression in prices is probably obvious. Without some such simplification, the number of different commodities for which separate prices would have to be fixed would be practically infinite. This means, however, that the managers of production will have no inducement, and even no real possibility, to make use of special opportunities, special bargains, and all the little advantages offered by their special local conditions, since all these things could not enter into their calculations. It would also mean, to give only one other illustration of the consequences, that it would never be practicable to incur extra costs to remedy a sudden scarcity, since a local or temporary scarcity could not effect prices until the official machinery had acted.' (Hayek, 1949: 193)

(3) It would be impractical in the case of one-off or non-standard products.

'Wherever we have a market for a fairly standardised commodity, it is at least conceivable that all prices should be decreed in advance from above for a certain period. The situation is, however, very different with respect to commodities which cannot be standardised, and particularly for those which today are produced on individual orders, perhaps after invitation for tenders. A large part of the product of the "heavy industries," which, of course, would be the first to be socialised, belongs to this category. Much machinery, most buildings and ships, and many parts of other products are hardly ever produced for a market, but only on special contract. This does not mean that there may not be intense competition in the market for the products of these industries, although it may not be "perfect competition" in the sense of pure theory; the fact is simply that in those industries identical products are rarely produced twice in short intervals; and the circle of producers who will compete as alternative suppliers in each instance will be different in almost every individual case, just as the circle of potential customers who will compete for the services of a particular plant will differ from week to week.' (Hayek, 1949: 180)

These are certainly powerful criticisms of centralised price fixing. However, there is no logical reason why a collectivist economy should be constrained to follow Lange's model in this regard. There is nothing inherent to collectivism that would prevent an enterprise, division of an enterprise, industry or any other economic unit from putting in a bid for an input on the basis of its assessment of demand for its product and the relative costs of substitute inputs. By the same token there is nothing to prevent the same organisations quoting prices for the goods they produce

on the basis of their knowledge of costs. This in itself does not require competition in the market or capitalist sense. Nor does it require the exchange of private property rights.

### Determining costs

Another neoclassical feature of the Lange model is that costs and technologies are given. In reality these have to be discovered by participants in the economy. According to Lavoie (1985), discovering the best way of doing something is a trial and error process that requires numerous competing individuals or enterprises exploring different approaches. The suggestion is that a collectivist economy could not do this.

'Rival producers under capitalism may contend with one another about what factor combination is more likely to promise success. Where capital ownership is dispersed, the accrual of money profits acts as a signal to guide production toward "better" factor combinations. Where capital ownership is common, all decision-makers are part of a joint project and thus cannot contend with one another in this manner.' (Lavoie, 1985: 160)

This can be disputed for a number of reasons. Firstly, in a collectivist economy most products would continue to be produced by multi-plant industries. Different methods could be tried with the best being selected. Secondly, diversity could be created if necessary. For example, a number of teams could be established (or could establish themselves) to prepare different proposals for a particular project. Thirdly, there will tend to be more brains looking at the same problem if you break down the the division between intellectual and instrumental labor. Collectivism's superiority in this area is discussed later in the paper.

Hayek argues that it is not enough to simply instruct industries and enterprises to minimise costs and equate price with marginal cost. (Hayek, 1949: 167-170) Costs, he argues, are not something that can be determined internally simply by consulting the accounts. Replacement or opportunity costs of inputs are what matter rather than historical costs. And the present charge for depreciation on plant depends on demand for the product in the future. While it is instructive to point out that the determination of costs is not simply a book-keeping exercise, this argument is knocking down a straw man. There is no reason for believing that

collectivists enterprises or industries need be constrained in their choice of methods of measuring costs.

Hayek also expresses concern about only covering marginal costs and not fixed costs.

'If rational disposition of resources is to be attempted, and particularly if decisions of this sort are to be left to the managers of the individual industry, it is certainly necessary to provide for the replacement of the capital out of the gross proceeds of the industry.....' (Hayek, 1949: p169)

Lange's failure to discuss fixed costs is one more reflection of his neoclassical framework. However, as mentioned above, a collectivist economy would be less constrained than a capitalist one in its choice of cost recovery measures.

Hayek argues that the role of profits as a part of the adjustment mechanism is denied if price is equated with marginal cost (1949, p170). He points out that profit acts as a signal to draw resources into an industry when there is excess demand. Profits are absent in the Lange model because it assumes equilibrium conditions. In equilibrium, production capacity for every product has settled at a level which is fully utilised when the price equals marginal production cost. However, out of equilibrium goods may be either in excess demand or supply, in which case prices will need to be either above or below cost in order to ration or dump output.<sup>13</sup>

Once again this limitation of the Lange model is not something with which collectivism has to be burdened. Profits would exist in the case of infra-marginal (ie low cost) enterprises or where there is excess demand for the good relative to current capacity. What is different from a market economy is that these profits do not contribute to the income of individuals connected with the enterprise.

13 Of course if we use the concept of opportunity cost rather than production cost, the efficient price of a product will always equal marginal cost, because cost has been defined to mean the valuation placed on the product by the extra-marginal user, ie the user who just misses out.

*Market incentives*

The most important criticism of the Lange model and of collectivism generally is that economic calculation comes to nothing in the absence of market incentives. It is argued that these are necessary to ensure that enterprises and individuals properly employ price information to minimise costs, transmit correct information when setting their own prices and ensure the development of new more productive technologies and products that better cater to consumer needs.

'To assume that it is possible to create conditions of full competition without making those who are responsible for the decisions pay for their mistakes seems to be pure illusion. It will at best be a system of quasi-competition where the person really responsible will not be the entrepreneur but the official who approves his decisions and where in consequence all the difficulties will arise in connection with freedom of initiative and the assessment of responsibility which are usually associated with bureaucracy.' (Hayek, 1949: 175)

Economic calculation certainly needs a motivational underpinning, but does it have to be market incentives? This question is addressed in the next section.

## **The Driving Force of Collectivism**

Collectivism is seen by its advocates as the transformation of the human condition, an end to the alienation of present class society. This has a number of implications for work motivation. Firstly, conditions are such that people would wish to work with others in a cooperative fashion for the common good, without the need for extrinsic reward. And secondly, work becomes an end in itself. No longer is the activity that makes humans different from animals degraded to simply being a means to obtaining the animal necessities of life.<sup>14</sup> These two aspects are discussed in turn.

14 For a discussion of this point and human alienation generally see Marx (1977: 66-80).

### **Working for the common good**

Working for the common good is essential to the nature of collectivism and to the means of production being put to the benefit of its owners, the collective. It depends on the appropriate ideological and behavioural environment and an organisational structure and transparency in decision-making that makes individual or group appropriation difficult or unlikely. It would be encouraged by the following:

- The development of an awareness that the individual's self-fulfillment cannot be separated from the self-fulfillment of others, and that cooperation is a matter of enlightened self interest rather than self denial. This means breaking from crass self-seeking that stems from alienation.
- The elimination of a host of incentives that stand in the way of serving the common good. In a market economy the interests of the individual are placed at odds to the general interest. For example, innovators are rewarded for restricting access to their new product or process, enterprises are rewarded in the market place for ignoring the external costs of pollution that they impose and individuals gain promotions in hierarchical organisations by working against each other rather than cooperating for a common purpose.

### **Labor as an end in itself**

Work becoming an end in itself - a source of utility - will be made possible by automation eliminating the need for most menial labor, by the elimination of the oppressive and rigid work environments that capitalism requires to supervise an unwilling and alienated work force (including the hierarchical social division of labor) and by the fact that work serves the common good rather than the self interest of executives and shareholders.<sup>15</sup>

## The Greater Efficiency Of Collectivism Over Capitalism

These twin elements of the driving force of collectivism would enable such a system to be more efficient than capitalism. Maximising profit or sectional gain cannot match maximising economic welfare. And workers who are alienated from the means of production and experience work simply as a means to an income cannot be as productive as liberated workers who are no longer shackled by the social division of labor and who experience work as an end in itself. These two aspects are discussed below.



### Maximising economic welfare vs maximising returns from private property

The divergence between maximising economic welfare and maximising personal gain tends to be blurred. We are constantly reminded how the 'invisible hand' of self-seeking by entrepreneurs in the market place leads

- 15 While the functional or technical division of labor is necessary, the social division of labour is not. In other words, while efficiency may require a specialised production process for gear boxes, this does not mean that given individuals have to spend all their working time in this area of activity or that the tasks within this activity have to be allotted in such a way that only some people get to perform the interesting and challenging ones. In a similar vein the technical hierarchy in the economic and political organisation of society does not require a hierarchy of people. See Devine (1988: chapter 7) for a discussion of these distinctions.

to consumer needs being met. While acknowledging the extent that this is true, especially when assessing bureaucratic interventions in the market, the fact remains that the divergence is still quite dramatic.

The divergence is better appreciated if we recognise that market relations are not about efficient economic calculation but rather strategic or opportunistic behavior by possessors of private property rights. The welfare of individuals hinges on the type and quantity of property rights they have to exchange and the bargain they can strike in the exchange process. The need to strike the best bargain (ie maximise profits or other personal gain) leads to various forms of strategic or opportunistic behavior that distorts the price mechanism and economic calculation generally.<sup>16</sup> The following examples come to mind.

- The most well known price distortion stems from the fact that many values are not reflected in the market. This is the renowned 'externality' problem. It is particularly important because these values include the environment, research and development and the dissemination of knowledge. The importance of conserving the environment needs no comment. The latter two are also becoming increasing problems because as automation progresses a growing proportion of work will be taken up with such activities. Suggestive of the failure in this area is the fact that a disproportionate amount of technical innovations are spinoffs from government sponsored military and space programs.

16 In this context it is perhaps appropriate to say something about "market socialism". In such a system collective ownership is purely nominal. The means of production and output are effectively private property that can be exchanged for personal gain. Production is not for the common good but for the benefit of "socialist managers". It is capitalism with another name. Interest in "market socialism" has been rekindled by Alec Nove (1983). Contrary to what I argue in this paper, Nove thinks that decentralised resource allocation decisionmaking necessarily requires a market exchange (Nove, 1983: 226). He also believes that we are stuck with the social division of labour (Nove, 1983: 197). If he is right then anything he describes as feasible can scarcely be described as socialist or collectivist! Lange's model is frequently described as "market socialist". However, he never used the expression and makes no mention of enterprise managers or anyone else gaining from the outcome of transactions.

- Strategic behavior between contractual parties where there is contract specific investment may lead to one party taking advantage of the other. The threat of this can lead to inefficient vertical integration in order to avoid the problem.<sup>17</sup>
- There is always a temptation to communicate false information about one's product, or at least not be fully open about it. This makes it difficult for users to place a correct valuation on the product.
- Efforts to increase the market value of one's property rights may take the form of lobbying government for measures such as price-distorting subsidies and import duties or regulations that increase market power. These government interventions which orthodox economists criticize are endogenous to market relations rather than being external impositions. In other words 'government failure' is a form of 'market failure'.
- In a competitive environment, preserving or increasing the value of one's property rights leads to secrecy and limits on cooperation. Firms do not share experiences with, or pass on innovations to, their competitors. They are also secretive about future investment and product development plans. This results in the suppression of both technical information and information about expected future costs and demand. This information is particularly important for investment decisions.
- Capitalists will not encourage the development or use of new processes and products that devalue their existing plant and equipment. Buying up and sitting on patents is a classic reflection of this.
- The extraction of what Marx called surplus value leads to two price distortions. Firstly, there is the distortion in the 'market' for leisure. If workers received the full value added rather than having to 'share' it with capitalists, they would make different work/leisure decisions to what they currently do. This can be appreciated if we

17 This is a subject dealt with at length by Oliver E. Williamson (1986) who, however, sees the resulting vertical integration as optimal given "transaction costs".

see that the hourly wage rate is the 'price' of leisure - it is what you have to forego when you reduce the working week by an hour. On the one hand leisure is a luxury good that workers will have a higher demand for at any given price as their income increases (the income effect). On the other hand an increase in the wage rate represents an increase in the price of leisure - the income foregone from an hour less work is increased (the substitution effect). Both these factors will work in different directions. Whether workers would prefer to work more or less than they would with capitalists taking a cut will depend on which of these two factors predominates.<sup>18</sup>

Secondly, there is a distortion in the relative cost of labor and capital. Because capitalists only have to incur the wage cost rather than pay for the total value added created by labor, there is a tendency to adopt methods of production that are more labour intensive than the optimal. They are not comparing quantities of living labor with 'dead' embodied labor. At the margin, the productivity of living labor should be the same as the labor embodied in the machine. However, what the capitalist compares is the marginal productivity of a dollar spent on living labor with a dollar spent on embodied labor. The labor in capital has to be fully paid for whereas the living labor is only paid for at the wage rate.

- Capitalists with any market power can also extract a rent from consumers that leads to an inefficient restriction on the production and consumption of the good concerned. This rent extraction can also lead to unemployment if it restricts the use of excess plant capacity.

### Greater productivity from liberated labor

Under conditions where work has become an end in itself productivity would tend to increase as creativity, enthusiasm and self-confidence become the rule rather than the exception . This would be accompanied

18 In a collectivist economy one would expect that the preference for leisure would be greater than it is at present. In a society where people are "socially whole" rather than stunted by the social division of labour, considerable time would need to be devoted to a whole range of civil, intellectual and cultural activities that are presently the realm of a minority.

by the elimination of the whole oppressive structure that capitalism imposes on the labor process in order to supervise unwilling wage slaves. This oppressive structure:

- devours an enormous quantity of resources in supervision;
- works against innovation (you need permission to depart from existing practice);
- ossifies organisational forms because too many people have a career interest in retaining the current hierarchy;
- causes inefficient separation between intellectual and menial labor (ie between thinking and doing) because of their different monitoring and reward structures; and
- leads to the adoption of otherwise inferior techniques of production because supervision is easier.

With people performing well in their work because they want to, it will be possible to do away with rewards for performance.<sup>19</sup> Such *extrinsic* rewards can never motivate people to perform a task as well as they would from simply wanting to do it for its own sake. Reward systems also tend to have perverse effects. A reward for individual effort may undermine teamwork which is generally an important aspect of most tasks. A worker may sabotage someone else's efforts if doing so improves the assessment of their own performance. If rewards and status depend on how well you do a task, workers will not be keen to develop or embrace new methods that push them back down the learning curve. There is a whole management literature on these kinds of problems. In economics it is touched on in the principle-agent literature.

19 This should not be confused with the payment for hours worked which equates society's demand for labor power with individuals' relative preference for work and leisure. This may involve different levels of payment for different kinds of work depending on supply and demand conditions.

## The Eastern Bloc And The Future Prospects For Collectivism

An assessment of the experience of the eastern bloc has to be central to any discussion of the relative efficiency of capitalism and collectivism. If these countries have been collectivist over the last few decades, the game is up. Their appalling economic performance (together with their other perverse characteristics) would be practical proof of collectivism's failure. However, I would argue that there are good reasons for not characterising them as collectivist.

In all cases social ownership of the means of production is purely *de jure*, a formal empty shell. They are effectively private property as high officials either deploy enterprise resources directly for their own benefit (eg limousines and materials and labour for the production of mansions) or to achieve outcomes that will lead to their receiving larger bonuses and other perquisites. Industries act like monopolies towards their customers and costs are excessive.

There is the same stunting social division of labour that you find in the West. There is a handful of bosses and millions of menials. There is a minority with relatively satisfying jobs and a majority with boring and disempowering ones. The higher skills such as communication, organisation and powers of abstraction are still confined to a minority, as are involvement in social, political and cultural life.

The picture is obscured by the retention of certain outer trappings of collectivism. Marxist rhetoric has been a source of legitimacy and possibly a matter of self-deception. And it has been easy to dress up state ownership as collectivism because of the poor level of understanding of the nature of such a system.

This combination of essentially capitalist social relations and residual outer forms of socialism, such as *de jure* public ownership, is at the heart of the gross economic inefficiency found in these countries. While any collectivist motivating force could not possibly emerge in these conditions, the 'empty shell' of socialism impedes the effective use of market incentives.

Western (and a lot of eastern) commentators are right when they argue that a return to greater use of market or profit incentives would be an

improvement on the current situation. If a system is going to be driven by financial incentives it should be on the basis of profits rather than any other performance indicator. The literature on eastern bloc economies is replete with horror stories of how their financial incentives work.<sup>20</sup> The following examples stand out. If enterprises receive bonuses for reducing costs, this leads to the development of products with redundant components or processes. These are then progressively discarded, hence registering a cost reduction in each successive accounting period. If rewards are based on meeting value targets enterprises will maximise the cost of producing a given output. And then of course there is the apocryphal giant nail produced to meet a target set in tonnes.

The uncollectivist features of the eastern bloc should not be seen as legacies of capitalism in a society that was otherwise undergoing a gradual process of collectivist transition. The governments and ruling parties simply have had no interest in such an agenda. They have been composed exclusively of careerists intent on scrambling up the existing hierarchy for personal gain. With glasnost and perestroika many have even stopped pretending to be communists. The whole system, with its entrenched, traditional career structures and elitist education, reinforces the traditional social division of labour.<sup>21</sup> And there is no mass movement amongst the populace at large that wishes to pursue collectivist changes; Marxism and communism have been totally discredited in their eyes.

Of course showing that these countries are not collectivist is not the end of the matter. We are still left with the question of whether the failure to date of the collectivist revolution casts doubts on it ever being achieved. Does it confirm that there is something in 'human nature' that presents an insuperable obstacle? And if collectivism is unachievable, it becomes a rather futile academic exercise to prove that it would be a more efficient system.

There are, however, good reasons for not drawing excessively negative conclusions from the eastern bloc experience. To begin with most of the

20 See Wilczynski (1973) for a discussion of these.

21 This is a point emphasised by Bahro (1983).

countries were backward and not ready for the changes that history had thrust upon them; their economies were based on small scale agriculture and only yesterday their populations were grovelling to feudal lords. In many of these countries socialism was established by the Soviet Red Army at the end of World War II rather than by a viable homegrown revolutionary movement. Furthermore, the revolutionary movements had limited experience to draw on; and there was inadequate appreciation of how socialist revolutions could stall and go into reverse and the need to combat such a process.

Given that we are referring to what will be the most fundamental change of all time in the way that people behave and think, one should expect the road to be protracted, tortuous and full of reverses. The *Communist Manifesto* referred to such a change as follows:

'The communist revolution is the most radical rupture with traditional property relations; no wonder that its development involves the most radical rupture with traditional ideas.' (Marx and Engels, 1975: 59)

Change has always been protracted and tortuous. The transition from feudalism to capitalism took centuries to achieve and there were reverses in the process. France in the nineteenth century is a good case in point. After the revolution of 1789, the country had to endure over 80 years of Bourbon and Bonapartist restorations and democratic revolutions before popularly elected government became the norm.

Collectivists can also take heart from the fact that capitalism cannot avoid being seen as an increasing obstacle to human progress. This shows up in a number of ways, of which the following three stand out.

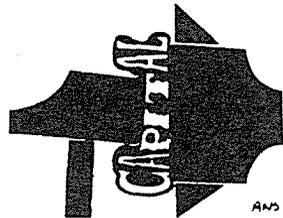
- Despite itself, capitalism is creating a population with an increasing range of abilities, that will find the straight jacket of the social

division of labour and authoritarian hierarchy progressively unbearable.<sup>22</sup>

- Capitalism is an increasing obstacle to innovation. With automation eliminating most menial tasks a growing proportion of human labour needs to be devoted to the research and development stage of the production process. However, the system copes badly in this area. Firstly, there is a tendency to underinvest in such activities because the firm cannot capture the spinoff benefits to society at large.<sup>23</sup> Secondly, competition leads to the concealment of technical know-how rather than its dissemination. Thirdly, the labour involved in research and development is difficult to supervise and hence requires people who are intrinsically motivated.
- The world economy is basically unstable and any future crisis will strengthen the case for collectivism.

## Conclusion

In a nutshell, the purpose of this paper has been to argue that collectivist relations of production will allow better use of the price mechanism and a more advanced motive force than that provided by market incentives. The case for capitalism is shown to be flawed where it is generally claimed to be strongest.



- 22 This claim cuts across the deskilling thesis that has been popular in the left. According to the latter view, all the old skills are being eliminated and the working populace reduced to a deskilled mass. The contrary view holds that capitalism is removing all the old craft skills that narrowed workers' horizons and is developing a workforce with more generalised and flexible abilities that will make them fit to rule without the 'aid' of an elite. See Braverman (1974) for the deskilling thesis and Adler (1985) for the opposite view.
- 23 This problem is discussed extensively in the economic literature on 'market failure'.

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