

Market Mania Of The Left

The crisis of the Soviet model and the rise of the radical Right in the West is forcing on the Left a major rethink of its attitude towards state and markets. **Pat Devine** argues that market socialism is not the answer

The acute crisis of the traditional socialist vision is now common currency among all but the blinkered Left and the process of rethinking has begun - in the Labour Party, the TUC, and not least in the pages of *Marxism Today*. However, as Stuart Hall has pointed out¹, rethinking won't get very far until we have clarified our views on the market and the state. So far the debate has been strong on the need for decentralisation and choice but weak, effectively non-existent, on economic planning and the extension of democracy. This weakness underlies the continuing inability of the Left to come up with a convincing approach to the central problem of how to run the economy.

Socialists used to believe that to run the economy efficiently and fairly required the replacement of private ownership of the means of production by social or common ownership. That was what made it possible to replace production for profit, and the anarchy of the market, by planned production for use.

This programme has historically been the bedrock of socialist belief but it is now suffering a crisis of credibility. The crisis has its origins in the experience of the statist system of command central planning in the Soviet Union and Eastern Europe and the breakdown of the postwar social demo-

cratic consensus in the UK and other West European countries.

In the Soviet Union, a critique of 'statist socialism' is developing. In the West, the view of socialism as involving more and more state ownership and control is in retreat. Yet if economic activity in a socialist society is not to be organised and run by the state, how is it to be organised? One response to this question has been to play down the role of state ownership in favour of other forms of collective ownership like producer co-operatives and local authority enterprises. Another has been to re-examine the traditional socialist approach to economic planning. Discussions of economic reform in Eastern Europe and China and attempts to rethink socialism in the West are increasingly tending to embrace some form of market socialism.

In this article I look, first, at the reasons why Soviet centralised command planning is in crisis and why the postwar social democratic consensus in the UK broke down; second, at the new right and market socialist responses to these developments; third, at the reasons why in my view market socialism is not the way forward; and, finally, at an alternative model of democratic planning through a process that I call negotiated co-ordination. The essence of the argument is that control over our lives cannot be gained through depoliti-

cising economic activity by the use of market forces; it can only be gained through the extension of democracy to enable collective participatory planning of the economic and social framework within which we exercise personal autonomy.

In the Soviet Union and the other statist countries planning decisions have been made by the party leadership. Decisions over the use of available productive resources have not been subject to democratic control, other than by periodic explosions of mass unrest, most notably in Poland. With the exception of Yugoslavia, workers have played no part in management. The principle of one-person management has been rigorously adhered to and attempts to form workers' councils have been everywhere suppressed. Workers have effectively been wage labourers and have behaved accordingly, seeking maximum income for minimum effort.

Soviet-style central planning has been based on the assignment to each enterprise of annual plan targets. These targets cover what to produce, how much to produce, and what to do with it. They also specify what material inputs can be used, from where these are to be obtained, and what labour can be employed. Targets are set by the planning authorities after discussion with the enterprises, and managers and workers receive bonuses related to the extent to which they are fulfilled. The planners try to ensure that planned output equals planned use, with the interdependent activities of enterprises co-ordinated so that they mesh.

At the theoretical level two problems have been identified as inherent in the system of centralised command planning: inadequate information and poor motivation. In complex modern economies it is impossible for central planners to have enough information about the local circumstances of enterprises, or the precise needs of users and consumers, to make sensible decisions about what should be produced and to react quickly to changes.

This problem is reinforced by the incentive system. Since people are rewarded for fulfilling their targets, it is in their narrow self-interest to understate the amount their enterprise is capable of producing and overstate the inputs they require to produce it, so that the targets assigned and the bonuses based on them are more easily obtained. Thus, the system suffers from information overload due to over-centralisation and information bias due to self-seeking motivation.

The problem of motivation has a further dimension. The hierarchic planning system and the incentive system based on plan fulfilment discourage initiative and reward conformity. The result is managerial inertia, poor innovation and generalised inefficiency. In the absence of political

and economic democracy workers are alienated and approach work instrumentally, while at the same time not being subject to the discipline of market forces and the threat of unemployment. No wonder shortage is endemic, quality low and attention to consumer satisfaction minimal.

Although fundamentally different from the statist authoritarianism of Soviet-style central planning, the paternalism underlying the postwar consensus in Britain also contained the seeds of eventual social deadlock and economic inefficiency and decline.

The consensus was based on wartime co-operation and the emergence of organised labour as a force that had to be incorporated into the running of the country, albeit as a junior partner. It united social democracy and one-nation Toryism.

There was agreement on three fundamental principles: that everyone was part of society, was a citizen; that the state had a responsibility to provide for the welfare of all its citizens; and that a mixed economy, combining private individual action with public collective action, was the best way to organise society. There was disagreement over the legitimate extent of redistribution from rich to poor and over the appropriate balance between private and public, but the disagreement was within the framework of the overall consensus.

Why did the postwar consensus break down? It operated through a process of tripartite negotiation between government, the unions and management, with major changes having to be agreed by all. During the long boom agreements could be reached that delivered something to each of the interests represented.

However, as the long boom came to an end and the international weakness of British capitalism was exposed this ceased to be possible. From the mid-1960s to the end of the 1970s, increasingly desperate attempts to use the state to reshape and modernise Britain's social and economic structure were frustrated by the veto of vested interests.

Although immediately following the war the consensus represented a stabilisation of British capitalism, in the longer run it was a threat to the viability and legitimacy of the system. The need to reach agreement on decisions about major change carries with it the danger of paralysis and ossification when the changes that become necessary start to threaten the interests of some of the groups represented in the decision-making process. The deteriorating international position of the British economy, together with cultural and lifestyle changes focused on aspirations for greater individuality and self-determination, made major changes of this sort inevitable.

The postwar consensus was based on passive acquiescence, not participatory political and economic democracy. People were not actively involved in taking and then carrying out the decisions that affected them, whether in the welfare state or in the workplace. What was needed to advance in a socialist direction was to democratise political and economic decision-making. However, this would have required a far-reaching redistribution of power and resources, and a major shift in popular consciousness - from defensive and oppositional to strategic and actively engaged with the problems of running social and economic life.

The Left had no perspective or strategy for transforming the old consensus among elite decision-makers into a new popular participatory consensus based on an understanding of the new economic and social realities. The outcome was the triumph of the new Right.

The new Right's response to the end of the postwar consensus has been to undermine the concept of collective responsibility for all citizens, to dismantle the process of tripartite negotiation, and to depoliticise economic decision-making. This is the basic purpose of the worship of the market, the private, the individual, in new Right ideology.

The discourse of the new Right is that of strong government and individual choice, the language of political authoritarianism and the market place. Democratic discourse, by contrast, is concerned with political pluralism and the self-governing institutions and processes of social life. In the absence of a convincing socialist alternative, the new Right, by stressing individual responsibility and choice at the expense of collective democratic decision-making, has been able to hegemonise popular discontent with paternalism and the widespread desire of people for control over their lives.

Under the impact of economic stagnation and social crisis in the Soviet Union, and the success of the new Right in the West, attempts to rehabilitate the socialist road have increasingly adopted market socialism as the way forward. The best known model of market socialism in the West is that of Alec Nove. Indeed, it is really the only model developed by a Western economist, a fact that highlights the extent to which market socialism, although frequently referred to, has not so far been seriously discussed. There is no significant body of work examining in detail what it might look like and what problems might be expected to arise. Even Nove's outline is silent on all the interesting and potentially difficult issues.

The term market socialism has been used in many different ways but essentially it refers to a system in

which market forces are combined with economic planning. It can be thought of as a system in which planning takes place by remote control, through government influence on the market forces to which socially-owned enterprises respond in pursuit of profit.

Its supporters argue that planning by the manipulation of market forces, unlike centralised command planning, enables economic decision-making to be decentralised and provides a safeguard against statist authoritarianism. However, they argue that the system is socialist, as opposed to managed capitalist, because enterprises are not privately-owned and therefore the exploitation and oppression associated with capitalism are avoided.

The arguments for moving beyond the traditional opposition of plan and market are powerful. Social control over production, shaping it to the fulfilment of social need, cannot be achieved by centralised command planning but neither can it be achieved by complete decentralisation. What is needed is a blend of centralised and decentralised decisions, with the balance between the two being determined by the nature of the activity involved. Decisions affecting the economy as a whole and the redistribution of resources between regions can only be made at the national level. Within specific regions and communities decisions should normally be taken by those living there, unless there are effects outside their boundaries. Decisions about job choice and personal consumption are in general best made by the individuals concerned.

The strength of the case for market socialism of some sort is that it emphasises the importance of decentralisation, flexibility, efficiency and the desirability of choice based on alternative sources of supply. In the Soviet Union and Eastern Europe there may also be a case for a limited role for the market in the process of overcoming bureaucracy and moving towards political democracy. However, in the West at the moment, and more generally as part of a vision of a self-governing democratic socialist society, I think the current vogue for market socialism is a mistake. In my view it reflects the hegemony of the new Right and represents not a necessary pessimism of the intellect but rather the wisdom of resignation.

There are three reasons for this judgement. First, the claim that it is possible to combine effectively planning and market forces remains an unsubstantiated act of faith. The policy instruments available for planning by remote control are the same as those that have been developed to manage capitalism - fiscal and monetary policy, foreign trade and exchange rate policy, urban and regional policy, competition and industrial policy, prices and incomes policy. In the West,

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these policies have so far been unable to overcome the instability and inequality historically associated with capitalist economies - unemployment, inflation, balance of payments problems, regional and personal inequality, and so on.

Perhaps more significantly, in the three statist countries that have introduced a wider role for the market - Yugoslavia, Hungary and China - these same problems have appeared. This suggests that the operation of market forces, irrespective of the other characteristics of the socio-economic system, may be inseparable from instability and inequality.

The second reason why market socialism is not the answer is that its very strength in comparison with central command planning, which is that it removes dependence on hierarchical superiors in the planning structure and gives autonomy to enterprises, turns out to be double-edged. Coercion from above by administrative command is replaced by the coercion of impersonal market forces. The operation of market forces inevitably discriminates between enterprises, favouring some over others. That, after all, is the case for market forces; it is how they are supposed to work. Sometimes the discrimination will be due to factors within the control of enterprises, like differences in efficiency or in attention to customer needs, but sometimes it will be due to factors beyond their control, like the development of new technologies or changes in the pattern of demand.

The outcome of market forces, for whatever reason it occurs, will inevitably appear arbitrary to some enterprises, to those who work in them and to the communities in which they live. People never accept the unfavourable outcome of impersonal market forces if they can do anything about it, nor should they. The wrong conclusion has been drawn from the adverse experience of command planning and statism. An economy is an interdependent system. Market socialism is an attempt to depersonalise and depoliticise the economic relationships of interdependence. However, in my view, instead of seeking to depersonalise that interdependence, socialists should be seeking to democratise it, so that people can move towards a self-governing society based on conscious, uncoerced co-operation.

The third, and principal, reason why market socialism is a blind alley is that it reinforces, rather than seeks to transform, self-interested consciousness and motivation. It seeks to harness narrow self-interest, not to supercede it, and in doing so it reproduces it. No less than Soviet-style command planning, the coercion of market forces, whether capitalist or market socialist, reinforces and reproduces alienation. In both cases workers in enterprises experience powerlessness and non-

involvement in relation to crucial decisions that affect them. This remains true even if there is participation by workers in enterprise level decision-making. The way in which the inevitable interdependence between the enterprise and the rest of the economy makes itself felt is still beyond their influence.

Thus, in market socialism, as in capitalism and command planning, people are treated instrumentally, as objects to be manipulated by carrot and stick incentive systems that necessarily reinforce narrowly self-interested consciousness. There is no dynamic encouraging people to transform themselves in the direction of becoming self-activating subjects.

Moreover, if people are encouraged to pursue their narrow self-interest in the economic sphere they must be expected to do the same in the political sphere. This gives rise to a paradox. State intervention and regulation develop in order to deal with the adverse consequences of narrowly self-interested economic behaviour. Yet few areas of self-interested behaviour are as well-documented as the struggle of vested interests for favourable treatment from the state - special pleading for subsidies or protection from foreign competition, lobbying for defence contracts, the EC's Common Agricultural Policy, US experience of the capture of regulatory agencies by the enterprises they are supposed to be regulating, and so on.

Sooner or later the resulting inefficiency, inhibition of change and tendency towards stagnation produce a reaction against state intervention and a rediscovery of the alleged virtues of self-interested behaviour and the market - the very situation out of which the new Right and Thatcherism emerged.

In order to redefine and revivify the socialist vision, to challenge the hegemony of the new Right and change the terms of the debate, we have to start from what is wrong with the statist version of socialism and develop an alternative. If, as I have argued, market socialism is not a viable or desirable alternative, what is?

Socialism must be about meeting people's needs, whatever else it is about, and in the end people have to decide what their needs are themselves. The way forward is to develop a set of institutions and processes through which people are consciously involved in taking the decisions that affect them. Through participation in decision-making people become aware of their interdependence and have the opportunity to relate their interests to those of others and, if persuaded of the need, to modify them accordingly. Fully developed participatory democracy, or a self-governing society which is the same thing, has a transformative dynamic. It involves people in together defining their collective

and individual needs and then acting together to fulfil them.

A possible model for the economic organisation of such a self-governing society is a process of what I call democratic planning through negotiated co-ordination'. At the level of the economy as a whole decisions have to be made about the broad allocation of society's productive capacity between different uses - between investment and consumption, collective and personal consumption, different regions, and so on. These decisions are necessarily taken by the government and representative assembly but at the moment are subject to little serious public discussion or social control. One way of increasing participation in such macro-economic decision-making would be to focus the discussion around a limited number of 'plan variants', drawn up by a planning commission, which would set out realistic alternative policy packages based on different values and priorities.

The macro-economic decisions taken in this way about investment, social provision and personal income distribution would, as now, be implemented through the distribution of purchasing power in the economy. For example, the funds available to social bodies responsible for services like education and health would reflect the social priority given to them. Similarly, the distribution of personal income would reflect among other things the priority given to movement towards greater equality.

The result would be a structure of demand for goods and services that represented the collective and individual preferences of society. Enterprises would then compete to supply what was demanded.

What has been outlined so far involves market exchange, with customers choosing between the output of different enterprises and enterprises making use of their existing capacity to meet customer demand.

It is important to distinguish between market exchange and market forces. Market exchange consists of buying and selling. It generates information about what customers want and the extent to which different enterprises are supplying it. It is concerned with the use of existing productive capacity. The operation of market forces, however, is concerned with the process through which changes in productive capacity occur, with the movement of resources between enterprises and industries, with investment and disinvestment.

The changes in capacity brought about by investment and disinvestment need to be co-ordinated with one another. In command planning systems this co-ordination is undertaken, at least in principle, by the centre and enterprises are instructed when to expand or contract. In systems based on market forces investment decisions are taken independently by each enter-

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prise. If too much capacity is installed profits will be low and some enterprises will contract or leave the industry. If too little capacity is installed profits will be high and existing enterprises will expand or new enterprises will enter the industry. Thus, market forces co-ordinate investment decisions after they have been implemented, through the push of low and the pull of high profits.

Market exchange is a central feature of the model I am proposing but it is obviously not unique to it. The unique feature of the model is its rejection of both central command planning and market forces as the way of co-ordinating investment decisions. By contrast with these coercive methods, investment decisions in the model are co-ordinated through a process of negotiation between enterprises and other affected interests in what I call negotiated co-ordination bodies.

How would this work? Would it be efficient? How would restructuring occur? These questions can be addressed from the standpoint of the adequacy of the information that would be available and the motivation that would determine how the available information would be used.

First, enterprises would be run by a governing body consisting of representatives of all the groups affected by its activities. Those affected clearly include the enterprise's workers, but they also include customers and suppliers, competing enterprises, the communities in which the enterprise is located, and groups concerned with equal opportunities, environmental issues, and so on. Thus, self-government by those affected at the level of the enterprise is not the same as worker control. However, the internal operation of the enterprise, within the guidelines set by the governing body, would be on the basis of worker self-management.

Second, decisions on investment within an industry would be made by the negotiated co-ordination body for that industry, which would again consist of representatives of those affected by the decisions. All the enterprises in the industry are obviously affected, since decisions on investment and disinvestment determine whether an enterprise expands or contracts. However, those affected also include major purchasing and supplying industries, other customers (social bodies and individuals), local communities and regions, and again groups such as those concerned with environmental issues.

Negotiated co-ordination bodies would have available to them two sorts of information. First, there would be the quantitative information about how each enterprise had performed in making use of its existing capacity. This would take the form of revenue from sales, production costs, and profitability as the difference between the

two.

Second, there would be qualitative information consisting of the views of the groups represented on the negotiated co-ordination body and estimates from the planning commission of any major changes expected in the demand for the industry's output. Negotiated co-ordination bodies would have to decide on whether any change in their industry's capacity was required and then on the distribution of the change between the different enterprises.

In deciding on where changes in capacity should occur, on the distribution of investment, negotiated co-ordination bodies would take into account both the overall interest, represented by the quantitative data on the performance of each enterprise, and the detailed interests of those most directly affected, as expressed by their representatives on the negotiated co-ordination body.

For example, if a relatively poor performance by an enterprise in an area with restricted employment possibilities was due to factors beyond its control, long-term subsidies might be agreed. If, on the other hand, the poor performance was due to factors within the enterprise's control, it might be offered subsidies for an adjustment period but no longer.

Thus, the interaction of quantitative and qualitative information would enable the social interest in each case to be decided on the basis of both system-wide and local knowledge, consciously integrated by representatives of those affected. The model incorporates market exchange and makes use of the information generated by it. However, it rejects the use of market forces and the fragmented and atomised decision-making through which they operate in favour of the co-ordination of decisions through negotiation and agreement between those affected by them.

What of the motivation of those making the decisions? Might they not conspire to further their vested interests at the expense of the overall social interest? Moreover, even leaving aside such narrowly self-interested behaviour, people understandably tend to think that what they are doing and know about is particularly important, perhaps even more important than what other people are doing. Here the transformatory dynamic of negotiated co-ordination is crucial. The discussion and negotiation leading up to a decision would involve representatives of all interested groups. It would be a process of direct personal interaction in which people would have to justify the position they adopted in the light of the position adopted by others. As a result, people would be helped to modify their own narrow self-interested consciousness and develop a broader social awareness and sense of social obligation based on an understanding of their mutual interdependence.

Of course, agreement would not always be reached. Genuine conflicts of interest cannot always be resolved to everyone's satisfaction. In the end, those affected would decide on a majority basis, with a right of appeal to a body responsible for decisions at a more general level. Sanctions would be available in the form of a refusal to allow subsidies or to authorise investment.

However, the logic of negotiated co-ordination is towards co-operative rather than antagonistic economic and social adjustment. It has a transformatory dynamic in the direction of a self-governing, self-activating society of informed, equal people living together on the basis of co-operation and mutual respect. In this sense, participation in the process of negotiating a collectively determined outcome has an intrinsic value in helping us to become more human.

To summarise the argument, democratic planning through the process of negotiated co-ordination is transformatory and incorporates a socialist vision. It is neither Utopian nor conservative, recognising the existence of conflicts of interest and the importance of efficiency in catering for human needs, but nevertheless insisting that people should not be treated as objects to be manipulated. It is based on the assumption that we become the people we are as a result of the social relations through which we live and that, given the opportunity, we have the capacity to become self-activating subjects.

The reason that the Left has difficulty in developing convincing alternatives to the new Right's policy initiatives is that it lacks vision, a unifying principle able to give coherence and a sense of direction to its detailed, daily interventions in today's harsh political world. It is confined to oppositional posturing or rhetorical moralism, on the one hand, and attempts to outbid Thatcherism, as in the newly-discovered virtues of the market and consumerism, on the other. This, after all, is what we mean by the hegemony of the new Right - it sets the agenda and we run behind protesting, or claiming that we could do better.

The model of democratic planning I have outlined is not a blueprint for solving the problems of the British economy. What it does is to provide a framework within which to think about current problems and policies in a way that is realistic and practical but at the same time connected to desirable longer-term changes. Its organising principle and vision is the active, conscious involvement of people in the collective decisions and activities that create the social relationships in which we individually live and grow.

1 *Marxism Today*, March 1988.

2 *The Economics of Feasible Socialism*, Allen and Unwin, 1983, Part 5.

3 The model is set out fully in my forthcoming book, *Democracy and Economic Planning*, Polity Press, autumn 1988.