
From Socialism to Capitalism

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Eight Essays

J á n o s K o r n a i



Central European University Press

Budapest – New York

© 2008 by János Kornai

Published in 2008 by

Central European University Press

An imprint of the

Central European University Share Company

Nádor utca 11, H-1051 Budapest, Hungary

Tel: +36-1-327-3138 or 327-3000

Fax: +36-1-327-3183

E-mail: ceupress@ceu.hu

Website: www.ceupress.com

400 West 59th Street, New York NY 10019, USA

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Cover design and layout by Péter Tóth

ISBN 978-963-9776-16-6 cloth

Library of Congress Cataloging-in-Publication Data

Kornai, János.

From socialism to capitalism: eight essays / János Kornai.

p. cm.

Includes bibliographical references and index.

ISBN 978-9639776166 (cloth: alk. paper)

1. Capitalism. 2. Communism--History. 3. Democratization. I. Title.

HB501.K584 2008

320.9171'7--dc22

2008001200

Printed in Hungary by
Akaprint Kft., Budapest

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Preface

The political climate in Hungary as I was working on this volume in the fall of 2006 and spring of 2007 was tense and sometimes potentially explosive. What kind of system do we live under? You call this capitalism? Is this what democracy is like? Questions like these were being bandied about in heated harangues on the streets, while I faced just the same questions, sitting at my computer rereading these studies, written between 1990 and 2007.

I have to confess immediately, in these introductory lines, that I was assailed by doubts on some occasions. What is the point, with the passions, provocations, and unmannerly tenor prevailing outside, of attempting, as far as possible, a cool and sensible comparison of socialism and capitalism, or dictatorship and democracy, or interpretation of the change of system? Is there still sense in adopting a dispassionate, professional style? Is there still sense in theory, when attending to it seems less important to people than the least of the problems they face in practice?

These inner doubts were overcome, and eventually, the obstinacy and self-discipline of a researcher reasserted themselves time and again. The greater the blind passions and power struggles became, the more important it seemed to have some who would keep their distance from the political arena and attempt to reach a deeper understanding and explanation of the world around us, on a plane of scholarly theory. After all, this is a passion as well, albeit different in nature from the one prompting the political antagonists. Sometimes I too found it grotesque, as I glanced from my work to a silenced television screen, where blazing overturned trash cans could be seen on the fine avenue of Budapest's Andrásy út last March 15, for instance, while I was engaged

in tracking down infelicities in an academic study. But finally I think that this book too may contribute to consolidating the situation in this country. Luckily, some people in the political and the intellectual spheres appreciate clarification, cool analysis, and intellectually backed argument, and they are the ones for whom I designed this book.

Collected here are eight previously published studies—the earliest from 1990 and the latest from the spring of 2007. These were not my entire output in those 17 years. So let me begin by explaining the criteria for selecting them for this volume.

The yardstick was not to select writings with the most bearing on present-day Hungary. If that had been the criterion, the book would have had to have included an article or two on health-care reform or problems of macro stabilization.

The pieces in this volume are connected by *various common main themes*. The most important one is the community of the main subject-matter, well expressed in the title of the Hungarian edition: socialism, capitalism, democracy, change of system. These four expressions cover four phenomena of great and comprehensive importance. Each piece in the book deals with these and the connections between them.

The studies have not been arranged in the chronological order of publication. The arch determining the order was created by history. The starting point is the “classical” socialist system before the reforms (Study 1). That is followed by discussion of reforms that remained within the frames of the socialist system (Studies 2–5). Then comes consideration of the change of system (Studies 4–7).

One of the *Leitmotifs* of the volume is the “capitalism/socialism” pair of opposites. Capitalism obviously has a history of several hundred years, while the regime labelled here, the socialist system, applied only for a few decades. But it must be said that this pair of opposites was central to the history of the twentieth century. First and foremost this antagonism put its stamp on political thinking, on the foreign policy and military preparedness of every country, and on some appallingly destructive armed conflicts. All these had great secondary influence on each country’s economic development and the standard of living and disposition of its inhabitants. The memory of the tensions, which seemed so gigantic and threatened to lead to conflict that we feared would threaten humanity’s very survival, may fade after a decade or two. Then it will be up to historians to decide whether we, who witnessed and suffered in that period, were exaggerating the significance

of those opposites. But we lived in the twentieth, not the twenty-second century, and to *us* it was a problem of immeasurable importance.

Several people warned me after the Hungarian edition appeared that the title of the book bore too strong a resemblance to that of Schumpeter's classic *Capitalism, Socialism and Democracy* (1942). The studies included here certainly refer back in several places to Schumpeter's work, which had a great influence on my thinking. But this volume cannot be seen as a summary of my reactions to the Schumpeter work and so it seems expedient to choose another title for the English edition. The one chosen expresses that my main subject is the change of system, the road from socialism to capitalism.¹

None of the studies is confined to one country—not to Hungary or to any other. Each tries to embrace the problems common to greater units than that. However, the greater unit comprehended is not the same in each study. One may deal with the capitalist or socialist system in general, another with all the post-socialist countries, and a third with the Central East European region. But all extend the analysis beyond the borders of one country.

This book contains studies of a *theoretical* nature. No consensus has been reached among philosophers of science and exponents of various disciplines about what is meant by theory. Remaining within my own field, many economists confine the honorable term “theory” to work that applies a mathematical apparatus. Those who apply this criterion and find not a single equation in this book will obviously deny it the rank of a theoretical work. For my part, I agree with those who do not regard the methodology applied in research and reflected in the written study as the decisive criterion for determining whether or not to grade it as “theory.” I would not like to enter here into any high-flown arguments in the field of philosophy of science, just to make my view known as comprehensibly as possible. Theoretical work can be recognized by the high degree of *generalization* to which it aspires. It is capable of abstracting from many individual features, details, and shades of an object examined, and focusing on the attributes of the object which are most important and most general in the context of

¹ The same title was born by an earlier study of mine, published in 1998 (Kornai 1998). That study has not been included in this volume because the ideas in it appear in a fuller and more detailed form in other studies that are republished here. I am grateful to Lord Skidelsky for allowing me to reuse the title.

the question under examination. Defining the word theory in this way, I have gathered in this book the studies of mine that sought to contribute to the theory of the great systems, the political and administrative form, and the change of system.

Although I try to answer the questions I have put, I find the *questions* themselves more important than the answers. The answers are questionable. The least I would like to achieve is to arouse curiosity in readers about the puzzles that concern me. What is socialism? What is capitalism? What is democracy? How can it be determined whether certain institutions functioning in a particular country at a particular time show close resemblance to those in other countries? What do the supporters and opponents of a system say about it—and how does rhetoric and ideology relate to reality? What operative characteristics of a country can be considered system-specific and what can be found under any system? I could continue to give examples, but those may suffice to show the kind of question that concerns me here and I hope may interest readers as well.

So far I have tried to describe from the *content* side (theme, object of examination, “puzzle” to be solved) what the eight studies have in common, but I have also impinged at several points on the other common feature, the *approach* (methodology) characteristic of them all. Only one of the studies is concerned with the actual methodology, the approach to the problems, and the basis in the philosophy of science. This has been placed at the end of the book for good reason. I do not want to begin by explaining to readers what approach I mean to take. Let them first see for themselves how the author works with his own tools. Let them discover that this stock of tools is usable. And when they have been convinced by seeing them at work, so to speak, I then offer an insight into the kind of methodology employed in the previous seven studies. I did things in the same order when I was teaching comparative economics at university or delivering a lecture series on the post-socialist transformation. I found it served its purpose well. If I had begun with the methodological basis, there would have been stronger opposition to such an unusual approach. At the end of the course, students already had in their heads what they had heard in previous lectures, and the concluding line of argument about methodology and philosophy of science had explanatory force. I would like to think that Study 8 in this book can give similar aid to those with the patience to read the previous seven.

Let me mention briefly a few features of the approach taken in this book. One is a “system outlook,” or as Study 8 calls it, the “system paradigm.” There are no micro analyses or partial examinations to be found in the volume. When I was working on these studies, I always sought to understand the whole, not parts torn out of it. What concerned me was how the parts made up the whole, how they were assembled into a system. A second feature running through the volume is a strict distinction between the positive and the normative approaches. A third is the broad application of comparison as a means of analysis.

These are not methodological innovations of mine. Luckily, I am not alone in the scientific world in taking this approach. But I have to add that such use of them is not trivial or self-explanatory. I would like my readers to contrast for themselves the methodology and outlook applied in this book with what they find in other works, and think over the question of how they differ and how they resemble each other in studying the great systems and great transformations.

Here let me mention another common feature of the studies in this book: they each extend beyond the bounds of my own field of economics; they each show an *interdisciplinary* outlook. The Appendix to Study 8 contains the findings of a survey that show how rare this outlook is: economists scarcely ever cite the works of political scientists, sociologists, historians, or social psychologists, and the same applies to exponents of the other social sciences. The study included entire years of the journals covered, regardless of the specific subjects of the articles. I would like now to describe my experiences with the main subjects covered in this volume. While I was working on Studies 6 and 7, to do with the change of system, I took up numerous works written by historians or political scientists. I found it astonishing that these never mentioned works of economists that were relevant to an understanding of the change of system: relevant in that their intellectual influence helped to erode or destroy the old order, or because they made a contribution to analysis of the change of system itself. The fact that the work had been written by an economist seemed sufficient reason for a political scientist or a historian to ignore it. I would be delighted if this little volume, whose author sees himself not just as an economist, but as an exponent of “social science” in a synthetic sense, could for once break out of the tight ghetto of its discipline.

Although the eight studies have much in common, this remains after all a collection of studies, not a monograph. It would be good to

present readers with a monograph whose content corresponded with the vast field delineated by the Hungarian and English titles of this book. I did not undertake to write such a comprehensive account. And that being the case, I ask readers not to expect it, least of all the *completeness* that they could demand justifiably of a monograph. Socialism, capitalism, democracy, change of system—these embrace a multitude of extremely weighty and complex questions, of which only a fragment can be discussed in this little volume.

Without making a virtue of the limitations of a collection of studies, I have to say that the genre does have an advantage as well. Its pages can be turned by readers who may not wish to imbibe the whole volume. Some may only be interested in the one study or another. It is often the case that researchers taking up the communications of others are not interested in the entirety of the author's ideas, only in material or the literary background connected with their own subject. In that case, it is a relief not to have to wade through a long book, to be able to seek the information in writings of study length. Much the same applies to professors setting or recommending literature for their students. It is easier to accommodate a paper or a chapter of a volume in a syllabus than a monograph. I began to pay heed to these considerations in editing this volume, by making sure that each study stood on its own feet and was comprehensible when read separately from the rest of the book. It is more of an extra to find some cross-references within the book, pointing to the connections between the studies.

Thorough study of the volume will come more easily to those who have read my book *The Socialist System* (1992b). In fact I have included two extracts from it as the first study here, while the others follow directly from that comprehensive work, in content and in methodology. However, familiarity with the 1992 book is by no means a condition for understanding the studies in this volume.

I would like to point out that the text of each study appears as it was originally published, unchanged apart from some small inaccuracies and stylistic infelicities. I was pleased to find as I edited the studies that there was no need to change the content. I can still stand by every line of them today.

However, there are one or two specific issues on which my views changed. Where that had happened, I felt obligated to return to the problem in a later publication and state openly how my views in the previous piece had altered. Readers of this volume will find such a

partial change in my position exemplified in Study 4, written in 2004, where I present some questions of stabilization and creation of equilibrium differently from the way I put them in my book *The Road to a Free Economy* (1990). I see no problem in people altering their position, having learned from subsequent information, experience, or literature. There is no virtue in intellectual obstinacy or strict insistence on one's opinion. But let the author have the intellectual honesty to inform readers of the change. I for one am averse to the far-from-rare practice of imperceptibly abandoning the initial principles of one's thinking so that readers will fail to notice.

Anybody can check that *The Socialist System*, which I wrote at the end of the 1980s, and the studies in this volume, of which the latest appeared in a journal in the spring of 2007, reflect the same world view, the same set of values, the same intellectual approach, and the same methodology. I would be satisfied if readers felt they could find their bearings in my views and my methods of research and analysis.

In some cases I have made additions to the earlier writings. I did not want to smuggle these into the original texts, and so subsequent insertions, technical in nature (e.g. cross-references within the volume) or substantive, have been placed in square brackets to distinguish them.

I would like to express thanks to all those who have helped me. As with my earlier books, the first to thank is my wife Zsuzsa Dániel. She was the first attentive, critical, and encouraging reader of the manuscript, and I owe it mainly to her that I could work under calm conditions.

Katalin N. Szabó has been my closest associate for many years. She understands not just from half a sentence, but almost before I have spoken just how she can be of assistance to me.

I have had the lucky privilege for many years of having young research assistants to help me in gathering information, unearthing and assessing literature, and editing studies. My colleague in this respect when my book *The Socialist System* appeared (including the part that forms Study 1 of this volume) was Mária Kovács. She was succeeded chronologically by Ágnes Benedict, János Varga, Zdenek Kudrna, Noémi Péter, and Eszter Nagy. I would not like to specify here what appreciation is due to each beyond saying that all of them assis-

ted me conscientiously and gave me much valuable advice. I could always rely on them to be available for whatever the research required.

Many professional and personal links connect me to Central European University, an important bastion of independent spirit, openness and up-to-date scholarship. I am glad that it was Central European Press, the publishing house of this institution, that undertook the publication of my volume.

Brian McLean has been translating my works for some 25 years now. It is thanks to him that my writings can be read in English as if they were the work of an eloquent native speaker rather than translations. It was he who translated most of the studies in this book, and he did the thankless work of language editing for the remaining ones, a task that he performed with exceptional attention to detail.

I am grateful to Anna Patkós, who undertook the editing of the eight studies for consistence and coherence at the time of the preparation of the Hungarian version, for again keeping in hand the difficult work of editing the English language version, which she did attentively and conscientiously. I would also like to thank all those who took part in the preparation of the book for their committed work, in particular, Thomas Cooper, Katalin Csepi, Noémi Kovács, László Tóth, and László Szimonisz.

I express my gratitude to Central European University Press for publishing my book, and to István Bart, Linda Kunos and their colleagues for their editorial support.

The intellectual environment in which these writings were prepared was inspiring; I owe thanks to Collegium Budapest, the Department of Economics at Harvard University (Cambridge, U.S.A.), and the Helsinki-based WIDER international research institute for the help they have given in the completion of my work.

Budapest, October 2007

János Kornai

1 The Coherence of the Classical System*

Introduction

My book titled *The Socialist System* distinguishes three prototypes of the system:

1. the revolutionary-transitional system (the transition from capitalism to socialism);
2. the classical system (or classical socialism);
3. the reform system (or reform socialism).

These are three prototypes or models. At no time in the history of any specific country has its system corresponded exactly to any of these three prototypes. Even so, these models are not descriptions of ideal, Utopian socialism. They set out to provide abstract generalizations of historical realizations of socialism.

Even though it may be quite easy to date the duration of a particular prototype in a particular country to a specific period in history, no one could argue that the system remained unaltered throughout that period. The main attributes of the classical system were apparent in the social-political-economic system of the Soviet Union from the

*[Study 1 of this volume consists of parts of Chapter 15 of my book *The Socialist System* (1992b). However, some explanation is necessary for readers to follow Study 1 without having read the book, and so I have inserted some paragraphs from Chapter 2 of the book on pages 19–21.

Chapter 15 of *The Socialist System* makes several references to other chapters of the book. These strands have been cut by extracting the chapter from the context of the book. Such cross-references in the original chapter have either been deleted or replaced by short explanatory texts.]

time when Stalin consolidated his power until his death (for the sake of argument, the twenty-five years from 1928 to 1953), but the system was different at the beginning, when these characteristics were developing and solidifying, and somewhat different again at the end.

The prototype sets out to reflect an intertemporal average. Compiling the conceptual edifice of the prototypes serves the purpose of capturing several decades of history and the conditions prevailing in the individual countries in a condensed form. Neither in subsequent explanations of the events nor in actual prediction of the future can a comprehension of the prototypes be a substitute for concrete historical examination. Nevertheless, these models may prove to be useful conceptual tools in both descriptive and predictive research.

This study provides a summary of the main features of classical socialism. It sets out to identify the main connections among the constituent elements and the regularities in the partial processes of the classical system.

The word *theory* is variously defined by the various schools of philosophy of science and practicing scientists. I subscribe to the view that an edifice of ideas can be deemed a theory if it illuminates and explains the main relationships within an existing, observable, and constant group of phenomena. In that sense this study's task is to outline a few general statements within the subject-area of a positive theory of the classical socialist system.

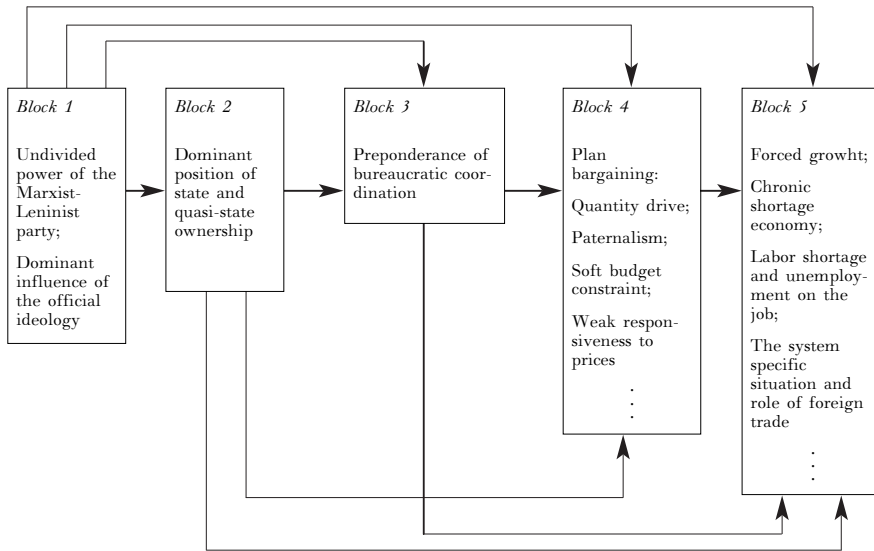
To that definition of the task I must add right away that the exposition is not intended to yield a universal, comprehensive theory explaining simultaneously all the aspects of the classical system that call for illumination. It is quite compatible with other, complementary theoretical approaches that can play a likewise important part in explaining other aspects of this complex group of phenomena.

The Main Line of Causality

Even though there are mutual influences in several directions between the various phenomena, there is a clearly perceptible main line of causal connections. The main line of causality is represented in diagram form in *Figure 1.1*. The figure purposely ignores the reactions, that is, the reverse effects of all kinds that exist in real life, since it sets out expressly to highlight the main direction.

The key to explaining the classical socialist system is an understanding of the political structure. The starting point is the undivided political power of the ruling party, the interpenetration of the party and the state, and the suppression of all forces that depart from or oppose the party's policy. So the classical system, if one looks at its essential marks, is a one-party system (even if one or two socialist countries have other parties that exist nominally and play a formal part in a coalition).

Figure 1.1 The main line of causality



Note: The figure shows the main line of causality from left to right. The arrows point out how each group of phenomena is influenced not only by the previous group of phenomena (i.e., merely the group one layer deeper), but by all the deeper factors directly or indirectly. For instance, one of the groups of phenomena in the last block—the development and reproduction of chronic shortage—is not simply explained by such phenomena as the soft budget constraint or the weak responsiveness to prices; among the explanatory factors that act directly is the preponderance of state ownership and bureaucratic coordination.

The three points at the bottom of the blocks on the right hand side are intended to denote that the blocks contain only examples, not a full list. Only the most important phenomena have been highlighted, although there are numerous other ones, which could be placed in the same block.

Not all one-party systems lead to the formation of a classical socialist system. For that to happen it is essential for the party exercising power to be imbued with the official ideology of the socialist system. Common parlance permits the term “Marxist-Leninist party,” but the official ideology overlaps only in part with the ideas of Marx and Lenin. Much (but not all) has been taken over from them, and all kinds of additions have been made to their ideas.

The prime factor that brings the other system-specific phenomena about is the undivided power of the Communist party prepossessed by its specific ideology. The party’s organizational existence and its ideology can only be distinguished on the plane of theoretical analysis: they form an entity, like body and soul. So on the left-hand side of *Figure 1.1* they form Block 1, the first link in the causal chain.

Under the classical system there is either a preponderance of state ownership (including quasi-state, cooperative ownership) or a situation in which at least the key positions, the commanding heights of the economy, are under state ownership. On the figure, this phenomenon is treated as the second factor in the causal chain (Block 2).

Placing the role of property in second place is an arguable position. Some people rate it on a par with the political structure, and there is a view that the preponderance of state ownership is the chief criterion of a socialist economy.¹ The question is not wholly speculative, for it can be analyzed in the light of historical experience. If the Communist party gains undivided power in an economically backward country like China or Vietnam, it sooner or later begins a policy of nationalization and pursues it stubbornly. How fast the pursuit is and how often the process comes to a halt and starts again depend on the socioeconomic circumstances, the difficulties of organization, and the patience or impatience of the party. There are countries where even the barber shops and the village general stores are nationalized quite quickly, while elsewhere the system coexists for a while with the bourgeoisie. But all patience and coexistence of this kind is considered temporary by those in power, who can hardly wait for the nationalization to

¹ There is a frequent tendency in the debates in this area to confuse a positive (descriptive, explanatory) approach with a normative one. [For more details on this see Study 6 of this volume on page 124. The question of which factors play a role that is primary, secondary, tertiary, and so on in producing socialist countries’ main characteristics already belongs to the province of positive, causal analysis, rather than normative.

advance. Once banking, industry, and transportation have been nationalized, the authorities sooner or later set about eliminating private ownership in agriculture. The party openly proclaimed the objective of nationalization even before it came to power. Once in power, it is doing no more than putting its political program into practice.

It is not the property form—state ownership—that erects the political structure of classical socialism over itself. Quite the reverse: the given political structure brings about the property form it deems desirable. Although in this case the ideology plays a marked role in forming society, it is not the sole explanation for the direction of influence. The indivisibility of power and the concomitant totalitarianism are incompatible with the autonomy that private ownership entails. This kind of rule demands heavy curtailment of individual sovereignty. The further elimination of private ownership is taken, the more consistently can full subjection be imposed.

The three groups of phenomena discussed so far—the political structure and ideology typical of the classical socialist system, and the property form—combine to account for the next cell on *Figure 1.1*, Block 3, the system-specific constellation of coordination mechanisms. Here bureaucratic coordination takes the main part, and all other mechanisms play supporting roles at most or wither away. This is one of the corner-stones of our line of argument. The features of the system cannot be derived from the fact that it is not a market economy, or still less from the fact that the prices are irrational, and so on. Once the political structure, official ideology, and dominant role of state ownership are provided, they produce the preponderance of the mechanism of bureaucratic control.

The actual forms of bureaucratic coordination vary from country to country and period to period. Fulfillment of one plan instruction is rewarded here and another there. Here ministries are merged and there they are split up. Meanwhile, officials in the apparatus and professional economists have lively debates on the advantages and drawbacks of one form or another. But certain essential factors remain unchanged: elimination of free enterprise and autonomous actors on the market, and of the competition among them; centralization of decision making and information; hierarchical dependence and the dominance of vertical relations over horizontal ones.

That brings us to the next cell, Block 4 of the figure. To it belong the interest and motivation of the actors in the classical system, their

consequent behavior, and the main features of the relations among them.² Some phenomena that may be placed here are listed in label form, without aiming at a complete list: plan bargaining, the quantity drive, the paternalistic behavior of superiors, the soft budget constraint, the weak responsiveness to prices, and so on. Whichever one is taken, it can be explained separately in terms of underlying factors, the nature of power, the official ideology, and the preponderance of state ownership and bureaucratic coordination.

The next cell, Block 5, contains a list of a few typical lasting economic phenomena. The figure includes only the most important: forced growth, labor shortage and unemployment on the job, the chronic shortage economy, and the system-specific role of foreign trade. The main features of these phenomena can be traced back to the explanatory factors qualified as deeper by the earlier logic. It is not because there is shortage that a huge and almighty bureaucracy develops; it is not because the aim is to force growth that the plans are made taut; it is not because import hunger appears that there is an import-permit system; and so on. Although reactions of this kind exist (and they are dealt with in detail in the next section), the main direction of causality is the contrary: the phenomena cited develop because a specific political structure and ideology have gained sway, as a result of which specific property forms have developed, which has led to the preponderance of bureaucratic coordination and the typical behavior patterns of the participants.

This line of argument contains elements that a researcher raised on Marxist political economy and philosophy can accept without much difficulty, while other elements in it differ radically from the ideas entrenched in the researcher's mind. He or she will be familiar with the approach reflected in the attempt to classify phenomena as "deeper" or "more superficial" and the desire to find the main directions of influence within the web of mutual effects.³ It will be familiar and

² Some writers have described the approach that I customarily take in my works as "behaviorist." However, this is not an accurate description. Though much can be explained by the participants' behavior, the behavior itself needs causal analysis. This is reflected in the structure of *Figure 1.1*: the behavioral features can be found in the "middle zone" of the causal chain, midway between the underlying explanatory factors and the directly perceptible economic phenomena.

³ This is one of the ways in which the Marxist researcher differs from the analytical economist living in a world of neoclassical models, who draws conclusions in his or her model from assumptions placed side by side, although there may be "deeper" and "more superficial" premises among the assumptions.

acceptable to attempt to explain a social group's behavior in terms of its self-interest and social situation, rather than contenting oneself with citing the preferences of individuals. Equally akin to Marxist tradition is the way the logical analysis (what is the main direction of causality?) combines with the historical approach (in what characteristic order in time did the main events occur?).

The same economist raised on Marxist political economy may be perplexed to find that the line of argument described here does not follow the usual pattern of discussing a relationship of "base and superstructure." Whatever meaning one attaches to the concept of "base," one cannot state that the base has determined its own superstructure. The historical point of departure, as was first in the case with the Soviet Union and later with almost all the other countries subject to Communist rule, is a poor and backward country. It still has few large factories, and its production and the concentration of capital are low. It is certainly not the case that the forces of production are already being impeded in their development by the capitalist production relations, or that they can only develop once those relations have been destroyed. It is certainly not the case that one only has to drive the capitalists out for a well-organized, concentrated production system ripe for central planning to fall on the plate of the socialist planners. These countries are still in a state that Marx and Engels described in the *Communist Manifesto* (Marx and Engels [1848] 1969), one in which they also say that capitalism is capable of giving enormous impetus to the development of the forces of production.

The historical development course of classical socialism is quite different from the pattern presented in the handbooks on the Marxist philosophy of history. The revolution shatters the old superstructure and artificially erects a new one, or, more precisely, it produces the seed of a new superstructure which then pushes out almost of its own accord. The new superstructure crushes the base that is alien to it and rearranges it entirely. It nationalizes and collectivizes; it steadily eliminates private property and squeezes the market into a smaller and smaller space. The bureaucratic apparatus of economic control springs up and spreads in all directions. As this process goes on, as the property relations, coordination mechanism, and economic processes alter according to the new system, these changes react continually on the political forms and bring a transformation of the ideology in their train.

The Affinity among Elements of the System

The discussion of the main line of causality in the last section contains repeated references to the fact that the effect reacts on the cause: numerous interactions occur among the elements of the system. Let us recall some as illustrations:

- Once state ownership and the soft budget constraint have produced the investment hunger, the import hunger, the hoarding tendency, and wage-drift, it becomes necessary to use the administrative tools of investment and import permits, material quotas, rationing and allocation systems, and wage funds. Once such tools are being used, it no longer suffices to encourage economic discipline with praise and material rewards. It must be imposed with punishments, and firm measures must be taken against “speculators” and “wage-swindlers.” This all has an effect on the political climate and the official ideology. (Blocks 4 and 5 react on Blocks 3 and 1.)

- Bureaucratic control of state-sector wages, which combats the upward pressure on wages even when there is a labor shortage, is incompatible with the higher incomes obtained outside the state sector on the free market. This and other factors tend to encourage as full an elimination of the private sector as possible. (Blocks 3, 4, and 5 react on Block 2.)

- Once the economy has embarked on forced growth, the ideas to explain the necessity and advantages of this type of growth need incorporating in the official ideology. (Block 5 reacts on Block 1.)

- If the managers of production fail to develop a strong intrinsic interest in gaining foreign, hard-currency markets, due to the chronic domestic sellers’ market and several other factors, a mechanism and incentive system forcing them to produce for capitalist export purposes must be created. (Block 5 reacts on Block 3.)

As the classical system consolidates, its elements develop a coherence. The various behavioral forms, conventions, and norms rub off on one another. To apply a chemical analogy, the phenomena exhibit affinity: they attract and require each other. The monolithic structure of power, petrified ideological doctrines, almost total domination of state ownership, direct bureaucratic control, forced growth, shortage, and distrustful withdrawal from most of the world (to mention just the main groups of phenomena) all belong together and strengthen each other. This is no loose set of separate parts; the sum of the parts

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