10 The Socialist Economic System

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Which Socialism?

The purpose of this chapter is to offer a preliminary theory of the sociological character of the socialist economies. During the Cold War, neither the information nor the necessary distance from the subject matter were attainable, but the disintegration of the Soviet Union offers the opportunity to develop a new, more objective theory of socialism.

The aim of such a theory is to understand the institutional system that constituted the reality of socialism. The theory pertains to "actually existing socialism," and not to the ideal type of socialist economies developed by social theorists. Similarly, the discussion of capitalism also refers to a set of empirically observable socioeconomic institutions. However, many chapters in this Handbook offer a sociological analysis of capitalist economic systems. It is therefore sufficient here to offer a brief account of the distinguishing features of socialism.

There are three main sets of criteria that may be used to distinguish socialist and capitalist economies. These two economic systems may be distinguished on the basis of their differing forms of ownership, including their alternative integrative mechanisms, or by the unique form of rationality that guides each system. These different aspects of socialism are emphasized by different authors: the first by Marx ([1867] 1977), the second by Polanyi ([1944] 1957), and the third by Weber ([1922] 1978). But the actual institutions can be combined to cover all three aspects. To put it with Weber: these three dimensions of socialism (and of capitalism) are characterized by an economic rationality.

The most obvious unique characteristic of the socialist economy is that it is a modern economic system aimed at the elimination of individual private property and the institutionalization of some form of collective (usually state) ownership. The elimination of private property was a top priority for classical theorists of socialism, and all actually existing socialist systems made an attempt to outlaw private property and to foster some viable form of collective ownership.

Theorists of socialism also attacked the anarchy of the market and aimed to replace it with some form of long-term planning. Because most socialist regimes made some concessions to the market, all consolidated socialist economies had monetary systems and some goods took a commodity form. Nonetheless, all actually existing socialist economies retained central control over the flow of two major factors of production: capital and, to a significant extent, labor. To use Polanyi's terminology, market mechanisms under actually existing forms of socialism remained marginal, while the economy was largely integrated by the redistributive intervention of the central state apparatus.

Finally, socialist planners intended to transcend the formal rationality of capitalism. Marxist and other left-wing critics of capitalism pointed out that under the socioeconomic system, "instrumental reason" dominates, and the consideration of ends is subordinated to the imperatives of means. The architects of socialism intended to challenge the depiction of means over ends and to restore the rationality of purposes—to implement, in other words, "substantive rationality." In practice this meant that "politics was in command, that the economic system was subordinated to political considerations. Whereas capitalism was ruled by "formal rationality," socialism was guided by "substantive reason."

Socialism is thus an economic system in which, even if not all means of production are collectively owned; where markets are restricted to a marginal role and the logic of economic reproduction is shaped by central planning or redistribution; and where rationality is substantive.

Guided by these general considerations, this chapter attempts three tasks: to review briefly the theoretical debate regarding the nature of actually existing socialism; to offer a "positive theory" of the political economy of socialism by describing it as a "socialist redistributive economy"; and finally, to discuss (actually occurring and eventually failing) attempts to reform the socialist redistributive economy as well as the reasons for the eventual collapse of socialist economy. Indeed, in this chapter we report on an economic system that (with the possible exception of China) has failed. In the following analysis—in order to avoid the mistakes of historians—we do not take this failure for granted. We do not assume that socialism had to fail, that reform attempts were doomed to failure from the outset.

Was It Socialism That Failed?

Ever since Russia, and later the Soviet Union, declared itself on the road to socialism there were skeptics—usually on the political left—who argued that this experiment could not be considered genuinely socialist. Over the decades the number of skeptics increased. Many of them celebrated the fall of Eastern Europe, arguing that these countries were an embarrassment to socialist politics. It is best not to be obsessed with definitions. The debate over what name should be used to describe those socioeconomic systems that existed in the USSR for over seventy years and in Eastern Europe for some forty years, and which still exist in China is not of the greatest interest. The term "socialism" is used here to describe these systems because, while their socialist critics are quite correct in pointing out that they did not live up to some of the key ideals of socialism, in particular the principles of democracy so dear to the nineteenth-century theorists of socialism, still these institutions made a serious effort to implement some of the key economic proposals of socialism. Private property was outlawed, the means of production became publicly owned, and the "exploiters were expropriated." The effort was made to implement a system in which production targets were determined by the substantive rationality of the Party and its economic planners rather than by the logic of the market and the pursuit of profit.

There are three influential challenges to the argument that Soviet-type societies can be considered socialist: the "society in transition" approach, the state capitalism thesis, and the theory of bureaucratic collectivism. As we shall see in reviewing these theories, all of them are based on differing assessments of the nature and operation of the socialist economy.

The Theory of Socialism as Society in Transition

The first wave of disenchantment with Soviet Russia came soon after the Bolshevik Revolution of 1917, and some early critics characterized the Soviet Union as "state capitalism." The full-fledged development of the theory of state capitalism, however, came much later. The first conscious criticism of Stalinism was offered by Leon Trotsky in his Revolution Betrayed ([1937] 1972). Trotsky's argument was counterposed to the early "protopotheses" of state capitalism.

Trotsky rejected Kaunsky's argument that Lenin had created a state capitalist formation in Russia (Trotsky [1937] 1972, pp. 248–50). In Trotsky's view the Bolshevik Revolution was social in character: it eliminated private property, altered class relations and created a workers' state. The Soviet bureaucracy under Stalin's leadership, however, had deformed the political system. Members of this stratum appropriated political power from the working class and constituted themselves as a bureaucratic caste (ibid., pp. 248–49). The Soviet Union under Stalin remained a workers' state, but it was a bureaucratically deformed one.

This bureaucratic deformation had economic implications as well as political ones. The ruling caste amassed its political power for its own benefit: scarce goods were allocated unequally in order to benefit the bureaucracy (Trotsky [1937] 1972, pp. 111–12). Because the Soviet bureaucracy reintroduced market relations in the sphere of circulation, bourgeois rights dominated in that sphere. Thus it was not simply the bureaucratic apparatus that was the source of inequality between the bureaucracy and the working class.

According to Trotsky, then, the Soviet Union by the 1930s was neither socialist nor capitalist, but was a society in transition from capitalism to socialism for the USSR to return to capitalism a social counterrevolution would be necessary. This would require a restoration of private property and the remaking of a property class. Movement toward socialism would also require revolutionary change—but a political (rather than social) revolution was all that was needed.
For "society in transition" theorists, the bureaucracy does not constitute a new class. Instead, as Marx's analysis of the role of state bureaucracy in Bonapartist France, Trotsky argued that the bureaucracy is a privileged class, one that becomes the new class by occupying a privileged position in terms of political power and consumption. While the bureaucracy disposed of the means of production and prevented the workers from exercising direct power at the point of production, it did not own the means of production. As a consequence, the bureaucratic caste was unable to make its children the inheritors of the means of production and did not constitute a class.

Trotsky's "society in transition" approach is theoretically elegant and offers insights into one of the fundamental confusions of socialism: the conflict between workers and bureaucrats. However, there are two theoretical and political problems with the classical Trotskyist position.

Theoretically, the argument that the Soviet Union was neither socialist nor capitalist is highly problematic. Trotsky's analysis of the ways in which the deformation of the political system affected the economy is both theoretically incoherent and empirically false. First, Trotsky did not explain how capitalist relations of distribution could coexist with socialist relations of production. Second, and more important, there is ample empirical evidence that in classical socialism the privileges of the bureaucracy are not based upon the market (Nee 1989; Walder 1992; Szelenyi 1978). Instead, the bureaucratic class is primarily privileged as a result of the administrative allocation of scarce resources. For example, bureaucrats receive free housing from public authorities while workers have to build housing for themselves. David Stark's notion of "mirrored comparisons" is useful in understanding the role of the administrative allocation in the generation of inequalities (Stark 1986, pp. 492-504). While in capitalist economies markets generate inequalities and the state may somehow reduce these, under socialism the opposite is true: inequalities are created by administrative allocation while incomes and property are determined by the market.

The Theory of Socialism as Capitalism

The second wave of critical theorizing about the nature of the Soviet economy—the first coherent formulation of the state capitalism thesis—came from former disciples of Trotsky. These former Trotskyites—Tony Cliff ([1948] 1974) and Max Schachtman ([1962] 1982)—are in particular the foremost proponents of this theory of state capitalism in the Anglo-American academic world. This theory asserts that the state bourgeoisie is a collective private proprietor, that the state bureaucracy is a collective private proprietor, and that the state bourgeoisie is a collective private proprietor.

Cliff's criticism of Trotsky is well taken: indeed it is difficult to accept the notion that the bureaucratic class of the Soviet system was limited to the sphere of distribution. While the Stalinist bureaucracy was not particularly privileged in terms of consumption compared with the Western bourgeoisie, the bureaucracy did exercise "despotic rule" at the point of production (Burtw 1985, p. 12).

Cliff's argument regarding the character of the bureaucracy is less persuasive. One reason for this has to do with its inadequate theorization of property rights. Without an appropriate theory of property rights or an adequate understanding of which "bundle of rights" defines a social relation as a property right, Cliff moves from the observation that the bureaucracy acquires some property rights to the conclusion that the bureaucracy is the private proprietor of that property. This theoretical move creates a limitless concept of private property, for if the Stalinist bureaucracy is a private proprietor, then private property and capitalism as an economic system are universal in human history.

Conceptions of capitalism regarding the capitalist character of the Soviet economy is equally dubious. Cliff came close to calling the Soviet Union in the 1930s a capitalist because it entered a growth trajectory. Economic sociologists from Marx to Weber have been much more precise about what kind of growth. If capital accumulation can be considered capitalism, both Marx and Weber agreed that capital accumulation must take place on the market and that the profits used for accumulation must be generated by economic means and invested in competitive capitalist markets in order that a system be defined as capitalist. The Soviet economy did not fulfill any of these criteria: during the 1930s coercion was the primary means by which surplus was appropriated, and the allocation of capital was not guided by purely economic criteria of profit maximization.

The Marxist Theory of State Capitalism

Like Cliff, Charles Bettelheim makes a distinction between individual and collective private proprietorship. The classical bourgeoisie consists of individual private proprietors, while the state bourgeoisie is a collective private proprietor. Bettelheim attempts to define what constitutes private property and arrives at a more theoretically persuasive conclusion.

Bettelheim views the most essential feature of capitalism is the separation of units of production from each other (Bettelheim [1970] 1970, p. 85). The emergence of capitalism thus occurs when units of production are transformed into enterprises. Enterprises are separated from each other economically and interact with each other through the mediation of the market. Bettelheim argues that a capitalist economic system has been established when two crucial economic activities are mediated by the market: the allocation of labor and the allocation of capital goods. If both labor and capital are allocated on self-regulating markets (where the prices of labor power and investment goods are set by the rules of supply and demand) we can speak of a capitalist economy. This presumes that the production, in order to sell his or her labor power on the marketplace, has been separated from the means of subsistence and means of production. Those nonproducers who possess capital goods are therefore private owners, or capitalists.

Defining capitalism in terms of labor and capital markets, the separation of units of production, the emergence of enterprises, private property, and profit-motivating behavior sounds eminently sensible. The problem with Bettelheim's analysis is empirical rather than theoretical. Bettelheim claims that capitalism was restored in a nonstatist form in the Soviet Union during the late 1920s and early 1930s with Khrushchev's economic reforms. While it is possible to note that the implementation of these reforms would send the Soviet Union on its way to capitalism, these reform proposals were not implemented, and the central planning apparatus retained their power over the allocation of investment goods. Without proper power, it is unlikely that labor was allocated on the market. Instead, the supply of labor, like that of capital, was politically and legally controlled. Even socialist countries law of obligation to sell his or her labor power. Thus it was not economic necessity but legal coercion that determined the supply of labor. Under these circumstances it is not reasonable to assume the existence of a labor market.

Bettelheim's mistake, then, was that he interpreted the spirit of reform proposals as the actual practices of Soviet economic management. It was only as recently as the early 1990s that Russia made a serious effort to implement these policies.
The Theory of Socialism as Bureaucratic Collectivism

During the late 1930s a rather obscure Italian author, Bruno Rizzi, published The Bureaucratization of the World (Rizzi [1939] 1967). For decades, this book had a significant impact on the theoretical debate regarding the character of socialist economies.

Unlike most of the theorists we have discussed, Rizzi did not have a Marxist background or many academic credentials. The Bureaucratization of the World was a political pamphlet that can be read as either the ramblings of a nineteenth-century liberal against the all-pervasive penetration of government, or the hopeful prediction of a fascist sympathizer that the fascist way of doing business would be the future of humankind.

The crucial point of Rizzi’s book, though, was that by the late 1930s a new social formation was emerging all over the world. For Rizzi, fascism in Italy, Germany, and Japan, the New Deal in the United States, and Stalinism in Russia all had new and common features. These formations diverged from earlier more individualistic ones, promoted collectivistic values, and relied heavily on state bureaucracies. For Rizzi, this new social formation was neither capitalism nor socialism, but a new kind of social organization that Rizzi called bureaucratic collectivism. Under this new social formation the state bureaucracy constituted itself as a new dominant class. The power of this class was based on its collective ownership of the means of production (Carlo 1975, pp. 45-49).

Bureaucratic Collectivism was proposed by Antonio Carlo during the mid-1970s (Carlo 1975). The theory has an enduring impact on Castoriadis (1978–79). Carlo and Castoriadis both attempted to identify bureaucratic collectivism’s “roots” in communist theory and claimed that the Soviet Union had become “obsessed” with economic growth. Carlo accepted Rizzi’s argument that the Soviet Union was neither capitalism nor socialism, but a bureaucratic collectivist society. Like Cliff, he saw the essential feature of this formation in capitalist accumulation, while capitalism is characterized by production for profit’s sake and socialism is characterized by production in order to satisfy human needs, bureaucratic collectivism is driven by production for production’s sake.

Heller, Feher, and Markus made a similar argument in Dictatorship over Needs (1983). Like Carlo, they claimed that the Soviet Union could not be called socialist—the essence of socialism is to satisfy human needs and this was certainly not the driving force of Soviet-type economies. These authors also argued that Soviet-type economies could not be considered capitalist, because capitalism manipulates needs, and generates new and, if necessary, false needs for growth purposes.

Instead, the Soviet Union practiced a “dictatorship over needs.” It suppressed needs in order to channel all resources into production for production’s sake. Heller, Feher, and Markus diverge from bureaucratic collectivist theory only insofar as they do not regard the bureaucracy as a “class.” According to Heller, Feher and Markus it is the “apparatus” that holds power in Soviet-type societies, but it exercises this “collective power” not as a class but as a “group.” The difference appears to be more terminological than substantive.

In retrospect, it is somewhat disturbing that these recent bureaucratic collectivist theories offer a critical analysis of Soviet-type economies by emphasizing the “obsession” of these economies with growth and production. It is somewhat ironic that these theories appeared in print after 1974—the point at which the Soviet and East European economies entered the terminal phase of their decline. Like the Owl of Minerva, these theories arrived late, as dusk was falling. While in the 1960s, and again in the 1950s and 1960s, many socialist economies did experience what appeared to be impressive economic growth, after 1975 (with the exception of China) none of these economies expanded.

The strength of the bureaucratic collectivist approach is that it attempts to come to terms with the historically unique features of socialist economies. However, theories of bureaucratic collectivism operate with an idealized concept of socialism and use value-laden terminology. The aim of this chapter is to judge the desirability of socialism, but to understand it: to discern the details of the economic institutions of socialism, and to offer a precise account of its institutional realities.

Socialist Redistributive Economy

Polanyi’s Theory of Redistribution and Socialist Economic Systems

From the early 1970s onward Polanyi offered inspiration for many economic sociologists attempting to develop a political economy of socialism. Before it could be applied to the analysis of modern socialist economies, however, this concept required a bit of redefinition. This modification occurred along two main lines. First, Polanyi’s analysis of redistribution in archaic economies had to be adapted to modern societies. Second, Polanyi used the notion of redistribution as a vantage point from which he could offer critical insights into the nature of markets. In order to ensure a monopolar analysis of socialist redistributive economies, one must offer instead a "critical theory" of redistribution.

Polanyi used the term "redistribution" to describe the archaic economies of the early empires rather than modern economies. The key characteristic of the redistributive mechanism is that the surplus appropriated from the producers is concentrated in the hands of a central authority and allocated according to the political will of that authority. The early empires used their redistributive power, which was legitimated by traditional authority, to assure the reproduction of the sociological system.

Redistributive power is legitimated differently in modern societies. Socialism can be described as "goal-rational authority" (Rigby 1980) or as a "hyper-rationalist" economic system (Heller, Feher, and Markus 1981) in which the central planners claim the right to appropriate surplus and allocate it on the basis of their "teleological rationality." These "teleological redistributors" (Konrad and Szelenyi 1979) claim that they are more able than either the producer or markets to determine the most efficient use of surplus. Socialist economic systems may be called "rational redistribution" systems because authority is legitimated on rational rather than traditional grounds and because such economies are growth-oriented.

In what follows we also reconstruct Polanyi’s theory of redistribution in terms of its critical implications (Szelenyi 1993). The central objective of Polanyi’s project was to offer a critical analysis of market economies: he used the idea of redistribution in order to show the temporariness of market institutions and to identify alternative institutional arrangements. Polanyi thus provided a critical theory of the market from the perspective of redistribution. In this chapter redistribution is not the vantage point from which critical analysis is being conducted, but it is rather the subject of critical scrutiny. The project here is therefore the mirror image of Polanyi’s: the market is used as the critical vantage point for the analysis of socialist redistribution. This is not to replace Polanyi’s rather one-sided critique of the market with an equally one-sided critique of redistribution, but rather, to balance Polanyi’s critique of the market with an even-handed critique of redistribution.

The "Rationality" of Socialist Redistribution

A few comments are necessary regarding the concept of "rationality." The redistributive system is substantively and not formally rational. From the perspective of "formal rationality," socialist redistributive economies were per-
This "hyper-rationality" of the redistributors did not guarantee that redistributors always or even typically achieved the goals they set. Similarly, markets often produced unanticipated and/ or undesired outcomes. In a somewhat paradoxical way this was even more true in the case of the socialist redistribution economy: the anarchy of the market was replaced by the anarchy of planning.

The process of redistribution was a complex one in which many actors from the Party and from different levels of government played a role. This is one of the reasons why the concepts of "central planning" or the "command economy" are rather misleading. The idea of "command economy" presumes—much like the theory of totalitarianism—that a small and well-organized elite effectively superimposes its will on the whole economy (or society). An analysis of the actual economic processes of socialist redistributive economies reveals that nothing is further from the truth.

Since the 1970s, many Eastern European economists have used the term "planshargan" to describe the complex process of negotiation that took place among redistributors located in various sites and at different levels of the bureaucratic structure (Bauer 1981). Socialist redistributive economies thus produced a complex and rather diffuse system of power in contrast to the individual consumer to the central hand; (c) reallocate surplus to the less profitable firms from the more profitable ones (Kornai 1979); and correspondingly, (d) to channel investments to "Department One," instead of "Department Two," that is, to facilitate the growth of heavy industry and the provision of energy to minimize the production of consumer goods (Kornai 1972).

The rationality of the socialist redistributive economy was therefore the opposite of the rationality of market capitalism. One may argue that such systems were, and Martin Feld, but were rational in a different way. In a certain sense the redistributors of a socialist economy operated with a broader notion of rationality—what Heller, Feher, and Markus referred to as "hyper-rationality and wholeness." In contrast, the formal rationality of the market leaves it to self-regulating forces to define the common goals of economic activities. The substantive rationality of the redistributor overruled these market mechanisms, which were judged to be not optimally rational. By bringing the goal-setting of economic activities into the sphere of rational reasoning the redistributor indeed acted "hyper-rationally."

This situation, however, may create a backlash that can further erode the legitimacy of social democratic parties and governments. In this way, social democratic systems may be vulnerable to the same pressures that led to the rise of populist movements in other countries.

The Microfoundations of the Macroeconomy of Socialist Redistributive Economy

Janos Kornai's book *Economics of Shortage* (1980) is the single most important contribution by an economist to understanding the institutional microfoundations of the socialist political economy. His analysis is consistent with the above macrotheory of the socialist redistributive economy, but also provides detailed insight into the workings of economic institutions at the level of the socialist firm.
The Socialist Economic System

The Socialist Economic System was characterized by extensive state control over all aspects of production, distribution, and consumption. The government owned and controlled all major industries, and had a significant role in determining the prices of goods and services. The state also played a major role in planning the economy and allocating resources. This system was designed to ensure that the economy was used to the benefit of the state and the collective, rather than individual gain. The socialist economic system was based on the principles of collectivism and planned economy, where economic decisions were made by the state rather than the market. This system was intended to eliminate the problems of market economies, such as market failures and inequalities, and to ensure social welfare and equality. However, it also faced challenges, such as inefficiency and lack of incentives for productive effort. The socialist economic system was prevalent in many countries, including the Soviet Union, China, and Cuba, among others.
Dual Circuits of Accumulation

In this second version of market socialism there are two sectors of the economy: a dominant redistributive sector and a subordinate market-integrated sector coexisting. According to this view, these firms do not need hard budget constraints to function effectively. Only a few firms that exist during the intensive stage of growth must be privately owned and compete with each other on the market. Thus, the redistributive economy and its inevitable socialist business cycles can be counterbalanced by deregulation in order to create dynamism.

A recent advantage of the "dual circuits of accumulation" approach is Alec Nove's (1983) model, the economy is characterized by two main spheres. The more dominant sector consists of large-scale enterprises integrated through a system of centralized planning; a sizeable but subordinate private sector consisting of relatively small firms is integrated through market transactions. State-owned, cooperative, and individually owned businesses would coexist within this dual economy. Nove believes that variation in productive organization is most compatible with democratic political goals, as this variation would ensure an inefficient market of options (including workers self-management in public enterprises).

It is worth restating the theoretical rationale for expecting a mixed system to be superior to a pure system. First, having two different poles of power (one based in the market and one based on redistributive hierarchies) should create greater room for maneuver for members of the working and middle classes. Nonetheless, people need to be able to use the conflicting interests of market and redistributive elites to their advantage. Furthermore, people should be able to tap into resources from market and bureaucratic networks, making it less likely that anyone would slip through the cracks of the safety net. Finally, to the extent that business cycles exist in both capitalist and socialist societies, a mixed system may reduce the magnitude of economic crises.

Historical Experiments with Socialized Markets and Socialist Mixed Economies

Historical experiments have a mixed record and on the whole do not support the optimistic expectations of the advocates of market socialism. There have been at least three major experiments with market-socialism: Poland, beginning in 1956 and again during the 1970s, Hungary after 1948, and China after 1949. According to these three cases, the political costs were used to buy political stability. The experience of Poland market-socialists seem to be the greatest difference between them. In Poland market-socialism never seemed to work very well, while reform in Hungary was initially successful in some sectors of the economy, but eventually collapsed. China, for the time being, is a great success—over the last decade its economy has been the fastest growing in the world. Was Hungary's initial success real or was it only apparent? Was the fall of market socialism inevitable in Poland and Hungary, or was it caused by conjunctural forces? Is the fate of Poland and Hungary China's future? Is it possible that the Chinese economy is expanding because China is still in the extensive stage of growth? Is China socialist at all, or is it becoming a capitalist economy with a totalitarian political system?

In essence, these questions can be answered as follows: successful reform probably requires a balanced change both in property rights and coordinating mechanisms, a diversification of property forms, and a mix of redistribution and market. Poland was quite content with private property, but its success was limited by the narrow range of options (including workers self-management in public enterprises).

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terprises, shares profits with them, and owns the land, housing, schools, hospitals, roads, and communication systems. This board also regulations which establishes a minimum wage for all workers. Thus, the individual enterprises within the village are organized like horizontally and vertically integrated divisions of a large corporation.

Worker Self-management

Worker self-management, which entails the decentralization of economic planning and decision-making but the preservation of collective ownership, has been advocated as an alternative to state socialist economies. Proponents of worker self-management seek to establish "self-governing communities of work" in which productive activity is treated as indivisible social property and wage labor is eliminated (Horvat 1975). As an ideal, this system has its roots in the work of Robert Owen, who conceived of the future society as a federation of cooperative communities governed by producers. Later, Pierre Joseph Proudhon emphasized the need to extend the political reforms of the French Revolution into the economic sphere. Advocates of worker self-management also trace their ideas to Marx and Engels.

Interestingly, workers' efforts to decentralize economic decision-making typically emerge in the context of intra-elite struggles. The Hungarian workers' revolt of 1956, for example, developed in the aftermath of a rebellion by intellectuals against the Stalinist regime—a rebellion that prompted a purge of intellectuals in Hungary. Both the intellectuals and the workers' movements were subsequently crushed by Soviet intervention and the installation of the Kadar regime (Lomax 1990).

Similarly, worker self-management in Yugoslavia emerged and was implemented in the context of an interelite political struggle, this time between Stalin and Tito. In 1948 Stalin imposed an economic bloc against Yugoslavia. Up to then, the Yugoslav Communist Party had accepted the notion that a centralized state socialism was the only "true socialism." The Party's discovery of worker self-management came after 1948, and was clearly sparked by the heightened conflict with Moscow. By 1948, the official view in Yugoslavia was "that the nationalization of the means of production liquidated the bourgeoisie as a social class, but that it also increased the power of the state" (Singleton and Carter 1982, p. 120). Self-management was now touted as the key to preventing this centralization from occurring. The turn toward self-management, then, was the result of Yugoslavia's conflict with the Cominform and Tito's subsequent need to legitimate his newly independent regime. Worker self-management was implemented in the most comprehensive manner in Yugoslavia. The institutionalization of "decentralized" socialism in Yugoslavia was a gradual process. In 1950, representative organs for workers were established. In 1954, enterprise self-management bodies were granted the right of autonomous decision-making with respect to production, and in 1957 such enterprises acquired the right to control the resources intended for personal incomes. In 1965 the rights of producers in determining production were expanded and reforms designed to increase the role of market forces were implemented.

The Yugoslav economy performed quite well through the mid-seventies, rates of personal consumption and standards of living grew dramatically. For example, between 1962 and 1966, personal incomes grew by 244 percent (Singleton and Carter 1982). In addition, despite concern that self-managed enterprises would fail to allocate income for the expansion of production capacity, the amount invested grew in that period by 392 percent (Tysen 1980). During the mid-seventies, however, unemployment and inflation rates began to climb at an alarming pace. Laura Tysen (1980) has argued that the 1965 reforms, designed to increase independence on market forces, ultimately failed to reduce unemployment or inflation because these markets were distorted by regional barriers to the free flow of goods, by persistent but uneven price controls, and by ad hoc interventions in the market economy. A suboptimal allocation of capital was the result of a variety of factors: regional barriers to capital mobility (banks and enterprises were likely to invest in their own regions—"political factors"); artificially low interest rates and price controls; flawed "credit rationing rules"; and the absence of a consistent measure of aggregate capital stock.

Tysen concludes that others have been incorrect to assume that the problems of the Yugoslav economy can be attributed primarily to the institutions of self-management. While the fact that workers were often not held responsible for poor economic decisions may have been significant, productivity remained quite high. In addition, since some firms worked in fact bear the cost of poor business decisions. Thus, the extent to which soft budget constraints existed was relatively rather than economically determined.

By the early 1990s Yugoslavia had become a political, social and economic disaster. However, it would be premature to attribute this to the "inherent inefficiency" of self-management. The mixture of markets and redistributive mechanisms has produced exceptional dynamism in China during the 1980s and early 1990s, and the transition from a centrally planned economy to the system of economic self-management in Yugoslavia was a great success during the 1960s and early 1970s. Careful research is needed to determine what ultimately caused the downfall of the Yugoslav experiment; economic inefficiency, problems of political legitimacy, and ethnic-religious tensions suppressed by Communist political rule all may have played a role.

**Conclusions**

It is not clear whether the collapse of the socialist system in Eastern Europe was driven by economic factors or by more complex political and social dynamics. The common wisdom today is that the socialist collapse was not a result of an economic system it did not work. This appears to be a somewhat simplistic argument (Szelényi and Szelényi, forthcoming) for a number of reasons.

First, it appears that socialist economies, especially those countries that entered socialist transition from a state of economic development, enjoyed a great deal of political success. Economic development in Russia, for example, closed the gap between itself and the West until at least the mid-1970s. By most measures (including life expectancy, child mortality, literacy rate, math scores of high school graduates, proportion of high school or university graduates and per capita GNP growth), many socialist countries have performed well. Cuba is still re- garded as a success story in Latin America, despite several U.S. economic sanctions against it. On the whole, though, we can say that prior to 1975, socialist economies did not, on average, perform worse than capitalist economies in similar stages of development.

What happened to these economies following 1975 must be explained. One possible explanation is that these economies are efficient only in the extensive stage, and that their collapse is linked to the transition from the extensive to the intensive stage.

Second, China serves as an important counterexample to those who argue that socialism cannot work. Since 1978, China has produced the highest growth rates in the world. This country remains overwhelmingly characterized by collective ownership, and it appears that the private sector of the economy continues to be dynamic. In fact, the most dynamic sector of China appears to be rural industry (Huang 1990, 1991), which is typically communally owned and managed.

China may be on its way to capitalism, but by no means can it be considered to be a capitalist economy at this stage. Similarly, its dynamism cannot be attributed to the private sector. It appears that the system breakdown of socialism occurred as the result of the interaction between a variety of factors: internal economic difficulties, pressures from the world market (including the second industrial revolution, increased debt, and policies pursued by IMF and the World Bank designed to alter the socialist character of these economies), increased military competition after 1981, internal political processes, the deepening of a precocious stagnation crisis as a result of declining living standards, intellectual dissent, and intra-elite conflict.

It appears to be an oversimplification to argue that the political collapse of socialism was solely the result of its economic failure. To put our central hypothesis very provocatively: it is entirely possible that, contrary to the assessment of most economists and social scientists, the fundamental problem was political, not economic. Some liberal economists argue that competitive market economies (and thus capitalism) are more efficient than state socialist economies. But purely economic grounds socialism might have survived. Its fall may have been largely the result of the pressure of its inability to sustain a legitimate political system, particularly in the context of intra-elite conflict. It was more difficult for socialist governments to develop democratic institutions than to implement economic reforms that produced sufficient economic growth.

Indeed, it is noteworthy that while socialist economies faced economic crises, the USSR survived until 1991. This could not have been possible without the collapse of the Cold War. China is currently in an economic recession, postcommunist regimes should be falling now, since the Chinese have produced without exception total economic collapse. The GNP in China has declined by 10-15 percent a year, unemployment has increased from 0 to 15-30 percent, and levels of debt, inequality, and inflation have increased.
If economic performance alone determines the success of a system, postcommunist regimes should falter. Interestingly, however, there has been very little sympathy for the postcommunist economic order disintegrates.

One possible explanation is again political—perceptions of the size of administrative standards and a dropping GNP because they hope for the democratic transformation of their political systems. In Analysis 1993 Boris Yeltsin won a national referendum despite the economic record of his administration. The people of Russia expressed trust in his leadership and rejected the People’s Congress base they judged it to be undemocratic.

This is not meant to be an apologetics for state socialism, but a call for a more objective assessment of the performance and fate of socialism and postcommunism. The assumption that socialism had to fail and that postcommunism will inevitably work too much for those who grant and does not hold up under critical scrutiny. This chapter is a plea for a more balanced analysis of state socialist and postcommunist societies.

Notes

1. The key elements of this theory are based on work of Polanyi, as early elaborated by Kornai, Streeck, Weiler, and as well as on the work of Jonas Kornai, in spirit of his different terminology of bureaucratic coordination.

2. Kuzyk and Otto Bauer were among the very few who took a long stand against the Leninist state and considered that system to be "state capitalism" (Kuzyk and Otto Bauer, 1929-1930, p. 59-60). Both Kuzyk and Bauer were disenchanted by the dictatorial nature of the early Soviet-Russian state. They believed that the essence of socialism is democracy, and the Soviet system was the dictatorial new state as socialist.

3. Trotsky therefore called upon the Soviet working class to organize itself, overthrow the Stalinist bureaucratic, and regain political power. The social revolution, for Trotsky, had been completed with the transformation of relations of production and the class structure.

4. Decades earlier, in his brilliant Workers in a Workers’ State, demonstrated empirically that socialist workers should not do the bureaucracies as "themselves" and do develop an identity as "us" (Harrari 1977; Barlow 1978), pp. 156-208.

5. The Trotskyist argument that the USSR had successfully completed its social revolution meant that in the last analysis the USSR must be considered more progressive than the best of the capitalist countries. The Hitler-Stalin Pact made this position untenable.

6. Though Castoriadis preferred to call the USSR "total bureaucratic capitalism" rather than "state bureaucratic collectivism—a pedantic but substantive difference: Castoriadis 1978-79, p. 46.

7. This brilliant essay belongs to the "bureaucratic collectivism" school, although the authors used the somewhat pejorative term "dictatorship over needs" as the synonym of "bureaucratic collectivism."

8. Polanyi was quite aware that the Soviet economy had moved through various stages of an imperial economy. Despite this, neither he nor any of his followers ever made a sustainability analysis of the theory of Soviet-type economies.

9. Boris Yeltsin noted before that the social business cycle worked and offered a plausible hypothesis— inspired by the work of Kornai—regarding the cause of this socialist business cycle.

10. It is at this point that Kornai’s theory of budget constraint converges with the theory of socialist redistributive economy. The decisive factor that softness the budget constraints of publicly owned firms is the tendency of the owner-state to interfere in the process of capital accumulation. One could “solve” the problem of softness of budget constraints in a socialist economy if the central planning authority would cease interfering in the accumulation process and appropriating surplus from more profitable firms. In principle the solution is simple: instead of appropriating income from firms the state should tax each firm at the same rate. Firms that could not pay those taxes should be allowed to go under, while those that could pay taxes and generate profits should be allowed to keep growing. In other words, if the state stops interfering in the process of capital accumulation one will have firms with social ownership.

11. This does not mean that the large corporations do not have hard budget constraints, because they do engage in oligopolistic competition.

12. Large seems no option for outsourcing competitive small-scale industry and farming, though he sees public ownership of large firms as desirable.

13. "An economic system based on private enterprise can take very imperfect account of the alternatives sac
cifically, labor-saving, and they are sacrificed without being accounted for as a cost of production. A socialist economy would be able to put all the alternatives into its economic calculation" (Laski 1943, p. 104).

14. Of course one could also construct an argument that two sets of elites make social conflicts more intense. Two elites may not increase the autonomy of nonelites, but create instead a system of "dual exploitation."

15. It is somewhat ironic that the theory of economics as an "art form" is so far from a Hungarian economic when Hungary was regarded from the early 1970s as an example of "refrigerator" or "steam" economies ("socialist" or "consumption society") with an abundant supply of consumer goods.

16. David Stark makes a similar argument concerning Eastern Europe (1992). In a brilliant analysis he suggests that the postcommunist postcommunism of the trajectory of path-dependent development and therefore it is better to understand the current changes as a transformation of existing institutions rather than a transition to a tele
cologically specified state of the economy. One of the au
dors of this chapter made a similar argument about late socialist development in Eastern Europe and predicted that Eastern Europe might reconverge the trajectory it had deviated from during the socialist epoch rather than simply making a revolution to the supposed "original path" (1988).

17. In his discussion of the Paris Commune, for example, Marx argued that it failed, of course, to serve as the source for all large industrial systems of France. As soon as Paris, and other centers, were brought into communal administration, the Parisian workers were reestablished as proprietors who replaced in the provinces by self-managing producers" (Marx [1891] 1978, p. 32).

18. Experiments in worker self-management have enjoyed some success, particularly those that are relatively small-scale. The kibbutz in Israel, for example, are based on worker self-management: all participants in decision

making, management functions rotate, and members’ needs are provided for on an egalitarian basis. While the kibbutz produce one-third of Israel’s agricultural output and slightly less than one-tenth of its industrial output, they employ less than 4 percent of the active population.

19. According to Kornai 1980 the "original sin" of socialist economies is that firms that are not profitable cannot go bankrupt. Worker self-management, many have ar

gued, aggravates this problem. Workers’ primary interest is to retain their jobs, and if power is given to the direct pro

ducers, the likelihood that unprofitable firms will go broke or will remove in more profitable endeavors is de

creased. On the other hand, the Yugoslav economy did enjoy high rates of growth for an extended period of time. Like the Hungarian economy, it is characterized by a "centralized socialism " worked in a certain historical context. Thus it appears that the economic downturn in Yugoslavia, like the other East European countries, was the result of a complex inter

action of economic and political factors.

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