

**Between  
Capitalism  
and  
Socialism**

*Essays in Political Economics*

*by Robert L. Heilbroner*



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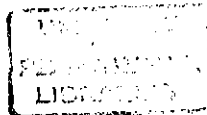
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CHAPTER **1**

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*Rhetoric and Reality  
in the Struggle between  
Business and the State*

Anyone who examines the political economies of the Western world during the past century and a half is bound to be struck by a broad pattern of change, almost a Toynbean advance-and-retreat, observable in all of them. This is the extraordinary expansion of the realm of business within society for the first hundred or so years of the period, followed during the last fifty-odd years by an equally striking growth of the realm of government. Even at a cursory glance, this pattern is manifest in the changing statistical contours of public and private activities. But the change has permeated the fine structure of society as well. If we can

imagine a series of historical x-rays showing us, from generation to generation, the operative influences on daily life, or the relative esteem accorded to men in various pursuits, or simply the content of the national table talk, there is little doubt as to what the sequence of photographs would reveal. During the nineteenth century, a salient feature of nearly every aspect of life was the growing presence of business; in the twentieth century, it is the increasing prominence of the state.

I doubt that there is much disagreement that this phenomenon constitutes a central historical fact of our times. What is curious is how ambiguously and unclearly it is still understood. One would think that by now this central pattern would have been fashioned into an historical narrative whose main themes were perceived and accepted alike by everyone. Instead, we find that the very plot of the drama is still open to the most contradictory explanations. In fact its two leading critics present diametrically opposed versions of its meaning. According to one, the Marxian, the rise of the state must be understood essentially as a defensive reaction of capitalism against its internal disorders, a reaction that utilizes the state—the “executive committee” of its ruling class—to shore up the system against collapse. According to the other, the libertarian, far from being a committee for managing the common affairs of the bourgeoisie, the state is its chief enemy, and the long swing toward state power accordingly portends not the defense but the decay and destruction of capitalism.

This striking clash of views is in one sense a wry commentary on the relation between history and historians, or perhaps a case study for the sociologists of knowledge. But there is more here than an opposition of rhetorics, impor-

tant as they are. At least in my view, the existence of these two contradictory explanations suggests that neither has succeeded in fully elucidating the problem of the business-state relationship because neither has fully grasped the central reason for the change in that relationship. Taking courage from the example of David, what I wish to attempt in this essay is to suggest what that reason may be.

## I

Let us begin by looking briefly at the conflicting interpretations of the problem that emerge from the two rhetorics themselves. It is to be expected, of course, that history would reveal itself very differently, according to whether it was being studied from the vantage point of libertarian thought,<sup>1</sup> essentially as the social expression of ideas, or from the Marxian angle, as the manifestation of class interests, but it is nonetheless enlightening to note how the business-state struggle appears to each side.

The divergence of interpretations begins not with the attempt to explain the rise of the state in the twentieth century but with the preceding rise of business enterprise in the late eighteenth and nineteenth. In the Marxian view, there is little here that needs explication, once one accepts the

1. There is something of a problem in defining the core of libertarian thought, since it lacks the authoritative counterpart of the Marx-Engels canon. The nearest one can come to an unimpeachable representation is Herbert Spencer or William Graham Sumner, but few modern libertarians lean any longer on these spokesmen of classic thought. I have mainly relied on three writers whose views, while not wholly alike, seem to me to represent a fair sample of the modern school: Walter Lippmann, *The Good Society* (Boston, 1937), Friedrich Hayek, *The Road to Serfdom* (Chicago, 1944), and Frank H. Knight, essay on “Free Society” in *On the History and Method of Economics* (Chicago, 1963).

premise of the underlying propulsion of the forces of economic history. As a kind of preview of the expected fate of capitalism in the twentieth century, the eighteenth and nineteenth centuries are seen as a time when the relations of production and exchange were uneasily contained within a legal and political integument incompatible with their full expression, and the revolutions of those centuries were, accordingly, the sign that these integuments had been finally burst asunder. What followed thereafter was simply the dazzling trajectory of the hitherto inhibited market forces now operating in the benign environment of a "capitalist" society. In a famous sentence in the *Communist Manifesto*, Marx and Engels have aptly described the period as one in which "the bourgeoisie . . . created more massive and more colossal productive forces than . . . all preceding generations."

The libertarian explanation of this same phenomenon of capitalist growth comes as a sharp contrast. In its interpretation of history the propulsive force making for change is not an economic drive that seeks an appropriate political and social superstructure, but a profound reorientation of political thought—in the words of Frank H. Knight, "the greatest revolution of all time or since the dawn of conscious life."<sup>2</sup> It is this political change that eventually creates a social order in which a new kind of unfettered economic relationship becomes possible. Thus, whereas in Marxian analysis economic forces constitute the independent variable of history and political forces the dependent variable, in libertarian thought it is the other way around. Hayek, for example, describes the emergence of the business world in these terms:

2. Knight, *op. cit.*, p. 289.

During the whole of the modern period of European history the general direction of social development was one of freeing the individual from the ties which had bound him to the customary or prescribed ways in the pursuit of his ordinary activities. The conscious realization that the spontaneous and uncontrolled efforts of individuals were capable of producing a complex order of economic activities could come only *after* this development had made some progress. The subsequent elaboration of a consistent argument in favor of economic freedom was the outgrowth of a free growth of economic activity which had been the undesigned and unforeseen by-product of political freedom.<sup>3</sup>

Starting from such different angles of incidence, it is not surprising that the two rhetorics see the next decisive stage of the drama in opposite perspectives. For the libertarian, the rise of the state represents a reversion—an "astounding counterrevolution," in the words of Frank Knight—from the pursuit of freedom that had given meaning and direction to the nineteenth century; for the Marxians, it represents simply the next stage in the economic unfolding of history.

In detail, each side has a more complex explanation of the trend of events. The libertarians are not content merely to ascribe the rise of the state to a falling away of belief in freedom. Rather, they trace this decline of belief to two still more fundamental developments. One of these, ironically, is generated by the rise of freedom itself—a desire for improvement that races out ahead of capabilities, a rise in impatience unmatched by a necessary rise in public understanding.

The eyes of the people [writes Hayek] became fixed on new demands, the rapid satisfaction of which seemed to be barred by the adherence to the old principles. . . . And, as

3. Hayek, *op. cit.*, p. 15 (emphasis added).

the hope of the new generation came to be centered on something completely new, interest in and understanding of the functioning of the existing society rapidly declined. . . .<sup>4</sup>

Frank Knight makes the same point even more explicitly:

. . . [I]n essential ways the liberal movement went wrong, partly because of a failure to think out its problems, but essentially because it generated expectations and implied promises incapable of fulfillment.<sup>5</sup>

An impatience with the liberal order was not, however, the whole reason for the decline of the liberal philosophy. At the very time of the trial of liberal society, there also began, Hayek tells us, a significant transfer of intellectual leadership from England to Germany, whence radiated the counter-liberal thought of Hegel and Marx, List and Schmoller, Sombart and Mannheim.<sup>6</sup> In a word, freedom was faced with the active competition of another idea whose historic magnetism had begun to rival it—the idea of collectivism. As Walter Lippmann writes:

It may be said, I believe, that between say, 1848 and 1870, the intellectual climate of the western society began to change. At some time in that period the intellectual ascendance of the collectivist movement began. . . .

More than seventy-five years passed before the collectivist movement was dominant in actual affairs, but in the middle period of the nineteenth century it established itself in men's thought . . . [F]reedom ceased to be the polestar of the human mind. After 1870 or thereabouts men thought instinctively once more in terms of organization, authority, and collective power.<sup>7</sup>

4. Hayek, *op. cit.*, pp. 19–20.

5. Knight, *op. cit.*, p. 290.

6. Hayek, *op. cit.*, p. 21.

7. Lippmann, *op. cit.*, pp. 46–47.

As might be expected, the Marxian explanation of the rise of the state eschews considerations such as these, and hews to the direct line of economic history, with its main theme of an unfolding process of production confined within a more or less appropriate legal and political framework. The Marxians thus see the twentieth-century rise of the state as a functional change rendered necessary by the “inherent contradictions” of the market process itself. For looking more closely into the origin of various state interventions, the Marxians discover that both the authors and the beneficiaries of state power were, in large part, the business community itself. The point has since been made by numerous non-Marxian historians, for example, E. H. Carr:

The Federation of British Industries and the National Union of Farmers were more effective forces than the trade unions in determining the course of British economic policy in the great depression. . . . It was thus the capitalists—the industrialists, farmers and financiers—who, unwilling to see the capitalist theory of the elimination of the unfit applied to themselves, begged the state to save them by laying the foundations of an ordered economy.<sup>8</sup>

## II

Therewith, in brief, the salient argument of the contradictory rhetorics. Each provides a consistent rationale for the pendulum swing of business and state, and each lays bare, I think, important aspects of the problem. Yet it is equally clear that neither gives us a wholly satisfactory explanation of the underlying phenomenon of change itself, for reasons which we must now review.

8. E. H. Carr, *The New Society* (Boston, 1947, paperback ed.), p. 28.

The strengths and weaknesses of the libertarian position are perhaps easier to deal with than those of the Marxian. To begin with its strengths, there is undoubtedly something to be reckoned with in the liberal contention of a *changed* point of view—a “spiritual collectivization,” in Wilhelm Roepke’s phrase<sup>9</sup>—discernible toward the end of the nineteenth century, and increasingly dominant in twentieth-century thought. The problems that are left unsolved are to account for this change in the prevailing direction of ideas and to account for the eagerness with which the new “collectivist” notions were welcomed. In libertarian writing, the change is treated as a kind of inexplicable shift, attributable at best to the rise of a malign “Germanic” influence, and the popular reception accorded it, a result of the unfulfilled aspirations generated by the idea of freedom. At best this seems a *partial explanation* that overlooks two deeper-lying reasons for the new trend of thought. One of these, which I shall hold in suspense for the moment, would connect the rise of collectivist thought—i.e., the new ideas of *social control*—with other related currents of intellectual activity in Europe and America during the last years of the nineteenth century. The second reason would seek to connect the disillusion of the public with the actual performance of the economy under the reign of *laissez faire*.

Certainly its failure to draw this second connection exposes libertarian thought to the most serious criticism. For as many nonlibertarians have pointed out, the irony of freedom, at least in its economic expression, is not that it leads to aspirations that outdistance achievements, but that it proposes an economic system that can only function with a

9. *The Social Crisis of Our Time* (Chicago, 1950), p. 13.

network of controls. As one historian of economic development has recently written:

Free competition, if it is not to degenerate rapidly into imperfect forms of marketing, needs—more than any other form of marketing—to be subject to all-embracing regulations and strict control. The *laissez-faire* regime does not produce perfect markets, but provides an opportunity for the stronger to liquidate the weaker or reduce them to a subordinate position.<sup>10</sup>

Alone (to my knowledge) among the libertarian thinkers, Frank Knight acknowledges this point:

As the system has been more fully worked out in the light of criticism and experience, in the generations since Smith’s *Wealth of Nations* was published in 1776, more and more implicit assumptions have been brought to light, conditions more or less contrary to fact, that must be fulfilled if the working of the system is to be such as can be ethically approved. Many of these conditions could be established only by social action going far beyond the *laissez-faire* ideal of policing against force and fraud.<sup>11</sup>

Thus the system poses a paradox. Unregulated, it will lead to results (in particular, as Knight goes on to point out, concentration of industry and instability of output) that are not only “ethically” intolerable, but that require government intervention to assure its continued functional operation. Regulated, the system is—at least, in the eyes of its libertarian theorists—a contradiction in terms.

This intellectual weakness of libertarianism is compounded by its failure to trace the part played by business-

10. Celso Furtado, *Development and Underdevelopment* (Berkeley, 1964), p. 98.

11. Knight, *op. cit.*, p. 292.

men themselves in the erection of the state apparatus that presumably curtailed their freedom. The relationship between business and the state, as we shall have a chance to see in the next section, is a very complex one, but certainly no careful historian can ascribe the rise of the state in economic life as constituting a wholly antibusiness sequence of events. Indeed, according to one recent historian, "The dominant fact of American political life at the beginning of this century was that big business led the struggle for the federal regulation of the economy."<sup>12</sup> This may overstate the case, but I think it would be generally admitted that important sections of the business world were always favorably inclined to the use of government power to eliminate the competitive dangers, and to a lesser extent the cyclical risks, of the laissez-faire world. In fact, on one occasion Judge Gary, the very conservative head of United States Steel Corporation, told an astonished Congressional committee:

I believe we must come to enforce publicity and government control . . . even as to prices, and, so far as I am concerned I would be very glad if we knew exactly where we stand, if we would be freed from danger, trouble, and criticism by the public, and if we had some place where we could go, to a responsible government authority, and say to them, "Here are our facts and figures . . . now you tell us what we have the right to do and what prices we have the right to charge."<sup>13</sup>

In a word, libertarianism fails to explain the rise of the state by failing to ground its prime mover—the change in

12. Gabriel Kolko, *The Triumph of American Conservatism*, New York, 1963, pp. 57–58 (emphasis added). Cf. also his *Railroads and Regulation*, Princeton, 1965.

13. Kolko, *op. cit.*, p. 124.

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the climate of ideas—either in the intellectual currents of the era, or in the direct malfunction of the system of economic freedom itself. In its noble, but single-minded and uncritical, fixation on the idea of "freedom" it loses sight not only of the self-destructive properties of an economic system based too casually on uncoordinated economic behavior, but of the independent development of other ideas rooted as securely in the development of their times as libertarianism was in its own.<sup>14</sup>

The Marxian rhetoric is much more difficult to criticize succinctly. Its strengths are obvious, particularly to a generation raised in the tradition of a mild economic determinism. The very weaknesses and hiatuses of libertarian thought are precisely where Marxian analysis is most searching and concentrated. Indeed, as a first approximation of a theoretical explanation of the events of the nineteenth and twentieth centuries, the Marxist approach to the changing characteristics of capitalism seems essentially correct.

At second glance, however, a serious problem emerges.

14. It seems necessary to add a word in passing on the libertarian concept of freedom itself. The notion is originally centered in political and intellectual freedom, but economic freedom—at first only a by-product, as Hayek mentions—is rapidly elevated to a position of equality with, then to one of guardianship over, these primary freedoms. This key point is vehemently asserted, but never demonstrated empirically (cf. Paul Samuelson in *The Business Establishment*, New York, 1964, pp. 225–227). In its most extreme expression we find, "What alone can prevent the civilized nations of Western Europe, America, and Australia from being enslaved by the barbarism of Moscow is open and unrestricted support of laissez-faire capitalism" (Ludwig von Mises, *The Anti-Capitalist Mentality*, Princeton, 1956, p. 112). Even in its milder expressions, the defense of the market system becomes central: "History speaks with a single voice on the relation between political freedom and a free market" (Milton Friedman, *Capitalism and Freedom*, Chicago, 1956, p. 9). As a result, libertarianism tends to end up as a philosophic defense of the status quo. It is also worthy of comment that for all their rhetoric, the libertarians are not notable for their defense of academic or civil liberties.

NO!

It lies in the unconvincing description of the relationship between the forces of the economy, whose dysfunction Marxism makes explicit, and the interventionist action of the state, presumably for the purpose of restoring capitalist health. As Strachey has put it:

The undeniable fact is that the typical American businessman and to some extent his British counterpart also today hates and fears the American and British state. Even under his own Right Wing Eisenhower Administration, the American businessman keeps up a violent propaganda against what he calls "big government," that is to say, against the encroachments and interference of the state in economic activity. . . .

Now how could this attitude of mind have developed in the American and British capitalist class if the state was still *their* state? If the British and American capitalist classes had still a secure and undisputed control over their state machinery, they would certainly not hate and fear it. They might—no doubt they would—restrict its activities very closely. They would prevent it from interfering with their profit-making activities, although they would employ it unhesitatingly to regulate and control the wage-earners. But in any case, they would not regard it as something which could possibly be used against them.<sup>15</sup>

Strachey's statement goes to the core of the Marxian problem. If the rise of the state is to be viewed primarily as a defensive maneuver of capitalism, it is difficult to account for the intense antigovernmental bias of capitalists themselves. This difficulty has, in fact, led to an attempt to re-define the Marxian view of the state in a somewhat more flexible way.<sup>16</sup> Paul Sweezy, for example, qualifies the orthodox view as follows:

15. "Has Capitalism Changed?" in the book by the same name, Shigeto Tsuru, ed. (Tokyo, 1961), p. 81.

16. It is interesting to note, if only in passing, that Marx himself is

The liberal and to a large extent also Social Democratic view that the state is a neutral agency which exists to serve the interests of the whole society is of course false. But this does not mean that it can be replaced by what may be called the vulgar Marxian theory that the state always and everywhere and automatically serves the interests of the ruling class.

The main weaknesses of the latter theory may be formulated as follows:

(a) There are conflicts between the true long-run interests of the ruling class and the short-run interests of particular segments of it.

(b) Because it wears ideological blinkers which distort its view of reality the ruling class does not see clearly what its true long-run interests are and hence acts on a false conception of ruling-class interests.

(c) Under certain circumstances, other classes or segments of classes can force the state to make concessions to their interests. There are naturally limits to all these qualifications, and it is doubtless true that *in general* the state serves the interests of the ruling class. But in any given situation the range of alternatives is wide and the course to be followed is far from mechanically predetermined.<sup>17</sup>

Sweezy's position is far from representative of prevailing Marxian doctrine today,<sup>18</sup> but it does offer an attempt to rescue Marxian thought from the dilemma that Strachey has pointed out. Unfortunately, Sweezy's retreat leaves Marxism

not of one opinion about the state. In a number of places he specifically speaks of it as having an existence "above" the class structure (e.g., in the *18th Brumaire*), although this position is retrieved in the end by having the state "represent" the "dominant class interest." For a discussion of this ambiguous state of affairs, see Ralph Milliband, "Marx and the State," in *The Socialist Register*, New York, 1965, p. 283f.

17. Tsuru, *op. cit.*, pp. 87-88.

18. Cf., for example, Bettelheim's essay in the Tsuru book previously cited, or Baran's and Sweezy's view in *Monopoly Capital* (New York, 1966). In this latest book, the view of the state is much more inflexibly stated as an instrument of the ruling class.

with an essentially indeterminate relationship between business and the state. The question-begging introduction of "true" versus "false" class interests, and the admission that there are effective political forces other than those exercised or controlled by the capitalist class itself open up, rather than seal off, the problem at hand. At best we are left with a plausible case for the identity of interests between the business world and its executive committee, the state, in the nineteenth century, when, however, the growth of the state apparatus was *least* conspicuous. But this clear identity of interests breaks down just when we need it most, in the second quarter of the twentieth century.

### III

Thus, neither the libertarian nor the Marxian rhetoric provides a very satisfactory account of the central phenomenon of capitalist development—the growing prominence of the state associated with the maturation of capitalism. The libertarian view alerts us to a pervasive change in the climate of ideas without in any way relating that change to the changing realities of the times, and the Marxian view explains the defensive function of state intervention without, however, explaining why this intervention was so bitterly resisted.

Faced with these deficiencies, most liberal (as contrasted with libertarian) thought seeks an eclectic "middle" position today. Eschewing on the one hand the problems associated with the idea of a waning commitment to "freedom," and on the other those of defining the class orientation of the

state, it deals with the phenomenon of a growing government presence within capitalism as a fact to be explained in a highly pragmatic way, without rhetorical overtones. For example, in his sophisticated treatment of capitalism in Europe and America, Andrew Schonfield describes the critical changes within modern capitalism as follows:

1. There is the vastly increased influence of the public authorities on the management of the economic system. This operates through different mechanisms in different countries. . . . In all of them the government's expenditure has become enormously enlarged and determines directly a large segment of each nation's economic activities.
2. The preoccupation with social welfare leads to the use of public funds on a rising scale. . . .
3. In the private sector, the violence of the market has been tamed. Competition, although it continues to be active in a number of areas, tends to be increasingly regulated and controlled. . . .
4. It has now come to be taken for granted . . . that each year should bring a noticeable increase in the real income per head of population. . . .
5. The characteristic attitude in large-scale economic management, both inside government and in the private sector, . . . is the pursuit of intellectual coherence. Its most obvious manifestation is long-range national planning.<sup>19</sup>

This essentially matter-of-fact, nonideological point of view is unquestionably the one that commends itself most naturally to American thought, with its traditionally political rather than economic, and pluralist rather than polarized, way of looking at things. The rise of government authority then becomes a purely "functional" development, a matter of attending to the "public interest," without inquir-

19. *Modern Capitalism* (New York, 1966), pp. 66-67.

ing too closely into precisely what functions it serves, or whose interests the "public interest" represents.

This apolitical approach is extremely useful, so long as analysis is confined to problems "within" the system as a whole. Thus when we discuss the nature of the planning that Schonfield describes in Europe and America, the simplest approach is one that treats the government as if it were itself only one of the numerous constituencies contending to shape national policy. In this way, the emergence of government power becomes particularized as the study of the specific conditions that lead now to the regulation of such and such an industry, or again, to the public assumption of responsibility for such and such a problem.

Accustomed as we are to dealing with the problem of government from such a pragmatic, pluralist set of preconceptions, the underlying sense of drama of both libertarian and Marxian rhetorics strikes us as an unnecessary encumbrance, an embarrassment rather than an enlightenment. Yet there is a weakness in the liberal approach—a weakness that is, in the end, no less vitiating than those that impair the usefulness of the rhetorics it seeks to replace. The weakness is a lack of a consistent rationale to explain the secular drift to the facts it investigates one by one. In a word, what the nonideological approach misses is the ingredient that the rhetorical approaches have in surfeit—a sense of overall direction to events. It is significant, for example, that in his treatment of capitalist planning mechanisms, Schonfield has no word as to the long-term structural implications of the tendencies he observes, and that he does not even consider the question central to both rhetorics: whether or not the rise of public authority implies the preservation or the transformation of capitalism itself.

#### IV

Is it possible to discover such an underlying trend—a rationale that will enable us to see the struggle between business and the state in the light of a long evolutionary swing, while avoiding the excesses of the prevailing rhetorics? I believe it is, and in the final sections of this essay I hope to sketch out what such a secular tendency might be.

It may help set the stage if we take a moment to establish some empirical dimensions to the historic swing we have been discussing. In precisely what ways has the presence of government become manifest? In what areas of life has it entered? These questions may lead us toward the subterranean propulsive force that we seek.

The questions are not easy to answer, for despite general agreement that the public sphere has greatly enlarged during the twentieth century, its appearance varies widely from one country to another. For example, the most unambiguous form of increased public economic activity—the actual nationalization of production—runs a wide gamut among contemporary nations, ranging from perhaps 15 to 25 percent of output in a few countries—mainly France, England, Austria, and Italy—to a negligible fraction in the United States or in the supposedly "collectivist-minded" Scandinavian group.<sup>20</sup>

Moreover, the reasons for the growth of these nationalized sectors are themselves varied. In England, for instance, the nationalization of industry resulted from the deliberate

20. See M. M. Postan, *An Economic History of Western Europe*, London, 1967, p. 220f.

that, have ranged ourselves against nearly every movement that might have led men toward a better life, on the grounds of our opposition to communism. Now the question is whether America will take its ultimate stand on the side of humanitarianism or moralism, self-reliance or fear, open-mindedness or dogma. The challenge goes to the very core of this nation—its structure of power and economic interest, its capacity for reasoned discussion, its ultimate inarticulate values. It is not alone the life and death of anonymous multitudes that is weighed in the balance, but that of the American conscience, as well.

## CHAPTER 5

### *Reflections on the Future of Socialism*

#### I

Some years ago, writing on the prospects for American capitalism, I began by asserting that the capitalist system, whatever the strains and stresses to which it would be subject, bade fair to remain the dominant system in America and Western Europe during our lifetimes, and that any serious attempt to project large-scale social trends should begin from that premise.<sup>1</sup> Now I should like to undertake a similar speculative examination of the prospects for socialism, for I also take it as a datum that some form of socialism will be the predominant economic system in most of the rest of the

1. See *The Limits of American Capitalism*, Ch. 1, pp. 3-4.

world during our lifetimes, and that even in Europe and America it will constitute the image of a society against which capitalism will be measured by its critics.

But no sooner do we raise the question of the prospect for socialism than we encounter a difficult problem. It is the problem of deciding what we mean by socialism. How is one to speak of the prospects of a "system" that presumably embraces Norway as well as Soviet Russia, or that is expressed by the ideas of Bernard Shaw as well as of Mao Tse-tung? If there is a single identificatory mark of socialism, it is certainly not immediately visible on the surface.

Yet, at second look, perhaps we can find a way of penetrating the surface variety of socialist institutions and thought to reach a common core. For it is not socialism alone that presents us with a confusing heterogeneity of systems, but capitalism as well; and yet we feel perfectly assured in applying the common term "capitalist" to worlds as far apart as those depicted by Sinclair Lewis and Thomas Mann, or Faulkner and Proust. And there is a very good reason for our generalizing approach to the societies of capitalism. This is the presence within all of them of a common set of institutions and ideas—the institution of the basically uncontrolled market system and the ideas of the legitimacy of the private ownership of the means of production. In a word, we find a *business system* at the core of all capitalist societies, no matter how diverse their other characteristics. Whatever their incompatibilities in culture or lifestyles, *Buddenbrooks* and *Babbitt* were both businessmen, and as such they understood and shared important common activities and values and goals.

Hence the obvious question is whether there is not, within the variety of socialist nations, a similar core of institutions

and ideas that might play the same identificatory role as does business within the many forms of capitalism. The question has an obvious answer: one element of the socialist system must certainly be the structural element that we find in all socialist societies, corresponding to the market system in capitalism. This is the predominance of some form of *planning*.

But this structural element is by no means enough in itself to provide an infallible identification for socialism—after all, one can find some degree of planning in all capitalist nations and some evidences of the market in all socialist societies. Hence we must add a critical second attribute by which socialism can be identified. This is the common presence of a guiding socialist *ideology*, corresponding to the business ideology in capitalism.

What is the content of this socialist ideology? It will help if we begin by differentiating it from that of capitalism. I think it is fair to say that the beliefs of the business system mainly concern themselves with the justification of the prevailing economic order, especially the institution of private property and of the relatively free market. To put it differently, no capitalist nation or philosopher or economist has any grand designs for the fundamental reshaping of society through capitalism. Certainly capitalism aims at the material well-being of its constituents, but equally certainly it entertains no thought that the pursuit of well-being will alter the basic class character of the system or modify the competitive or acquisitive drives from which the system derives its momentum. That is what it means to say that capitalist thought is essentially conservative.

By way of contrast, socialist thought is primarily concerned with bringing into existence a social order very

different from that which it finds in the world. Thus its use of planning—or, for that matter, of the market mechanism—is guided by purposes wholly at variance with those of capitalism. Capitalism uses the market or planning to service and support a social system in which the prosperity of the capital-owning class is a central aim of economic policy. Socialism not only denies the legitimacy of this underlying conception, but it intends the instrumentalities of plan and market to create an egalitarian society in which no class may gain the strategic position conferred by the ownership of society's productive assets. Further, far from ignoring the effects of economic progress on classes and motives, as does capitalism, socialism intends progress to lead to the creation of a wholly new kind of society, free of invidious striving and built on motives of cooperation and confraternity.

It need hardly be said that there is a long step between socialist declaration and socialist reality. In addition, let us reiterate the point with which we began—that the variation among socialist nations is very great. Clearly, the mere presence of similar institutions and ideologies no more produces a common existential quality under socialism than it does under capitalism—indeed, life in “socialist” Yugoslavia may well resemble life in “capitalist” Italy more than it does that in “socialist” China.

What, then, is the usefulness of emphasizing the common features of planning and ideology? The answer is that these features make it possible to talk about the future of socialism. For the central presence of planning and its ideology has as important a consequence for socialism as the presence of the business system for capitalism. It is that within each type of society *these common elements give rise to common kinds of problems.*

Thus in reflecting on the prospects for, say, capitalism in Japan and America, it is necessary to bear in mind that for all the dissimilarity of their social and cultural environments, both are societies that must contend with the peculiar problems of a business structure and a business ideology. And in the same way, when we attempt to reason prospectively with regard to the outlook for the socialist nations, we must recognize that underlying their varied internal and external challenges, all of them must cope with problems characteristic of the institution of planning and endemic to the ideological goal in whose service the activity of planning is carried on.

## II

Our aim, in the following pages, will be mainly to explore the nature of these problems of socialism. But we must begin by bringing to the fore an aspect of the problem of socialism that complicates any discussion of its future trajectory. It is that socialism in our day must be considered with reference to two very different kinds of societies in two very different settings. On the one hand, socialism appears as a powerful force for change in the most backward and underdeveloped countries in the world; on the other hand, as an agency or as an ideal for social change in the most advanced and wealthy nations.

It is hardly surprising that the problems associated with planning or with the realization of the socialist vision are not at all alike in these two radically contrasting environments; the analogy is with the striking contrast between the problems of primitive capitalism, with its grim struggle be-

tween the classes, and those of advanced capitalism, with its vast middle class obedient to an advertising culture. The difference, however, is that whereas the problems associated with nascent capitalism are now largely relegated to the history books, those of "early" socialism exist side by side with those of "late" socialism. Thus we cannot discuss the problems of socialism without distinguishing between the form these problems take in each of its two contemporary manifestations.

Of the two, it is easier to describe the problems of socialism in the underdeveloped nations. I have written previously on this, so here I shall be very brief. The situation in most of the backward nations today can only be described as desperate. Present standards of living exceed subsistence requirements by so little that the least misfortune threatens catastrophe on a giant scale. Strongholds of foreign capital inhibit the redirection of the energies of the people. Incompetent or indifferent regimes seem unable or unwilling to galvanize their stagnant societies. And above this nightmarish landscape in which everything moves in slow motion towers an oncoming tidal wave of population advancing with horrendous speed: within the next ten years the number of women in the most fertile age brackets will double.

In these circumstances, the task of those socialist governments that have come to power, or of those that will, is clearly marked. It is to place their nations on a war footing against existing conditions, to mobilize whole populations for production, to attack the psychological as well as the physical handicaps of the backward areas with all the zeal and ardor of a military campaign.

Moreover, there is little doubt that revolutionary socialism, utilizing all-out planning, can accomplish these objec-

tives. The prodigies of the Russian advance, the extraordinary achievements in the modernization of China, the remarkable arousal of the Cuban people, all testify beyond possibility of doubt that "war planning" can realize its giant, but essentially simple, aims.<sup>2</sup> That this kind of massive planning is likely to be accompanied by enormously costly errors, or that it may, from time to time, imperil the success of the whole development effort through an excess of mindless zeal, is also to be expected. Yet the most serious and deeply rooted problems of planning in the backward world are not likely to be these perhaps inevitable mistakes of planning. Rather, as the examples of Russia and China and Cuba all show, *the endemic problem of planning in the underdeveloped nations resides in the noneconomic measures required to bring about the economic changes that revolutionary socialism so imperatively seeks.*

For the objectives of economic development do not lie, like a military citadel, exposed to the thrust of a single daring campaign. On the contrary, the development assault is better likened to a long grueling march through a hostile hinterland. The real resistance to development comes not from the old regimes, which can be quickly overcome, but from the masses of the population who must be wrenched from their established ways, pushed, prodded, cajoled, or threatened into heroic efforts, and then systematically denied an increase in well-being so that capital can be amassed for future growth. This painful reorientation of a whole culture,

2. Let me cite the three most objective sources I know to buttress these assertions. On Russian growth, Richard Moorsteen and Raymond Powell, *The Soviet Capital Stock, 1929-1962* (also Charles K. Wilber, *The Soviet Model and the Underdeveloped Countries*); on Chinese modernization, Barry Richman, *Industrial Society in Communist China*; on the Cuban effort, Wassily Leontieff, *New York Review of Books*, August 21, 1969.

judging by past experience, will be difficult or impossible to attain without measures of severity; and when we add the need to maintain a fervor of participation long beyond the first flush of spontaneous enthusiasm, the necessity for stringent limitations on political opposition and for forcible means of assuring economic cooperation seems virtually unavoidable.

To be sure, one must not overgeneralize as to this grim prospect. As with the not unrelated distortions of life imposed under the aegis of early capitalism, the extent of the deforming pressures of early socialism will vary from one milieu or regime to another. Some nations, unfortunate in their resource endowments or in their political connections with the industrialized nations, may be forced to undergo a more or less thoroughgoing totalitarian transition. Others, better endowed or better connected, may pass through the thirty or fifty years of the modernizing transformation with a minimum of repression.

In general, however, when we seek to project the problems of socialism in the underdeveloped areas, we cannot sidestep the probability that intellectual stiflement, political repression, and enforced social conformity will figure prominently among them. Let me be quite explicit that when the alternatives of such a disciplined existence are degradation, misery, and premature death, the exercise of sternness and indoctrination appears in a very different light from that of an arbitrary and capricious tyranny. Nonetheless, the exercise of these measures, however necessary to assure the success of the development effort, is likely to affect the future of the nations who must suffer them no less severely than the hated influence of imperialism affected their past. When we look to that future and inquire as to the outlook

for socialism in the backward lands, it is necessary to recognize that it is likely to emerge both as the salvation of its otherwise doomed people, and also as the source of a moral and intellectual infection from which it may take generations to recover.

### III

However uncertain its outcome, it is at least clear what the general objectives of revolutionary socialist planning must be in the underdeveloped areas. But the matter gets much more complicated when we now begin to look into the problems of socialist planning at the other end of the spectrum—in the advanced nations where the modernization process is already complete.

Here it may help if we quickly review the history of the problem before examining its present-day characteristics. It is interesting to note that the very identification of planning as an intrinsic aspect of socialism is a relatively modern development. Before the Russian Revolution, the main concern of the leaders and theoreticians of socialism was largely historical—namely, how a new social order would emerge from the conflicts within an old one. Not until an actual socialist society had come into existence did the question of planning, only glancingly referred to by Marx and airily dismissed by Lenin, assume the central position of importance that it occupies today.<sup>3</sup> And not surprisingly,

3. In a famous passage in *State and Revolution* (Ch. 5, p. 4) Lenin described the activities of administering a socialist state as having been "simplified by capitalism to the utmost, till they have become the extraordinarily simple operations of watching, recording and issuing receipts, within the reach of anybody who can read and write and knows the first four rules of arithmetic."

shortly thereafter came an attack on planning as the Achilles' heel of a socialist system. Indeed, the most intellectually respectable criticism of socialism in the mid-1930's was the effort of Ludwig von Mises and Friedrich Hayek to destroy the credibility of socialism as a desirable social order, not by inveighing against its ideals or its excesses, but by demonstrating that the economic system on which it was based would not work.

In brief, their criticism was based on the contention that socialism was intrinsically unable to achieve a *rational* economic order—that is, a system in which all the factors of production were employed as efficiently as possible—because it lacked one critical mechanism: a market in which capital could be valued by the free offers of owners of capital and by the free bids of would-be hirers of capital. Since by definition there could be no private ownership of capital, no free market price for it could ever be ascertained. As a result, the only way of deciding which enterprises were to have capital, and which were not, was perforce the essentially arbitrary decision of some Central Planning Board. Such a system, it was presumed, could not long endure.

This line of attack against socialism did not fare very well. In the mid-1930's it was effectively demolished by Oscar Lange, the brilliant Polish economist then at Harvard. Lange demonstrated in two incisive articles that Mises had failed to see that a Central Planning Board could indeed plan rationally for the simple reason that it would receive exactly the same information from a socialized economic system as did entrepreneurs under a market system.<sup>4</sup> The only difference was that the Board would not learn about

4. *Review of Economic Studies*, October, 1936 and February, 1937, subsequently published in *On the Economic Theory of Socialism*, 1938.

the condition of relative scarcity or plenty of capital goods or other commodities by price changes, as under capitalism, but by the building-up or running-down of inventories. That is, when a good was underpriced, instead of its price going up, as in a free market, the planners would discover that supplies of the good were being depleted faster than they were being replaced. All the Board would then have to do was to raise the price until the level of inventories was again constant. As a result, it could allocate its resources quite as efficiently as any capitalist system. In fact, the allocation of capital (or other factors) arrived at in this way by a socialist state would not only be rational, but would be in many ways the *same* as that of a market system. The main differences would lie in the ability of the Board to supply articles of public consumption (such as education or parks or welfare services) on a more generous scale than in a laissez-faire system, and in its ability to set a higher rate of saving-and-investment than might be forthcoming under an uncontrolled system. But since a major criticism against laissez faire was precisely its failure to provide adequate public services or to generate a sufficiently high rate of growth, these departures from the market idea seemed certain to enhance rather than to diminish social well-being.

Indeed, Lange quickly shifted from the defensive to the offensive. Not only would a planned economy meet the criteria for rationality, but its superior performance would soon reveal the outmoded inadequacy of a free enterprise economy. "[T]he real issue," Lange wrote in italics, "is whether the further maintenance of the capitalist system is compatible with economic progress."<sup>5</sup> Or as Benjamin Lippincott wrote in 1938 in the introduction to the little

5. *Ibid.*, p. 110.

book in which Lange's articles appeared, "Where many under a capitalist economy must choose between a coat and a pair of shoes, under a socialist, many could choose between a radio and a telephone."<sup>6</sup>

More than a generation has now elapsed since the Lange articles appeared, and it should be possible to pass some sort of judgment on the debate. And the first judgment seems to be the irrelevance of the problem itself.<sup>7</sup> It is true, of course, that the absence of a market for capital can distort planning efforts—the Soviet predilection for huge and uneconomical dams and factories during their first Five Year Plans reflected their failure for many years to include a charge for capital in their projected industrial enterprises. But the obvious irrationality of this neglect of capital was eventually recognized, and a charge for capital was thereafter instituted.

But the whole question has an air of unreality. For what is the value of "rationality" as a criterion of economic performance? Are we to judge the Russian planning effort irrational because it has sacrificed present consumption for future growth to a far greater degree than the sacrificing generation might have voted for, had it been given the oppor-

6. *Ibid.*, p. 32.

7. It is interesting to note that in an article written toward the end of his life, Lange declared that were he to compose his famous articles on the possibility of rational planning again, he would give the problem much shorter shrift. For the computer, Lange believed, would give the Planning Board even *better* information than the market was capable of, especially with regard to long-term planning. "The market process with its cumbersome *tâtonnements* appears old-fashioned. Indeed, it may be considered as a computing device of the pre-electronic age" ("The Computer and the Market," in *Socialism, Capitalism and Economic Growth*, ed. C. H. Feinstein, p. 158).

tunity, but not, in all likelihood, to a greater degree than future generations would have voted for, if they could have? Per contra, are we to deem the American economy rational because it obediently provides its consumer markets with often trivial goods while it starves its housing market, or its central cities?

Clearly the trouble with rationality is that it has two meanings. On the one hand, it implies "reasonableness"—an attribute that is often glaringly absent under the market disposition of things as well as under a planned disposition. On the other hand, rationality also means that we will conserve the scarce resources of society by applying them where the need is greatest. That might seem to be a definition identical with "reasonableness," except for one thing: in a market society, "need" is determined by the existing distribution of income and wealth. An economy that produces lavishly for the rich and meanly for the poor is therefore "rational" in the sense that it is devoting its resources to those uses for which the greatest market demand exists, but it is hardly rational in the sense of being reasonable or just.<sup>8</sup>

Lange himself sensed that the basic problem was not really that of rationality at all. "*The real danger of socialism*," he wrote (again in italics), "*is that of a bureaucratization of economic life.*"<sup>9</sup> It is true that he raised the problem almost to dismiss it—bureaucratization would happen in any event, he thought, and there would actually be a better chance of controlling it under socialism because "officials subject to democratic control seem preferable to private corporation executives who are practically responsible to

8. Economists will recognize as well that whereas it is easy to specify what a rational distribution means in a static economy, it is impossible to do so when we deal with an economy growing over time.

9. Lange, *On the Economic Theory of Socialism*, *op. cit.*, p. 109.

nobody"<sup>10</sup>—but at least he saw that the test of socialist planning would be provided by criteria very different from those of a textbook on microeconomic perfection.

It need hardly be said that the experience of socialist planning, especially in the Soviet Union and Eastern Europe, has amply confirmed Lange's fears. For decades Lange's plan for a market-based socialism was ignored or dismissed as heresy, while socialist bureaucracies proved themselves increasingly incapable of handling their enormous ministries. Retrospectively, it is now far from clear whether corporation executives "who are practically responsible to nobody" do not find themselves under greater necessity to combat the stagnation of bureaucracy than socialist factory managers who find themselves personally responsible to a bureaucrat. The lesson of the postwar socialist experience is that the mechanism of planning is much more effective in laying in the foundations for an industrial society than in administering such a society after it has been brought into being. The more tightly linked the industrial activities of an economy, the more numerous its nodes of interdependence, the more problems does the planning apparatus encounter—not necessarily in the strictly economic form of irrational allocations of goods, but in the guise of low morale and productivity, frequent bottlenecks and partial breakdowns, faulty delivery schedules, poor quality of output, etc. As Paul Sweezy has commented with regard to the Soviet sphere in 1968, "Mass apathy, faltering productivity, economic stagnation—these and other symptoms of impending crisis were visible throughout the region."<sup>11</sup>

Thus the debate on socialist planning has come to a curi-

10. *Ibid.*, p. 110.

11. *Monthly Review*, October, 1968, p. 11.

ous conclusion. If the theoretical dispute has been settled in favor of socialism, the practical question seems to have gone the other way. On balance, the giant corporations of capitalism seem to have outperformed the lumbering ministries of production. This does not mean, however, that socialism has met an impassable barrier in the form of an inherent limit imposed by its planning capabilities. On the contrary, it has only brought about a belated move in every advanced socialist nation in the direction urged by Lange—away from centralized toward decentralized planning, and in particular away from the directives of a monolithic Central Planning Board toward the autonomy and flexibility of a market-based system. In the Soviet Union we have the much-publicized reforms of Liberman, in Czechoslovakia those of Ota Šik (at least until the Russian invasion), in Yugoslavia the adoption of a virtual "laissez-faire" market system in which the individual firm is run as a profit-making enterprise that vanishes via bankruptcy if it fails to meet the test of market viability, and in which the reach of central planning has been steadily reduced in scope.

Thus, ironically enough, socialist planning has been able to survive the difficulties inherent in the supervision of a complex industrial state only by reverting to the very market system whose shortcomings it was originally intended to redress. And yet, socialism has passed one test only to face another. The use of the market mechanism has unquestionably rescued socialism from a severe functional crisis. The question must now be faced as to whether it has done so by ceasing to be socialist.

## IV

Why should the market mechanism constitute a threat to socialism? The answer takes us back to the purposes for which planning exists under socialism. And among those purposes, it will be remembered, was the goal of equality, the ideal of a society in which men were no longer unfairly dealt their chances in life by virtue of their unequal access to the prerogatives of property.

Is the market intrinsically tied to this condition of inequality? The question is not an easy one to answer. On the one hand, there seems no more reason why the market cannot be used for socialist ends under a socialist state than why planning cannot be used for capitalist ends under a capitalist state. On the other hand, just as the mere presence of planning poses a sharp challenge, both structurally and ideologically, to capitalism, so the introduction of the market poses its inescapable problems for socialism.

Essentially the difficulty lies in the fact that in a market-run society, as we have seen, it is the distribution of purchasing power that sets the effective demands to which social effort will cater. But this raises a deep-seated problem for a socialist order. For if dollar votes are to shape the purposes for which social activity is carried on, it is important that these votes be distributed in accord with some principle of socialist equity. Nor is it difficult to discern what that principle should be. By every tenet of socialist belief in the inherent equality of men as human beings, there is a strong inherent bias toward a distribution of dollar voting power that will minimize the difference between one man's power

to influence the outcome of the economic process and another's. To put it differently, there is a deep socialist belief in the propriety of income equality, perhaps tempered by social allowances for age, family size, etc.<sup>12</sup>

But the trouble with this solution is that incomes serve another purpose, even in a socialist society, beside that of constituting the source of the demand for goods and services. Incomes also constitute the rewards for labor; and insofar as labor has different degrees of difficulty, danger or unpleasantness, skill and so on, it must be expected to command different rewards. Were this not the case, it would be exceedingly difficult for any economy that depended on the market to organize its production effectively. If skilled labor were paid no more than common labor, there would neither be any incentive for factory managers to economize on the former, nor much incentive for workers to undertake training that would ordinarily lead to a higher income.

Hence there are powerful reasons why a market society, socialist or other, must use a hierarchy of remunerations. But whereas this solves the problem of efficiency, it raises awkward questions of ideology. Is a society that permits or deliberately encourages differentials in income truly "socialist"? Is not the moral basis of socialism impaired when one man, who happens to be more adept or intelligent, is allowed to enjoy a higher standard of living than one who is not, although the latter may be more loving, or loyal, or more dedicated to the ideals of socialism?

If these questions should be brushed aside as smacking of impractical idealism, there is another reason to fear the inequality of rewards—to wit, that in allowing income differences to exist, a socialist society will be reintroducing,

12. See A. P. Lerner, *The Economics of Control*, Ch. 3.

wittingly or otherwise, the very institution of class privilege against which it presumably struggles. At least in the eyes of some socialist critics, the emergence of a genuinely autonomous market sector (as in Yugoslavia) signals nothing less than a "peaceful transition from socialism to capitalism." The fear of these theoreticians is that the recrudescence of the profit motive as the driving force of society will lead inexorably to the reconstitution of the factory manager as capitalist and to the reenslavement of the worker to the wage system.<sup>13</sup> And beyond these particular institutional threats lurks the still more profound fear that the very existence of market relationships constitutes in itself a source of "corruption" for a socialist society. "[M]arket relationships," writes Paul Sweezy, a leading socialist critic of market socialism, "are *inevitable* under socialism for a long time, but they constitute a standing danger to the system and unless strictly hedged in and controlled will lead to degeneration and retrogression."<sup>14</sup>

To these charges not all socialists would agree. The Yugoslavs, for example, point out that in their system the factory manager is legally subservient to Workers' Councils elected from the factory floor and empowered with full directors' rights over the manager, including the right to fix his salary or to fire him. Other socialists would argue that a certain amount of economic inequality is compatible with socialism,

13. Not the least interesting aspect of this controversy is the abandonment of the traditional Marxist belief that the movement from capitalism to socialism was a "one-way street." The admission that the trend toward socialism is reversible, even if only for a while, constitutes a profound challenge to the classical Marxian analysis of historical evolution.

14. *Monthly Review*, March, 1969, p. 12 (author's italics). See also "Peaceful Transition from Socialism to Capitalism?" *Monthly Review*, March, 1964, and the exchange between Bettelheim and Sweezy, *ibid.*, March, 1969. Also Ernest Mandel, *Marxist Economic Theory*, p. 655.

provided that it does not bring with it political or social inequality. As for the matter of corruption, that is a question we shall look into ourselves later on.

Thus it is difficult, perhaps impossible, to decide the merits of this controversy now. On the one hand it is clear that socialism is being steadily forced to retreat from the centralized planning that was its original ideal: "It is plain at the present day," writes the English sociologist and socialist T. B. Bottomore, "that the public ownership of industry is not by itself sufficient to establish a socialist society, and that it may in fact produce conditions which are directly inimical to the creation or functioning of such a society."<sup>15</sup> At the same time there seems as well to be a rise of a "capitalist" spirit in Yugoslavia, and the probable consequences of Russian decentralization in giving new power to the class of Soviet industrial managers have been frequently commented on.<sup>16</sup>

All this suggests that socialism has yet to make its peace either with the market system or with centralized control. Perhaps one had better use the Marxian terminology and point out that there are "contradictions" as deeply rooted in the institutions and ideology of socialist planning as those lodged in the operations of a capitalist market system—contradictions that will not be resolved as long as socialism must be concerned both with the workaday problems of production and distribution in a world of scarcity on the one hand, and with its pursuit of the ideals of human equality and confraternity on the other.

15. "Industry, Work and Socialism," in *Socialist Humanism*, ed. Erich Fromm, p. 362.

16. See, for example, the essays in *Planning and the Market in the U.S.S.R. in the 1960s* by Balinky, Bergson, Hazard, and Wiles.

## V

But will not this contradiction be resolved by the "abolition" of scarcity? It has become only a commonplace to point out that science and technology constitute the truly revolutionary force of our day. Is not the *social* aspect of that revolution the impending end of the age of scarcity through the immense abundance that a completely technologized society will enjoy? <sup>17</sup>

That scientific technology has the capability of vastly raising the level of productivity and thereby ushering in an era of material abundance is beyond doubt. But just as this very abundance, with its scientific and technological preconditions, poses deep-seated challenges for the maintenance of the traditional structure of capitalism,<sup>18</sup> so I also believe that it holds equally profound difficulties for the prevailing realities or conceptions of socialism.

The challenges to socialism as well as to capitalism are of two kinds: psychological and organizational. With capitalism, the psychological problem lies in the likelihood that affluence will weaken the condition of economic dependency on which the market system is tacitly based, opening the prospect that normal differentials of income payments will no longer suffice to attract men where they are needed, and thereby requiring that capitalism resort more and more to planning and coercion. Much the same motivational prob-

17. For a recent (pre-invasion) Czech statement of this prospect see Radovan Richta, *Civilization at the Crossroads, Social and Human Implications of the Scientific and Technological Revolution*, Prague, 1969. Cf. also Mandel, *op. cit.*, Chs. 16-17.

18. See *The Limits of American Capitalism*, Part II.

lem is likely also to affect the operation of a socialist market economy, pushing it, however unwillingly, in the direction of coercive planning, with all the difficulties of efficiency and morale that such measures must bring.

These psychological problems are apt to be less important, however, than the organizational necessities imposed on socialism by the domination of science and technology. There is a romantic tendency on the part of some socialists to picture the age of science as inherently favorable to the egalitarian aims of the socialist ideology. But this is not in fact what the hegemony of science promises. For both the production and the maintenance of the scientific mastery of the New Society will require the presence of a highly trained research elite supported by a large technical service staff. This necessary organizational core, with its collective expertise so essential for the maintenance of the general society, has all the attributes of a potential ruling class. "There is nothing to be gained," writes Radovan Richta, head of a Czech interdisciplinary team for research into the social implications of the scientific revolution, "by shutting our eyes to the fact that an acute problem of our age will be to close the profound cleavage in industrial society which, as Einstein realized with such alarm, places the fate of the defenseless mass in the hands of an educated elite, who wield the power of science and technology. Possibly this will be among the most complex undertakings facing socialism."<sup>19</sup>

Is elitism inherent in a society dominated by scientific technology? Certainly the underlying conditions for a highly stratified social system are implicit in the pyramidal educational requirements and the vastly differing social powers of the technologized society in which many will tend automated

19. Richta, *op. cit.*, p. 250.

machines and a few will carry on the critical activity of discovery. "Ultimately," writes Richta, "the only solution will be to make professionals of us all"—a solution that reminds us of pious suggestions in our society that everyone should become a capitalist.

But even if the tendency toward elitism is successfully curbed, there remains one final challenge for socialism posed by technology. It is that the hastening race of technical change has begun to pose a wholly new problem for all mankind—the problem of maintaining the ecological balance, the very viability, of the earth itself.

For the other side of the coin of affluence has been a steady deterioration in the quality of the environment—a deterioration brought about by enormously enhanced demands for resources, by gigantic scales of physical and chemical transformation of materials, and by the need to dispose of gargantuan quantities of end products, including the peculiarly lethal ones of radioactive wastes. Meanwhile, as the proliferation of production spoils the environment, it also makes possible the support of larger and larger concentrations of humanity, which in turn exacerbates the pollution process.

This spectacle of a steadily worsening environment coupled with an unsustainable rate of population increase gives rise to the uncomfortable feeling that the technological process is "running wild." And so it is. For at bottom, the ecological disequilibrium only reflects a still more profound unbalance between the technological and scientific capabilities of society and its social and self-governing capacities. The problem is that the first are cumulative and the second are not: each generation of scientists and technicians stands on the shoulders of preceding generations, bringing to the

control over nature successively larger powers, whereas each generation of statesmen or administrators begins, for all intents and purposes, from scratch, in no way enhanced by the activities of its predecessors in understanding or controlling social processes. In its paradigm, of course, we have the spectacle of the unbelievable magnification of the capabilities of mass weaponry which is placed in the charge of men who are in no way whatsoever enlarged in their capability to govern, or even to understand, the world.

In this unequal race, which is visible in the socialist nations quite as much as in the capitalist ones, inevitably the technical capacities of a society come to exceed by an enormous margin its capabilities for exercising effective social control. The result is a technology that continuously escapes confinement, that develops in unforeseen directions, and that disturbs social systems by exerting its influences in unanticipated and unwelcome ways, such as the poisoning of the environment. It is quite probable that socialism will cope with this looming problem more effectively than capitalism, for assuredly planning lies at the very center of an effort to reestablish a workable balance between man and nature. The point is, however, that the technological imperative will present socialist planning with a range of problems requiring extensive and penetrative social intervention, rather than with a condition of general affluence in which a "liberated" community will spontaneously establish itself.

It is difficult at this juncture to foresee exactly what programs of control will be required to bring about a balanced ecology. All that can be said is that stringent limitations will have to be imposed, not alone on the productive apparatus of society, but very possibly on its consumptive patterns and certainly on its reproductive freedom. This will

pose enormous problems for all social systems, but in the case of socialism the problem takes on a moral as well as a technical significance. For the fact is that the known techniques of social planning do not today enable us to assert a mastery over the behavior of large communities—at least not if this mastery is to be made compatible with a high degree of civil liberty. Nor, for that matter, can we as yet even design a reliable program for the limitation of the side effects of technological advance. The upshot is that socialism has not been able to formulate a blueprint for the guidance of the advanced countries that carries the compelling logic of its program for the underdeveloped countries. The sobering conclusion is that socialism will find its task made not easier but more difficult by the demands and consequences of the technological revolution on which it pins so many of its hopes.

## VI

We have dealt at some length with the particular problems that seem likely to trouble the future of socialism by virtue of the inherent “contradictions” of socialist planning. Now we must examine a second group of problems more closely associated with the content and limitations of the socialist ideology.

Here it will be useful if we once again begin with a comparison of socialism and capitalism. We have already noted at the very beginning of this essay the essentially conservative purpose of the ideology of capitalism. By defining and articulating a consensus of business beliefs, a capitalist ideology serves to mark out the boundaries of “what can be

done” within a system whose fundamental commitment is to leaving things alone. The result is twofold. On the one hand, the business ideology acts to limit the interventory reach of the state as an agency for social change. On the other, by buttressing the nature of things as they are, it leaves society without any strong feeling of forward motion, of collective purpose, of high destination. The capitalist ideology is a practical, not an inspirational, one.

A totally different quality strikes us when we examine the ideology of the socialist world. Here the commitment to equality and to fraternal solidarity serves not to inhibit but to encourage the exercise of social intervention. And beyond that, the socialist vision of a transcendent society has shown itself to be second only to religion (if indeed second it be) as a source of inspiration, solace, and conviction.

Moreover, the nature of that extraordinary power of socialist ideas is not difficult to discover. Again in sharp contrast with the indifference of capitalist thought with regard to the matter, socialism has always affirmed its unshakable faith in the perfectibility of man. That is, socialism has always maintained that man is the product of his environment, so that the ugliness of society today or yesterday becomes an indictment, not of mankind, but of its past or prevailing institutions. Furthermore—and this is the crux of the charismatic power of socialist thought—it follows that in a society in which the deforming institutions of the past and present had been removed, man would be “shaped” or “released” to discover his long-delayed fulfillment.

Thus, whereas capitalist thought has little to say with respect to the future, other than to promise a general affluence, socialist thought envisages the transformation, indeed, the liberation, of man:

By abolishing commodity production and opening the age of plenty, socialist society will give the signal for an extraordinary flowering of the human personality. Among hundreds of millions of individuals who today are indistinguishable in one grey mass, this personality will awaken, develop and flower in a thousand different directions, as yet unknown and unsuspected. Released from the wretched servitude of having to struggle for daily bread, human energy will be concentrated in art and science, in education and in physical and mental well-being. The place of competition between individuals for material existence will be taken by emulation in the pursuit of aims of research, of beauty and truth. Aggressiveness will be sublimated into creative purposes.<sup>20</sup>

That such a vision should have the power to motivate mankind is understandable enough. Yet, however moving—indeed, however plausible, for the very long run—we can see at the same time the problems inherent in such a view. One of them, which we have already examined, is a failure to confront with unflinching honesty the social constraints and organizational requirements of the society of abundance. The second, to which we now turn, is the failure to examine with equal fearlessness how men would actually behave in their “liberated” state, at least for the foreseeable future.

There is no doubt as to how socialists would like him to behave. “What exactly is to be considered by *liberated man*?” asks one socialist writer. She describes him as follows:

One might say that the liberated man is the generous and disinterested man; he is also a creative man, who can express his personality and talents in a creative action without constraint, whether in manual, intellectual, or artistic work,

20. Mandel, *op. cit.*, p. 672.

or in his relations and friendship with other men. The free man is one who feels himself at the same time fully himself and in accord with other men. He is an individual without idols, dogmas, prejudices or a priori ideas. He is tolerant, inspired by a profound sense of justice and equality, and aware of himself as being at the same time an *individual* and a *universal man*.<sup>21</sup>

The difficulty with such a description is obvious enough. As the critics of socialism have maintained since the days of the Utopian Socialists, this vision of man, however appealing, lacks a sense of toughness, of realism. In the language of the nineteenth century it was faulted because it was based on an inadequate appreciation of “human nature,” and whereas we are more chary of such phrases nowadays, we also sense a certain wishfulness in this delineation of what man could be. The point, let me emphasize, is not to counter the socialist vision with mutterings that man is vile. It is rather to insist that the deepest weakness of that vision has been its failure to formulate a conception of human behavior in all its historical, sociological, sexual, and ideational complexity, a conception that would present “man” as being at once biologic as well as social, tragic as well as heroic, limited as well as plastic.

To this criticism, socialism has always returned two rejoinders. The first is that it is unfair to expect it to rest its philosophy on such a “theory” of human behavior without requiring at least as much of other social systems of belief. But this answer misses the point. In the first place, capitalism actually has such a theory, for it believes implicitly in the ubiquitous acquisitive and competitive nature of man. Second, capitalism does not require such a theory, for as

21. Mathilde Niel, “The Phenomenon of Technology,” Fromm, *op. cit.*, p. 306.

with all social systems that rest content with the status quo, it takes "human nature" as it is—which is to say, it accepts the manifestations of the culture in which it finds itself, adapting its institutions to the prevailing character traits and behavioral characteristics of men rather than attempting to design a set of institutions that will nurture the essence of Man out of his imperfect prevailing self. And finally, in encouraging or acquiescing in these existing traits, capitalism does not claim that it is being more than expedient. "While minds are coarse they require coarse stimuli and let them have them," wrote Mill in his *Principles of Political Economy*. Only socialism, by virtue of its belief in the possibility of creating a liberating environment, requires an understanding of the ultimate nature of the human being whose innate capabilities must now be allowed to unfold.

To this critique, the socialist will offer his second rejoinder. It is that socialism does not try to discover or to nurture a "given," although heretofore stunted, germ of human character. Rather, it is a prime belief of socialism that man makes himself. Thus socialism can dispense with the need to formulate a conception of "human nature" by concentrating instead on the institutions by which that nature will be formed. In a word, human nature will be in the end what we want it to be.

But this rejoinder too misses the mark. For it ignores the very thing we wish to find out—that is, the extent to which man *can* make himself. So far as I know, only Herbert Marcuse has squarely faced the question of the ultimate limits of adaptability of man's psychobiologic makeup. In *Eros and Civilization* he has boldly argued that man's instinctual nature is capable of dramatic change in an environment of genuine abundance. In such a setting, Marcuse

socialism is a frigging religion!

claims, where the historic pressures of material scarcity were finally lifted, the social need for the repression of man's narcissistic and erotic nature would no longer prevail, and Eros and the Nirvana Principle could at long last take their places as the organizing elements of both the individual and the society.

Such a statement is indeed a theory of human nature, and if verified would place socialist ideology on a wholly new and much firmer footing. But I do not believe that there is any evidence, either theoretical or empirical, to support Marcuse's view of the instincts as creatures of the environment. As Sidney Axelrad has commented in the *Journal of the American Psychoanalytic Association*: "[I]n instincts are for Marcuse forces capable of being influenced by consciousness, rather than borderline somapsyche phenomena which are always unconscious and which can never lose their homeostatic functions and tendencies. [Marcuse's] prescription for a utopia of the future is not within the confines of psychoanalytic theory. It is a hope, an illusion. . . ." <sup>22</sup>

## VII

The absence of a satisfactory foundation of knowledge beneath the socialist conception of human nature is important, not only because it blurs the long-term goals of socialism, but also because it carries short-term practical consequences of considerable importance.

The first of these is the failure of socialism to frame a coherent and cogent attitude toward the problem of motiva-

22. *Supra cit.*, January, 1960, pp. 182, 184.

tion. Inherent in the distinction between "socialism" and "communism," for example—that is to say, between the society that a socialist government might inherit and one that it might make—is the deep-seated Marxist belief that man at a low level of culture and well-being will still require the motivation of invidious striving for monetary rewards, whereas once the high plateaus of a truly affluent society have been reached, it will be possible to discard these "bourgeois" traits and to move people by the famous principle of "from each according to his ability, to each according to his needs."

Yet in actuality we perceive exactly the opposite state of affairs. In the poorest and lowliest of societies—China, Cuba, Russia in the first years after the Revolution—we find the power of nonmaterial, noninvidious incentives to be greatest, whereas in the richer and more advanced socialist societies—Yugoslavia, Czechoslovakia, the present-day Soviet Union—we discover an increasing need to rely on incentives of monetary inequality, managerial preferment, and competitive vying.

Much of this inability to form a reliable theory of motivation harkens back to an ancient ambivalence toward wealth and its effect on the human personality that socialism has inherited from Western religious and philosophic thought. Socialism continually talks of affluence for society, but it recoils at the contagions that affluence will bring to the individual. An instance in point is the justification of the expropriation of 55,000 small businesses in Cuba in March, 1968. As the Havana newspaper *Granma* explained, this action was needed to remove "nests of parasites, hotbeds of corruption, illegal trading and counterrevolutionary conspiracy":

To get a good idea of the degree of corruption spawned by these activities, we need only cite the results of the investigation made by the Party of private businesses in Metropolitan Havana. According to this report, twenty-seven percent of the proprietors were workers before setting themselves up in business (and the great majority of these sprang up after the triumph of the Revolution). . . . It is intolerable that a worker, whose labor may benefit the whole people, should become a potential bourgeois, a self-centered money-grubber and exploiter of his countrymen.<sup>23</sup>

Such sentiments speak volumes as to the consequences of the psychological views which socialism expounds. If the rise of a worker to the precarious status of a small shopkeeper is enough to endanger the sentiments and institutions on which socialism is based, then socialism must constantly live in fear of betrayal from the secret corruptibility of the people. The parallel with the paranoid purity of extreme religious sects is all too apparent, and in one case as in the other, the vehemence with which evidences of corruption are denounced leads to the suspicion that both movements fear these "corruptions" are deeply embedded in the human psyche.

No less important as a consequence of the uncertain socialist conception of human behavior is its failure to examine the nature and consequences of alternative motivations to those of material incentives. If socialism seeks to perfect man in an environment in which the cash nexus will no longer provide the cohesive force for social organization, it must offer other motivations that will secure the necessary cooperation of the population in the administration and operation of a complex society. Such nonmaterial incentives

23. Paul Sweezy and Leo Huberman, *Socialism in Cuba*, p. 137.

certainly exist—monastic orders, for instance, maintain their internal discipline by relying on wholly different motives of personal enlistment from those of a money-oriented society, as do military establishments or some kinds of professional groups.

What remains unasked, however, is whether a society knit together by such ties—a society in which a strict internalization of discipline has supplanted the external sanctions of the marketplace—would constitute a favorable environment for the perfection of man. In this regard, the famous quotation of John Stuart Mill bears repetition:

The question is whether there would be any asylum left for individuality of character; whether public opinion would not be a tyrannical yoke; whether the absolute dependence of each on all, and the surveillance of each by all, would not grind all down into a tame uniformity of thoughts, feeling, and actions.<sup>24</sup>

In a word, socialist thought, in its avoidance of a study of human behavior, has not directly faced the problem of how the individual is to be integrated into the community, or the degree to which individual behavior must be governed by social norms, or the appropriate boundaries between social and private spheres of existence. A fervent commitment to “participatory democracy” is today much voiced among Western socialist writers, but little or no consideration has been given to the means by which this participation can avoid what one commentator has called “the merciless masochism of community-minded and self-regulating men and women.”<sup>25</sup> (Oscar Wilde once remarked that

24. *Principles of Political Economy* Book II, Ch. 3.

25. The phrase is Melvin Tumin's, quoted in “A Day in the Life of a Socialist Citizen,” by Michael Walzer, in *Dissent*, May/June, 1968. The remark by Wilde is quoted in the same article.

socialism would take too many evenings, and the quip deserves to be taken seriously.)

Finally, the inadequacy of the socialist grasp of behavior reveals itself in the ferocious impatience with which socialism demands that “human nature” must change. The relinquishment of market incentives, for example, is not regarded as a goal to be achieved over several generations but one that must be sought within a single decade or two; motives of socialist cooperation are not viewed as behavioral patterns to be patiently inculcated over the long run, but attitudes that must be evidenced almost overnight. What lacks so fatally in this view is any appreciation of the depth of behavioral characteristics formed by social experience and of the power of family cultures to transmit these learned patterns of attitude and behavior despite the counterinfluences of organized social pressure. Hence the repeatedly demonstrated unpreparedness of socialist thought before such behavioral realities as the persistence of “Russian” traits of government or “Chinese” xenophobia.

Here the dangers are twofold. On the one hand, the forces of nationalism—surely the single most powerful molding influence on social behavior in our time—are ignored, or worse, incorporated into socialist thought: as Paul Henri Spaak observed, “The thing that socialists have learned to nationalize best is socialism.”<sup>26</sup> On the other, there is the grave risk that the innocent inertia of ordinary behavior will be interpreted as a deliberate betrayal of socialist ideals. The Cuban incident above is a case in point.

26. Quoted in “Humanistic Socialism and the Future,” by Norman Thomas, in *Fromm, op. cit.*, p. 327.

## VIII

These reflections must now be placed in some final perspective. That socialism faces inherent problems springing from the difficulties of planning and from both the reach and the limitations of its ideology is, I think, undeniable. What is necessary is to confront these problems without a sense of either defeat or satisfaction. To examine the future of socialism, in the underdeveloped areas or in the advanced nations, without taking into account these, or perhaps other, challenges it must face is simply not to take socialism seriously—that is, as a political movement which must struggle with the intransigent realities of history and which, like all such movements, is likely to be bested by some of them.

In this struggle, two main resistances can be discerned. One of these is the rampant force of technology, with its new networks of interdependence, its new frontiers of physical and chemical potentiality, its new dangers. In our day, at least, technology will not make its peace with socialism; socialism will have to make its peace with technology. The other is the stubborn inertia of the social personality, no doubt capable of great change, but only slowly and painfully, exerting meanwhile a continuous counterpressure against the radical alterations in actions and attitudes that socialism seeks to bring.

As we have suggested, it is likely that these resistances will establish the "limits" of socialism over the foreseeable future, much as similar forces set the boundaries of possible capitalist adaptation. But it would be wrong to end

this essay on such a note. For unlike capitalism, which exists largely for its own sake in the present, socialism exists largely for the sake of the future. Inherent in the indistinct but bright vision of perfectible man is the source of an *evolutionary momentum* that carries a precious freight of human aspiration. Thus, unlike capitalism, socialism contains a core of belief that should be capable of maintaining its power to move human beings despite the obstacles that will hamper its performance.

Socialism is, at its root, the effort to find a remedy in social terms for the affront to reason and morality in the status quo. As such it is not limited to any particular place or time in history, but adapts its programs and its objectives to the indignities against which it fights. If socialism today in the United States derives its impetus from the spectacle of concentrated wealth, the commercial manipulation of human beings, or the indifference of the established power structure to the plight of the poor or the Negro, in the Soviet Union a genuinely socialist movement would (and some day will) take its organizing impulse from the concentration of political power and from the imprisonment of mind and spirit by communist authorities and doctrines alike. In each and every nation the presence of power and privilege thus establishes the fortresses against which socialism presses its attack.

It may well be that each attack succeeds only to fail; that new walls of power and privilege are built as rapidly as old ones are torn down; that the ultimate goal of a transformed—indeed, transfigured—man is only a chimera. Yet the vitality of socialism seems unlikely to be daunted by that possibility. For taking socialism seriously means more than acknowledging its difficulties as a political movement. It

means understanding as well that socialism is the expression of a collective hope for mankind, its idealization of what it conceives itself to be capable of. When the fires of socialism no longer burn, it will mean that mankind has extinguished that hope and abandoned that ideal.

# Political Economics

*Marxism and  
the Economic Establishment*

“*I*s society a branch of physics?” asked the Abbé Mably, a minor nineteenth-century pamphleteer and *philosophe*. The absurd question serves very well to introduce a discussion of what modern economics is about and whether Karl Marx still has something to contribute to economic thought. For, essentially, economics has always answered “Yes” to the Abbé’s query. That is, it has always proceeded on the belief that there were enough regularities in the social process to enable a skilled observer to discover “laws” that described its movements, just as other laws described the motion of the planets in their orbits.

To be sure, economists have always recognized that there was a vast gulf between the unknowing planets and sentient human beings, and therefore they have never intended the laws to be as strict in the second case as in the first. Yet the gulf was not so wide as to destroy all similarity between the orderliness of the natural world and that of the social. For underneath the seeming disorder of the social universe, two processes could be discerned that imposed a degree of law-like regularity on the events of economic society. One of these was the process of production itself—the actual technical sequences by which wheat became bread and grapes wine and iron ore steel. Although these sequences differed one from another, and although they changed over time with technological advance, nonetheless there seemed to be sufficient regularity, at least in the short run, so that we could talk of “laws” of production, such as diminishing returns or economies of scale or “coefficients of production” or “marginal elasticities of substitution”—all terms that describe the dependability of the productive element within the social universe.

The other order-bestowing element in the economic process concerned its human side, which is to say the behavior of workers and consumers and entrepreneurs. Clearly, this aspect of the underlying social orderliness could not be expected to demonstrate the same degree of invariance that is found in the physical world. Yet in the behavior of buyers and sellers there seemed to be a sufficient degree of repetitiveness so that we could talk of the “law” of supply and demand; and in the responses of consumers to changes in their incomes or of businessmen to changes in the interest rate other lawlike patterns emerged.

Thus from the very beginning, economists have striven

for a picture of society in which the interaction of laws of production and behavior—production and behavior *functions* is the modern term—would describe the major economic events of the social system much as if it were a branch of physics. Moreover, by reducing the complexity of the real world to the simplicity of a “model” dominated by these two great functions, economists, like physicists, have sought to predict the path of motion of their system.

How successful has been this audacious intellectual effort? On the face of it, the achievement has been astonishing. Models of the economy are now so complex that they require the facilities of a computer and the techniques of difference equations, matrix algebra, Lagrangian multipliers, and the like. Sophistication, elegance, rigor—the criteria by which mathematics has traditionally been judged—are now the standards of economic theorizing. Not least, the success of modern economics can be read in the flattery of imitation paid to it by its sister disciplines of sociology and political science which now seek to build models similar to those of the economist. Certainly, when the intellectual history of our times is finally written, the creation of the edifice of modern “neoclassical” economics will occupy a central chapter in it.

The only question is, what will that chapter say about the usefulness and relevance of this extraordinary enterprise? Here I suspect the appraisal of the future will not be uncritically admiring. The theory of economics, magnificent to behold, is considerably less impressive to use. It is true that it has given us a rough picture of how the market system works, both in allocating its resources and in determining the level of overall output. But beyond this conception,

which can be taught with ease to a college freshman, the ramifications of economics have produced singularly little. A rococo branch called welfare theory, for example, has not, to my knowledge, yet resulted in a single substantive proposal that has added significantly to the welfare of mankind. The beautifully finished portion called price theory fails to explain the pricing operations of the great corporations. International trade theory does not adequately account for the most important single fact about international trade—to wit, the failure of an international division of labor to shed its benefits on poor countries and rich countries alike. The theory of economic development does not tell underdeveloped countries how to grow.

Even the central achievement of twentieth-century economics—the elucidation of the forces that determine prosperity and recession—fails when we seek to foretell the fortunes of the economy a few months hence. No doubt economists reading these words will deem them vastly exaggerated, which perhaps they are. Yet it is surely an opinion not wholly at variance with mine that must have moved Kenneth Arrow, a well-known economist, to sum up the collected papers of Paul Samuelson, the most brilliant theorist of our generation, with these words: “A careful examination of the papers both on theory and on policy yields only the most oblique suggestion that neoclassical price theory is descriptive of the real world. Of course, there is no denial, but Samuelson’s attitude is clearly guarded and agnostic.”<sup>1</sup>

1. *Journal of Political Economy*, October, 1967.

Why is it that modern economic theory presents the spectacle of superb intellectual achievement without much social relevance? To my mind there are two reasons. One lies in the difficulties of reducing the real world—both in its technical and in its behavioral aspects—to reliable patterns with which we can then construct dependable models. It is one thing to ascribe an underlying “lawlike” character to the processes of production and to the responses of the economic actors, and quite another to reduce these activities to mathematical functions. In the case of production, for example, we encounter enormous difficulties in devising mathematical functions that will accurately account for the constantly changing nature of technology. And this difficulty is compounded by the even more intractable problem of finding functional representations of human behavior. No doubt, for instance, men tend to buy less when prices rise and to buy more when prices fall. Yet, on occasion, they will do just the opposite, as when they expect a price rise or price fall to *continue*—in which case their self-interest bids them to buy more in a hurry in the first case, and to hold off in the second.

Hence the inherent complexities of the production process and the vagaries of human behavior may well set limits to the predictive possibilities of economic theorizing, and these limits may account for much of the gap that exists between economic theory and economic reality. Yet, however much these difficulties explain the inaccuracy of economic theorizing, they do not account for its irrelevance. I have already mentioned the failure of price theory to explain the behavior of the large corporation and the gap between the theory and the reality of international trade. Now I must

point out other areas of economic life over which modern economic theory passes in virtual silence. The distribution of wealth, for example, is a central economic fact about which it is mute. The effects on the distribution of income attributable to the process of growth is another, so that economics gives us no hint of the disturbances and frictions produced by long-run economic advance. The effect of a constantly improving technology on the level of employment is similarly ignored, so that today the theory of technological unemployment is in much the same shape as was the theory of mass unemployment in the days before Keynes. The nature of class interests in a capitalist system is not mentioned in any textbook, so that nothing in the nature of political or social constraints confines the free movement of the economic model.

In all of this, it will be noted, there is a common denominator. This is the systematic exclusion of matters that might connect the functional model with the pressures and resistances of the political world. This exclusion, which accounts for so much of the irrelevance of economics, is by no means accidental. Rather, it results from a fundamental failure of vision on the part of the modern model-builders, *who do not see that the social universe that they are attempting to reproduce in a set of equations is not and cannot be adequately described by functional relationships alone, but must also and simultaneously be described as a system of privilege.* In other words, if a model of economic reality is to be relevant, it must portray both the functional relationships peculiar to the provisioning process and those stemming from the clash of interests generated by this very functional process itself.

Is it possible to construct a system that is at one and the same time a portrayal of functional relationships and of privilege? There is one such system, Marxian economics—that vast *terra incognita* over which the average economics student flies while en route to the oral examination (where it may be mentioned as part of the History of Economic Doctrines) and at which he never again casts a glance. For what is unique about the Marxian system is that the categories, both of production and of behavior, into which it disaggregates the world are considerably different from those of the neoclassical system. On the production side, for example, Marxism lays great stress on the necessity for a “fit” between the output of the capital goods sector and that of the consumer goods sector, a relationship that is unnoticed in neoclassical economics where the aggregate output of *all* sectors is stressed rather than the relationship between them. Similarly, on the behavioral side, Marx approaches the problem of describing the great “human” functions by building up a picture of the actions of producers—that is, workers and capitalists—rather than by analyzing the activities of buyers, i.e., of consumers and investors. In different words, the Marxian analysis breaks down the total flow of economic activity into layers of costs, wages, and profits rather than into the slices of consumption and investment characteristic of the Keynesian approach.

The result of the special categories of abstraction imposed by the Marxian view is to bring into the foreground a number of matters that fail to appear in neoclassical analysis, in particular the instability of the economy stem-

ming from a failure of its productive components to interlock, and the changing division of the social product among the classes—profit receivers and wage earners—that compete for it. Now it should be said immediately that the manner in which classical Marxian analysis performs its task of constructing a model of society is very awkward and occasionally downright wrong. The “laws of motion” that it discerns within the capitalist system depend on rigid assumptions about the way in which technology permits labor to be combined with capital and loses sight of the central effect of productivity in changing the real shares of wage earners in the final product. Worse yet, as a means of explaining the price mechanism by which the system is coordinated, Marxian economics is hopelessly clumsy: if one examines the efforts of the more liberal Soviet or Czech economists to create a rational pricing system using Marxian concepts, and compares these efforts with the results obtained by non-Marxian price theory, the contrast is like that between a dull cleaver and a sharp scalpel.

Why then bother with Marxian economics when, as virtually every economist will tell you, it is “wrong”? The reason is that, unlike neoclassical analysis, which is “right,” the Marxian model has in surfeit the quality of social relevance that is so egregiously lacking in the other. The neoclassical model has rigor, but, alas, also mortis. The Marxian model has relevance, but, alas, also mistakes. The answer, then, is clear. Marxian insights must be married to neoclassical techniques to produce an economic theory that is both elegant and consistent as a model and freighted with meaning as a theory of society.

Here and there in this country—I am glad to say, with increasing frequency—one can see efforts being made to

bring off such a marriage. I would say that the future of the entire intellectual effort called economics depends on whether in fact such a genuinely political economics can be achieved. It is just because society is *not* a branch of physics that we must ask of economics a very special kind of prediction called foresight. I do not myself believe that Marxian economics has very accurate foresight, but I am convinced that neoclassical analysis has none at all. The hope is that in combining the Marxian angle of vision, with its emphasis on class structure and privilege, with the fierce insistence of neoclassical techniques on consistency and clarity, we might have the beginnings of a new and fruitful chapter in the effort to comprehend the social universe.