

THE MARKET, SELF-MANAGEMENT AND SOCIALISM

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I

In an economy where the means of production are formally under collective ownership but where, for well-known reasons which are beyond the scope of this paper, the market mechanism and production for profit prevail, three distinct models can be envisaged for regulating the interconnections between the market and the distribution of income. It is the aim of this paper to evaluate these three models from the viewpoint of their relations with socialism.

II

What are the basic characteristics of these three models?

1. In the first model, the means of production *legally* belong to society as a whole. The enterprises are, in principle, managed by the workers. The director and the administrative-technical cadres are not appointed from above, but elected by the "worker's collective", or an organ thereof, and employed under contractual status. The decision-making rests with the workers' collective which, in turn, delegates some of its authority to the director and his aides. In practical terms, the director, acting in the name of the workers' collective and under its supervision, makes all the relevant economic and technical decisions in running the enterprise. The enterprise is subject to market processes, and production for profit is the rule. As concerns remunerations for workers, only minimum wages are guaranteed. Part of the profits of the firm flow into the accounts of the central government through taxes, which may take various forms; the rest remains with the enterprise. The allocation of enterprise profits to production and consumption funds, i.e., to investment, current productive requirements and remuneration

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ration for workers, is determined in accordance with the principles established by the workers' collective, but it is also subject to general rules set by the central authority. This framework signifies that profits, as a rule, belong to the enterprise and not to the State, which is only authorized to tax the profits of the firm. Incomes of workers and of the administrative-technical cadres, hence, consists of basic (minimum) wages guaranteed by the State *plus* distributed profits.

2. The second model is identical to the first one as far as market mechanism and formal-legal property relations are concerned. The director and the administrative-technical cadres are appointed from above. Management is under the responsibility of the director and his aides, who decide freely on matters concerning the level and composition of output and input, employment, post prices, intra-enterprise investments, etc. Production for profit is the rule. Workers' remunerations consist of centrally-determined basic wages *plus* bonuses linked to individual productivity, which are paid when a worker exceeds the pre-established work norms. The estimated magnitude of bonus payments is included in the wage fund of the enterprise. On the other hand, remunerations of the director and the administrative-technical cadres consist of basic salaries determined centrally, *plus* bonuses distributed out of enterprise profits. Sales proceeds and profits belong, as a rule, to the enterprise; the State *taxes* the profits in accordance with pre-determined rates and rules.

3. The third model is in conformity with the former models as far as formal property relations and market processes are concerned. It does not make a significant difference from the viewpoint of the logical structure of this model whether the managers are appointed from above or elected by the workers. The output produced by the enterprise, sales proceeds and, consequently, profits belong to the State as a whole. There is no difference between the principles regulating the remunerations of workers and those of administrative-technical cadres; both are determined basically *via* a centrally-established wage and salary-scale which is, in fact, a classification of types of work and wages and salaries thereof. Bonuses are to be paid only for rewarding the individual worker for his above-average efforts, where these can be quantified (e. g., in cases of exceeding individual productivity norms); hence, they can rightly be considered a mere extension or complement of wages. In short, there is production for profit in this model, but profits are not distributed to any segment of the labour force of the enterprise. Hence, profits ought to be considered a "success indicator" but *not* a "category of distribution". It is mainly an accounting *category* used solely in book-keeping and for measuring efficiency. As for the incentives for enterprise performance, "good management" is the director's main task, and his salary is only the reward for the execution of this task; consequently, no complementary remuneration exists for the director and his aides; on the other hand, bad management may lead to dismissal and demotion.

III

Our first model can be considered as embodying the basic elements of the Yugoslav self-management system. In this case, self-management concerns us within the context of the interrelations it creates between market processes and distribution of income, not as a management technique. Our second model is a synthesis of a number of elements of the so-called economic reforms implemented in Eastern Europe and, half-heartedly, in the USSR after 1965; the most far-reaching example of this can be observed in Hungary. As for our third model, it is a hypothetical one which can be relevant for a socialist economy in which economic management based on centralised directives has reached an impasse and can no longer function effectively; and consequently, management based on market categories becomes inevitable, but economic reform on these lines is to be launched without handicapping the basic relations of socialism. In other words, when and if economic reform becomes a necessity, and the extension of the market mechanism seems the only way out, what is to be done so that commodity production ought not undermine the fundamental relations of socialism? Our third model is an attempt to respond to this question.

IV

Much ink has flowed over the controversy whether *legal* and *formal* ownership of the means of production by the society should be considered as *the* criterion determining the socialist character of a social system. It is, probably, no longer acceptable to most participants in this discussion to interpret "property" and "ownership" as *legal forms* only; but rather as *social relations* emanating from the actual relations of production and distribution of the society in question. In this case, the question whether social ownership of the means of production prevails or not can be answered only going beyond mere *legal* forms of property. When a particular type of utilizing the means of production (which are formally under social ownership) gives rise to economic gains which are appropriated as individual incomes by those using and controlling the means of production, are we not justified to speak of the "right to benefit from the fruits of ownership"? Is not this right itself a necessary if not sufficient condition of ownership? A second condition of property is the transferability of this right, via inheritance, to the next generation, which we shall briefly discuss later on. Finally, "the right to use" is another indicator of ownership. If constraints on the authority to use the means of production in a so-called "socialist" society are put forward as evidence of social ownership, one should bear in mind that we are not speaking of an *absolute* freedom of use, and that even in contemporary bourgeois society, where there is no doubt about the question of ownership of capital, freedom of disposal of the means of production is subjected to serious limitations.

Probably the most important criterion on the question of effective ownership would lie in the answer to the following question: "Who

owns the final products, and consequently, the sales proceeds and profits emanating from the production process?" We know that the products, or rather commodities, belong to the owner of the means of production, and this fact can be considered a determining indicator of *de facto* relations of ownership.

If social ownership of the means of production (which, as we have been trying to show, should never be interpreted in a narrowly legalistic sense) *really* prevails in a society and, *partly* as a consequence of this, personal incomes are as a rule determined according to the quantity and quality of productive and useful labour expended, and where elements of non-labour income can never originate systematically and permanently, but only occasionally and sporadically, we can consider ourselves to be on the threshold of a socialist society. There is only one additional but crucial determining element: whether the working class *actually* exercises State power or not. The question, "Which class is the ruling class?" can never be resolved by self-proclamation on the part of the ruling group or by formal statements. It will probably be impossible to formulate theoretical yardsticks to find an answer to this last question, but it would be safe to say that a proletarian rule communicates and extends its unmistakable reflections and characteristics to every living cell and to the texture of the society and to its daily life; hence, the formulation of theoretical criteria to identify the class content of the State is a question mainly for theoreticians, never for the ruling class itself.

V

If the workers and cadres in a formally-State-owned enterprise which produces for profit under a market mechanism can appropriate profits as personal incomes, their incomes would contain elements of surplus, which, by definition, are not created by those who appropriate them. No model of economic management under "market socialism" has been able to develop *practical* methods capable of preventing particular enterprises from appropriating monopolistic profits which are produced elsewhere in the economy, and by other enterprises. If "profit" were merely a success indicator, as was suggested in our third model, the consequences of production for profit under monopolistic deformations would only have been misallocation of resources with no distributive implications. However when profit is also transformed into a category of distribution, as in our first and second models, antagonistic relations of distribution which are alien to the basic principles of socialism begin to emerge.

VI

Let us now try to evaluate our first model, i.e., the model of self-management in this context. A system of self-management where even the capital equipment of the enterprise can be sold and bought on the

market where products, sales proceeds and profits belong, as a rule, to the enterprise, where the State professes only the right to tax, and where profits are distributed to the labour force of the enterprise as a whole in accordance with pre-determined rules, can safely be considered as encompassing a situation of *group* property, not of State ownership. This is a situation which closely resembles a production cooperative in which the partners are co-owners and share the fruits of property as long as they participate in production, which also brings to mind a kolkhoz-type organization. However in a model of self-management subject to market mechanisms, the typical enterprise, as it produces for maximum profits, either appropriates non-labour income or (vice-versa) is unable to guard the fruits of its own labour. On the other hand, this model, unlike our second model which we shall elaborate below, does *not* systematically reproduce antagonistic relations of distribution *within* the enterprise. Once the intra-enterprise rules of distribution are established, there is a unity of economic interests among the working people *within* the enterprise. A system which does not create permanent and systematic contradictions of economic interests *within* the enterprise and which does not reproduce the wage/profit trade-off within the production process should be considered fundamentally different from capitalism, despite the fact that there is an objective situation of contradictory economic interests between enterprises, sectors and regions.

VII

Our second model is identical with the first as far as appropriation by the firm of the sales proceeds and of profits are concerned. On the other hand, intra-firm relations of distribution in this model are fundamentally different from those in a self-management model.

Profits in this model are similarly transformed into personal income; but the main difference with a self-management system rests with the fact that in this case they are appropriated by the administrative-technical cadres of the enterprise only, not by the workers. Since management and related decision-making powers are under the monopoly of the same cadres, this situation inevitably leads to the emergence of antagonistic relations of distribution *within* the enterprise. One should keep in mind the fact that among these management functions are included decisions directly determining the level of employment, individual bonuses to the workers, and, consequently, the *wage fund* within the enterprise. In this case, the enterprise management, under the profit motive, tends to consider the wage fund as merely a cost category to be minimized. This tendency is aggravated by the fact that any decision, such as a reduction in wage costs, which leads to a decrease in enterprise costs, directly increases profit-linked bonuses to the management. This means that the wage/profit trade-off is created and systematically reproduced within the enterprise.

This leads us to conclude that our second model, as a consequence of the market processes and production for profit as well as of the

particular position of management within the enterprise, reproduces antagonistic relations of distribution at two levels. First, at the level of the economy as a whole in which the enterprise can appropriate non-labour income against other sections of the society (or vice-versa); in this respect, it is no different from a self-management model. Additionally, however, at the level of the enterprise, this model is liable to create antagonistic relations of distribution and contradictory economic interests between the workers and management, which is not the case for the previous model.

VIII

Let us now attempt to analyze our third (and hypothetical) model from the viewpoint of the same problems of distribution. Even if we accept the assertion that profit is the best success indicator for the firm, why should the performance of the enterprise, reflected and measured by profit, also be rewarded via the distribution of profits as income flows? What is the logic behind the procedure of letting the management appropriate enterprise profits since the managerial cadres are presumably rewarded by their salaries for the type of labour they are supposed to contribute. These salaries are, theoretically, categories of income distribution established in conformity with the principle of "distribution according to labor". The required labor contribution of administrative cadres is actualized through "good management", which may be measured, as the case may be, by profits. An enterprise director, who attains maximum profits for his firm, is considered to have performed the task society expects of him and thus is entitled to his salary in return for a good job performed. This is the natural behavioural pattern expected in a socialist economy from a "red director" who is fully conscious of what society expects of him; he expends his organizational and technical capabilities and know-how, i. e., his labour, and accordingly, is paid for this a salary which is a reflection of the quantity and quality of the labour he contributes to the economy. Hence, despite the predominance of a market mechanism, our third model is unlikely to create, either at the macro or micro levels, relations of distribution alien to socialism.

IX

There are attempts on the part of some Yugoslav and occasionally East European theoreticians to justify profits as a distinct category of distribution under "socialism".¹ Some of these arguments revert back to

¹ See in particular: A. Bajt, "Property in Capital and in the Means of Production in Socialist Economies" (Paper submitted to the 4th CESIES Seminar in Rapallo, mimeo). See also: B. Levoik, "Wages and Manpower Problems in the New System of Management in Czechoslovakia", *Planning and Markets*, (Ed. by J. T. Dunlop and N. P. Fedorenko), 1969, McGraw-Hill; A. Bachurin, "The Economic Reform in Operation", *Problems of Economics*, April 1969; R. Uvalic, "Function of the Market and the Plan in the Socialist Economy" *Yugoslav Economists on Problems of a Socialist Economy* (Ed. by R. Stojanović), 1964, International Arts and Sciences Press.

the neoclassical concept of "entrepreneurship" as a factor of production, the return of which is profits proper, as distinct from the return to labour (wages) or the return to capital (interest). In this sense, profits reflect a contribution to society and hence can justifiably be appropriated as income by those making this contribution. It follows that State ownership of the means of production (capital) can be translated into actuality by a tax in the form of an interest charge on capital goods which are under the control of the enterprise, whereas profits, as the "return to entrepreneurship", should belong to the management. Where management is, theoretically, the responsibility of workers, profits, in principle, should belong to the workers' collective. Hence, the rules of distribution of the self-management model. But where management rests with the director and his aides, profits belong, in principle, to the administrative-technical cadres. Hence the Eastern European variant of rules of distribution.

It is not the aim of this paper to launch a polemic with the neoclassical approach to problems of distribution. Suffice it to say that the conceptual and theoretical premises of the "socialist" writers who try to legitimize profits under socialism with an argumentation on the aforementioned lines are in complete opposition to Marxist political economy. On the other hand, most writers of the Eastern European "economic reform school" take a purely pragmatist approach and tend to see profits as the most suitable incentive for enterprise management. We may accept this new function of profits as a material incentive out of necessity only if we also accept, as a fact of life, the deformations and degeneration of the human material of society, the deficiencies in the political consciousness of the cadres; in short, a pattern of behaviour, alien as a whole to socialism, as inevitable. However, this "necessity" has never been defended frankly on these lines by its proponents. Our third model takes as its starting point the assumption that no such human deformations alien to socialism prevail; and, therefore, the labour of cadres is rewarded only as a highly qualified type of labour and no additional category of revenue based on profits is required to induce managers to behave as they should.

These considerations lead us to conclude that commodity production is compatible with socialism if relations (and principles) of distribution are abstracted from market processes. In other words, productive units would act and react in accordance with market indicators with a view to maximizing profits; but these actions and reactions should never lead to actual income flows, which would be determined by socialist principles of distribution. Thus, market categories to which enterprises are subjected would be mainly accounting categories. However it is not only human ignorance and subjective mistakes on the part of the decision-makers which has prevented the implementation of such a system of economic reform: The abstraction of distribution relations from market processes would be possible only if socialist norms of human behaviour were predominant at the level of the leading cadres of society. Hence, if a society were a fully socialist one in every respect, an extension of commodity production would bring no disintegrating influence, and vice-versa.

Where does this analysis lead us, particularly in identifying the most retrograde of our models, the second one, as a socio-economic formation? Can we go as far as to say that, in this case, the enterprises are under the *de facto* ownership of the managing cadres? We can immediately observe that certain elements of private property are missing here. It seems rather far-fetched to consider directors who are appointed to their posts by the State and can benefit from the aforementioned mechanism of distribution only as long as they keep their posts, as owners of factories; particularly if we consider the fact that their specific right "to benefit from the fruits of ownership", if we may call this relation *de facto* ownership, cannot be transferred via inheritance to the next generation.

On the other hand, if the ruling stratum of a society consists of an in-bred closed circle of people, privileges linked with controlling the means of production may be passing from generation to generation within the same group. People belonging to this group could be in a position to effectively transfer the right to control, manage, and utilize, if not the particular enterprises or economic units under their immediate control, then other economic units or the commanding posts of society to their offspring. When such a situation prevails, are we not probably justified in speaking of the emergence of a "State bourgeoisie" for whom the *de facto* right to inherit economic power, or the means of production *in general*, has materialized in a very particular sense? Of course, these questions should not be interpreted as implying that such a situation actually exists in certain societies of Eastern Europe. This latter problem, being of an empirical nature, is beyond the scope of the present paper.

XI

A model of self-management is significant for our purposes as possessing a built-in mechanism which can slow up the emergence of antagonistic relations of distribution resulting from market relations, although it cannot prevent them altogether. As an experiment in "industrial democracy" and the like, self-management does not seem to bring any great novelty. Most evidence available to the author suggests that in Yugoslav enterprises successful professional managers have a secure and semi-permanent position in the enterprise and make all basic economic and technical decisions with a great degree of freedom. This should be considered a natural state of things. Workers in an enterprise would always be interested to play a major role in determining conditions of work and related economic and technological questions, as well as having their say in problems of income distribution. However there remains a residual but very wide area of technological and economic decision-making which may better be left to professional cadres, and this would in no way contradict the class interests of the proletariat. Choice between technological and economic alternatives at this level by professional cadres do not violate such sacred concepts as industrial democracy, workers' control and the like.

There are other, and much more vital questions which may be considered as illuminating the nature of the social system; questions which are of immense significance from the viewpoint and perceptions of the working class: Can the working class contribute effectively to the formation of strategic decisions on all major economic and political questions pertaining to the functioning of society as a whole? Do privileges keep on emerging systematically in favor of the intelligentsia and of the political and administrative cadres, to the detriment of manual workers? Are there political and institutional safeguards against the inheritance of occupational and functional differences and the consequent hierarchy, necessitated by the current division of labour? What is the quality of human relations between political-administrative cadres and the intelligentsia on the one hand, and workers on the other within enterprises, within administrative and political units, and at every level of daily life? Are these comradely relations based upon an attitude of collaboration, solidarity and equality strengthened by the sensation of sharing the same life-style and similar cultural values? In short, is society ruled by a proletarian democracy; that is, does the working class control State power or not?

These questions, together with an economic analysis of the interconnections of market processes with income distribution on the lines suggested in this paper, would contribute significantly to clarifying whether or not a social system is really socialist.

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TRZISTE, SAMOUPRAVLJANJE I SOCIALIZAM

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Rezime

U privredi u kojoj su sredstva za proizvodnju formalno u kolektivnoj svojini, ali u kojoj su tržišni mehanizam i proizvodnja za profit postali ekonomska nužnost, složeni odnos između tržišnih procesa i raspodele dohotka — iskršava. U tom se kontekstu mogu zamisliti tri različita modela. Članak pokušava da oceni implikacije delovanja ovih triju modela sa stanovišta odnosa modela prema socijalizmu.

Zajedničke osobine svih triju modela jesu formalna kolektivna svojina nad sredstvima za proizvodnju i prevlast robne proizvodnje. Elementi u kojima se ovi modeli međusobno razlikuju jesu, u načelu, pravila i mehanizmi raspodele.

Prvi model, koji sadrži osnovne elemente jugoslovenskog samoupravnog sistema, može da se posmatra kao slučaj *de facto* grupne svojine. Samoupravni sistem ima ugrađene mehanizme za sprečavanje pojave antagonističkih odnosa u raspodeli unutar preduzeća. S druge stra-

ne, pošto profiti po pravilu pripadaju preduzeću (i, otuda, radnicima preduzeća), monopolističke deformacije neizbežne u pravim tržišnim uslovima vode prisvajanju neradnog dohotka od strane članova pojedinih preduzeća, kao i suprotnom slučaju kada ostali radni kolektivi ne mogu da zaštite plodove svoga rada.

Drugi model, koji predstavlja neku vrstu tržišno orijentisanih reformi zapaženih u Istočnoj Evropi posle 1965. godine, stvara iste odnose u raspodeli između preduzeća kao prvi model plus antagonističke odnose u raspodeli unutar preduzeća. Ova druga osobina potiče od tretiranja profita kao nagrade za rukovođenje (što važi i za samoupravni model) i od činjenice da je rukovođenje specijalizovani zadatak direktora i tehničko-administrativnih kadrova kao faktora udaljenih od radnika (što ne važi za samoupravni model). Otuda profiti po pravilu pripadaju preduzeću ili, pre, rukovodećim kadrovima. Osnovna pravila i mehanizmi robne proizvodnje omogućavaju rukovodstvu da utiče na veličinu fonda nadnica u preduzeću; na taj su način nadnice pretvorene u kategoriju koju treba minimizirati, što vodi suparničkom odnosu između nadnica i profita (a otuda i antagonističkim odnosima u raspodeli) unutar preduzeća.

Oba modela dozvoljavaju transformaciju tržišnih kategorija, posebno profita, u kategorije raspodele. Stoga oni stvaraju objektivnu situaciju u kojoj lični dohodi sistematski ne odražavaju doprinose pojedina ukupnom društvenom radu. Ova situacija protivreči osnovnom socijalističkom principu: »raspodeli prema radu«; u tom je pogledu drugi model nazadniji nego prvi model.

Treći model predstavlja pokušaj nalaženja odgovora na pitanje: šta treba učiniti da robna proizvodnja ne bi potkopala fundamentalne odnose u socijalizmu? Robna proizvodnja iziskuje proizvodnju za profit. Otuda se profiti mogu smatrati glavnim indikatorom uspeha svakog preduzeća; međutim, nema potrebe da se preduzeće (njegovo rukovodstvo ili njegovi radnici) nagradi pomoću raspodele profita. Po socijalističkom principu koji predstavlja postojanje »tačnog« merila za nadnice i plate, plate rukovodećih kadrova treba da odraze doprinos posebne vrste rada društvenom bogatstvu. Zahtevani radni doprinos direktora, na primer, ostvaruje se u »dobrom rukovođenju« koje može da se meri (ali samo meri) profitom; otuda direktor koji maksimizira profit ima pravo na platu kao naknadu za dobro obavljene posao. Ponašanje koje se očekuje od »crvenog direktora« ne zahteva, kao dodatni podsticaj, stvarno učešće direktora u raspodeli profita.

Može da se završi time da je robna proizvodnja spojiva sa socijalizmom ako, i samo ako su odnosi (i principi) raspodele odvojeni od tržišnih procesa.

THE EMERGENCE OF ECONOMIC DEMOCRACY IN THE UNITED STATES*

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While considerable research has reported on the emergence of worker controlled business firms in Europe and Latin America, little has appeared in the literature regarding such occurrences in the United States.

The present paper attempts to address this deficiency by reflecting upon historical and current conditions in North America which are giving rise to a cooperative and labor-managed movement in the U. S. After summarizing forces leading toward self-management, a discussion will portray several recent developments which show promise of an expanding worker-owned economy, and the problems and prospects of a third sector are highlighted.

FORCES FOR CHANGE

The idea of grassroots economic participation is not totally new in America. The early ventures of the Penny Capitalists, the utopian ideals of Robert Owen, and the cooperative society of the Rochdale pioneers were all British in nature, but these early efforts seeded a certain U. S. philosophical propensity toward collaborative economics.

Specifically, the consumers' cooperative movement with its interest in serving needs, not exploiting the market, is strong in the U. S. today. These institutions can be characterized as being under the control of the users of a product or service. Currently, some 50 million Americans belong to co-ops which are owned, capitalized, and controlled by their members to varying degrees. The largest are agricultural co-ops which in 1975 sold \$ 57 billion worth of supplies and food. Other alternative businesses include thousands of housing and food co-ops, and credit unions consist of 30 million members, holding assets valued at \$37 billion.

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