

The Economics of Feasible Socialism

Alec Nove

'The Economics of Feasible Socialism,

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The Economics of Feasible Socialism

Une société d'où la justice et la morale seraient bannies ne saurait évidemment subsister.

(V. Pareto)

The political uniqueness of our own era then is this; we have lived and still live through a desperate political and social malaise, while at the same time we have *outlived* the desperate revolutionary remedies that had once been thought to solve them.

Alvin W. Gouldner

Preface

The word 'socialism' is apt to produce strong feelings, of enthusiasm, cynicism, hostility. It is the road to a future just society, or to serfdom. It is the next stage of an ineluctable historical process, or a tragic aberration, a cul-de-sac, into which the deluded masses are drawn by power-hungry agitator-intellectuals. My own attitude will emerge in the pages that follow. Let me make it clear that my object is not propagandist, in either direction. It is to explore what *could be* a workable, feasible sort of socialism, which might be achieved within the lifetime of a child already conceived. I have spent the last quarter-century studying and trying to understand the 'socialist' countries of Eastern Europe. Brought up in a social-democratic environment, son of a Menshevik who was arrested by the Bolsheviks, I inherited a somewhat critical view of Soviet reality: if this really was socialism, I would prefer to be elsewhere. (Luckily, I *was* elsewhere!) Of course the Soviet system did not take the shape it did because of 'betrayal', or the accident of Stalin's personality. I have tried to describe the way in which the system developed, paying particular attention to the economic aspect. I have listened to critics who have contrasted the Soviet variety of socialism with the vision of Marx. That there are differences is obvious, but plainly it is not enough to note them, and then to criticise the reality of the USSR because it does not conform to the vision of Marx, or indeed of Lenin. What if the vision is unrealisable, contradictory? Does it make sense to 'blame' Stalin and his successors for not having achieved what cannot be achieved in the real world? Can the excesses and crimes which they *did* commit in the real world have been due in some part to the doctrines they espoused? (If a loyal Marxist protests that these doctrines were humanist, that they did not envisage a despotic society or mass repression, one can remind him or her of what happened in other countries with a Christian doctrine – and that fellow-Christians were the most numerous victims!) As an economist, I have been struck by the fact that the functional logic of centralised planning 'fits' far too easily into the practice of centralised despotism.

Very well, but what is the alternative? Marx contrasted socialism utopian with socialism scientific. For reasons which will be expounded in the first part of this book, I believe that Marx's socialism was utopian. Can there be a 'socialism scientific'? Not 'scientific' in the sense that it can be proved 'scientifically' that this is the way history marches, nor yet in the form of a blueprint of a perfect society which we would call 'socialist'. Nothing perfect, nothing optimal. Something that can reasonably be expected to function with a reasonable probability of avoiding both despotism and intolerable inefficiency.

I feel increasingly ill-disposed towards those latter-day Marxists who airily ascribe all the world's evils to 'capitalism', dismiss the Soviet experience as

irrelevant, and substitute for hard thinking an image of a post-revolutionary world in which there would be no economic problems at all (or where any problems that might arise would be handled smoothly by the 'associated producers' of a world commonwealth). I feel not too well-disposed either towards the Chicago school, whose belief in 'free enterprise' seems quite unaffected by the growth of giant bureaucratic corporations, and whose remedies for current ills seem to benefit the rich and ignore unemployment. And even Milton Friedman is preferable to the abstract model-builders whose works fill the pages of our professional journals, since he at least advocates action in the real world (even though I believe the action he advocates is wrong).

Unexpectedly, I find myself quoting an American theologian:

At least we've got to examine socialism and not let it be a 'scare-word' of the generation; at least we've got to challenge capitalism and not let it be the sacrosanct word of the generation; at least we've got to investigate some new mixes of the two that don't escalate into Stalinism, but also don't escalate into the mind-blowing profits that are clutched by the few at the cost of hope, and even life, to the many.*

Yes, I know that the profit rate has fallen in recent years. Nor is it by any means obvious that the poor are poor *because* successful businessmen make a great deal of money. None the less, I do find the present distribution of wealth offensive, especially as it seems to bear so little relationship to any real contribution to welfare in any recognisable sense.

So I have put to myself some questions. What species of socialism *could* be envisaged? Would such a socialism be free of the defects of the Soviet model and of other 'really existing' variants? Could it operate with reasonable efficiency, and give satisfaction to the citizens in their capacities as consumers and producers? Since economic and social problems cannot be assumed out of existence, a realistically conceived socialist society will have to cope with them, there will be contradictions, there will be strains, disputes. If human beings are free to choose, they are also free to choose wrongly, and there would be conflicts with choices made by others.

The plan of this book is as follows. After a brief examination of why it is that socialist ideas and aims must be taken seriously, I launch into a critical review of Marx's ideas on socialism which, to my mind, are very seriously defective and misleading. This is followed by an examination of the experience of the USSR and some other countries which have sought to introduce 'socialism', to see what lessons can be drawn. I also discuss there the lessons which some existing critics have already drawn, and the alternatives they propose. This is followed by a discussion of the problems of transition: how can one move towards an acceptable form of socialism, bearing in mind the many errors which can be (have been) committed on what was thought to be the way? Finally, a sketch is attempted of an economic system which would

*Robert McAfee Brown, 'Theological implications of the arms race' (undated, presumably 1961).

have two characteristics: it would be called socialist, and it could work, within a reasonable time scale.

All this may seem vastly ambitious. A German colleague to whom I described my intentions smiled and said: 'All you want is to replace "Das Kapital" with "Das Sozial".' This is not so. Apart from my intellectual limitations, the task would call for a multi-volume treatise. All that is being attempted here is to put forward ideas which could be further discussed, which certainly need further development. I hope readers will not consider the ideas half-baked; but they do not pretend to be complete.

I must particularly thank Wlodimierz Brus, Agota Dezsényi-Gueullette, Michael Ellmann, Radoslav Selucky and Ljubo Sirc who read several parts and made critical comments. I had the benefit of advice from, and discussions with, Dubravko Matko, Xavier Richet, Louis Baslé, Robert Tartarin, Marie Lavigne, Jan Elster, participants in seminars in Paris, Amsterdam and Oxford, and several Hungarians who should remain anonymous. Thanks, too, to my University of Glasgow, for providing a stimulating environment and giving me time for study and travel. Last but far from least, I am grateful for the work of Elizabeth Hunter in deciphering my writing and typing the text. The remaining sins of omission and commission are all my own work.

A Note on the Notes

The notes are at the end of each part. Where the work cited is in a foreign language, the translations are my own (unless otherwise stated). Titles of articles are only given when they seem relevant to the theme, or are needed for identification. I have provided no bibliography, because the notes contain a great many references to works of importance on this subject, and a full list of books bearing on the economic problems of socialism, or Marxism, would fill a large volume.

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Introduction:

Socialism – Why?

This book is about ‘feasible socialism’. Its author must therefore declare his interest. Why write about this theme? Is the author intending to mount an attack on socialism in the name of efficient allocation of resources, Pareto optimality and the virtues of free enterprise? And what ‘socialism’ does he have in mind?

Let us leave this last and very important question aside for the present: one reason for writing this book is precisely to help to arrive at a definition of a socialism that is feasible, that could work with reasonable effectiveness (since a socialism that does not function can be of little help to anyone). Let me put a few cards on the table, by explaining my motives and my starting point. In doing so I shall make some very sweeping generalisations. The reader will, I trust, forgive me if I do not write a long essay defending each general statement and modifying it to fit the many exceptions and modifications that it doubtless needs.

First, it appears to me that the basic assumptions of liberal capitalism are ceasing to be true. At one time it really was the case that the pursuit of personal and sectional interest, on balance, was the way to obtain the best available approximation to the general interest. Of course, there were many exceptions – there always are – but the rationality of a free market economy tended to prevail, and appeared superior to any possible alternative arrangement of our society. To Hayek or Friedman it seems still to be the case today. However, several factors are now working against the efficacy, or even the survival, of the liberal-capitalist model. Many of these have to do with the consequences of *scale* and of *specialisation*. The polarisation of society into a small group of super-monopoly-capitalists and impoverished proletarians foreseen by Marx has not come to pass, and there are indeed a multitude of small businesses, while large packets of shares in big business are held by pension funds and insurance companies, representing aggregations of predominantly small savings. But, when all allowance is made for this, the fact remains that enormous business corporations and conglomerates dominate a whole series of vital industries, and many of the small businesses are highly dependent upon being subcontractors to the giants. Some interesting theories about the motivations of managers of large corporations have developed in the last few decades, which put into question some axioms such as profit ‘maximisation’, but this aspect we will leave aside. The important points in the present context are:

- (a) monopoly power and its social-economic consequences,
- (b) vulnerability,
- (c) alienation.

Monopoly is, of course, almost always relative. There will usually be close substitutes, or some species of monopsony or monopolistic competition. It is not my purpose to enter into controversy on the relative efficiency of the large corporation, its contribution to innovation, and so on. Its decisions affect many thousands of people and could cause grave distress to whole conurbations which rely on it for employment. Its sheer size and the remoteness of its headquarters – in another country in the case of multinationals – complicate labour relations, and can lead to damaging disputes. The greater the degree of monopoly power, the more it is possible to increase profits at the expense of the customer or of quality or of choice, for the less is the importance of the customer's goodwill (a point too easily overlooked by those who try to devise criteria for nationalised monopolies in Britain, for instance). The small number of giants and the power they wield has led to a reconsideration of an economic theory based upon an infinite number of competing units, a theory of the 'firm' which, at its worst (in the words of Shubik), sees no difference between General Motors and a corner ice-cream shop. There has been recourse to games theory, and much research on business behaviour and on how prices are actually determined or 'administered'. Joan Robinson's and Chamberlin's insights about imperfect competition have been deepened. Side by side with mathematically elegant and abstract general-equilibrium models, we have seen growing concern with the consequences of increasing returns, and their converse, increasing unit costs when production declines, leading to higher (cost-based) prices at a time of falling demand. Monopoly power also has its political aspects: both government control over monopolies, and the power of large corporations over government.

There is also the monopoly power of trade unions, which has increased *pari passu* with the vulnerability of the economy to attack from sectional interest groups. We all know that a quite small group of key workers in one component factory can cause enormous damage to industry. Specialisation by plant and by trade has added greatly to this power. Right-wing analysts stress, understandably, the harm trade unions can do to productivity, competitiveness and, ultimately, to the living standards of the union members themselves. In so far as this is indeed so, it is another illustration of the thesis advanced above: that the pursuit of sectional interest has ceased to be compatible with the general interest, including in some cases that of the group pursuing the sectional interest. Lest the words 'general interest' upset the orthodox left ('What about the class struggle?'), let me at once explain that the above statement remains valid even if confined to the working class as a whole. Surely it cannot be seriously disputed that repeated work stoppages, plus a variety of restrictive practices, must adversely affect productivity, and it is a naive socialist indeed who fails to note that there is some connection between productivity and the level of real wages. Yes, I am aware that productivity is affected also by the quality of management and the level (and

nature) of investments. Perhaps it can also be recognised that industrial relations are not a zero-sum game, that when (as in West Germany and Japan) there is industrial peace and efficient management, both managers and workers reap the benefit. All this is not an argument for 'reformism', just a simple statement of fact. Industrial strife could be the deliberate aim of those who wish to 'bash the unions', and certainly *is* the deliberate aim of revolutionary groups who desire to destabilise and overthrow existing society. However, the essential feature of the situation does not relate to plots of ultra-right or ultra-left: groups pressing their demands, their 'just claims', may be of no political colouring, and the disruption of the economy is usually the consequence of what is believed to be self-interest, justified by the fact that the basic ideology of society is the pursuit of self-interest ('Look after Number One', 'I'm all right, Jack', and other modern proverbs).

There is taking place in many Western countries a breakdown in traditional deference, in the willingness to obey the boss because he is the boss, which is due to more than simply a greater sense of security. Income inequalities formerly taken for granted come to be resented – and this can happen in a stratified communist-ruled country such as Poland, as well as in, say, Italy or Sweden. Some forms of inequality or privilege are indeed irrational, or can easily and reasonably seem so.

I find it hard to accept that merely allowing others to use my money, or my land, is a 'productive' activity, on a par with actually working – though naturally management is work, too, and of course it should be efficient. Why should vast riches go to those who have had the luck to own some oil-bearing land, or to have forebears who were given land in exchange for services rendered (sometimes in bed) to some long-dead monarch? This has nothing whatever to do with any contribution to production or welfare in any sense, and makes it seem more than a little silly to urge 'wage restraint' at a time when the very rich do not need to work at all. Industrial leadership, company directorships, too often go to those with the right birth, connections and shareholdings, and they may or may not be the most efficient at their job. In Britain at least the breakdown in deference is accompanied, in some cases deservedly, by lack of respect for the competence of senior management. This is combined with a sense of alienation: large-scale units are run by virtually unknown bosses; the outcome of the work, and its organisation, is none of the business of the workforce. Their lack of interest and commitment can affect not only their job-satisfaction but also efficiency and productivity. Conversely, pride in work, a sense of achievement and identity, has a positive economic effect, too often ignored in textbooks on microeconomics. One has only to study a country in which, for reasons not easily understood by Europeans, this effect seems to have been achieved: Japan.

All this is connected also with inflation. Powerful groups in society ask for more. This leads to *excess demands*. Purely monetarist 'explanations' of inflation seem remarkably superficial. There have always, of course, been people who have wanted more – more wages, more social benefits, more defence spending, or whatever. History provides numerous examples of debasing coinage, printing too much money, and so on. But it is surely significant that worldwide inflation, affecting countries under very different

political parties and regimes, or widely differing levels of development, should have become so universal, so difficult to combat. Needless to say, these pressures and demands do lead to an increase in the money supply (so Friedman is not 'wrong', but the real causes remain unanalysed by him).

Inflation has effects on economic behaviour which move it far from the paths of rationality. Ota Sik has argued that society's investments should not be an incidental consequence of the struggle to divide up the national income. It is one of the less satisfactory features of the neo-Ricardian or 'Sraffa' models that, even though they assume that investment is wholly financed from profits, real wages are seen as the result of the class struggle: what labour does not get the capitalists do, and vice versa. This is a sophisticated version of the zero-sum-game approach, and seems to me remarkably undynamic: even in the medium run, real wages can scarcely rise significantly without investments! Imagine a situation in which, by powerful class struggle, the workers reduce net profits to zero. There is then in the model no net investment, therefore no growth, because investment is assumed to be financed out of profits, directly or indirectly; increased production of consumers' goods could scarcely occur under these circumstances. But individuals or groups, understandably, see only their own individual or group interests. Nor is it a matter of stupidity or blinkered vision. It is impossible to demonstrate that any one segment of a complex society which demands more for its own consumption is thereby hindering the process of growth which could be financed by others. (Thus members of the Association of University Teachers quite reasonably ask for higher salaries, and would vote for lower taxes too, although their salaries are paid out of taxes, since there could always be less spent on something else, and their salaries represent a tiny percentage of the state budget.) So, although demanding more for current consumption, people may in fact be acting against their own best interests, but, from where they are situated, this *cannot* be seen. In a world in which each freely takes what he or she can, it is in the interest of any individual or group to pursue its own narrowly defined advantage, because others are doing so. (Perhaps instead of the 'prisoner's dilemma' we should speak of a free man's dilemma!)

But at the same time those who invest seek, understandably enough, a hedge against inflation, shelter from the prevailing uncertainty. This leads to a concentration on the short term, reflected in and reflecting the high rate of interest. It is quite logical, as in the case of the railway union pension fund, to 'invest' in old masters and to keep the paintings in a secret vault. It may pay the individual to keep money in Zurich. So, apart from the question of how much *should* be invested, the choices between investment alternatives are twisted out of shape, with a short time-horizon plus security as dominant aims. Of course, an element of risk-taking, the need to cope with uncertainty and imperfect information, always existed, and mistakes were made, gambles taken. But the decision-maker today is presented with a remarkably unclear and confused set of signals. It is hard enough to guess what the costs of materials, labour, the rate of interest, will be in six months' time, let alone six years' time (and it takes that long to build any large factory). At least all this sets up the presumption that rational investment decisions would represent a

remarkable coincidence, rather than being the normal outcome of the institutional and economic circumstances.

Another aspect of 'rational' investments relates to their effects on employment. In the more developed countries there is increasing danger that labour-saving innovations will be introduced at a rate far exceeding the possibility of providing alternative jobs, with serious chronic unemployment as the consequence – and this apart from and in addition to unemployment that arises out of cyclical trends or deflationary policies. There is likely to exist a contradiction between the profitability of labour-saving at microeconomic levels and the macro and/or social consequences. There might have to be organised work-sharing, with much shorter hours, but neither the employers nor the trade unions seem able to focus on the problems of implementing such a strategy. Matters are exacerbated by the possibility – or perhaps even the likelihood – of material shortages which obstruct growth in output. To mention this does not imply the acceptance of a full gloom-and-doom scenario *à la* Club of Rome. But the energy crisis appears to be long-lasting, the troubles and disruptions among Third World producers of materials and fuels are all too likely to persist, and we can face various unpredictable bottlenecks. Some products, say, cocoa and iron ore, could be in ample supply, but demand for them would be constrained by production difficulties and recession occasioned by shortage of, say, oil and non-ferrous metals. Conventional economic analysis and the normal market mechanism are not well attuned to handling physical shortage. This is no doubt one reason why central controls are usually imposed in wartime. Or take another example: fish in the North Sea. Shortage causes higher prices, which stimulates further efforts to catch fish, which makes the shortage worse, and so on, until there are no fish. A higher profit is supposed to act as a stimulus to higher output, on the implied assumption that this does not run into physical limits which make higher output impossible. This is why, in the case of fish, government regulation is necessary. Such instances could become more common in the future, as issues of environmental protection have become already. (NB: I appreciate that in, for example, the USSR, scarce resources have been wastefully exploited, and the rivers and atmosphere polluted. The point is that this mode of behaviour can be quite consistent with private profit-making, whereas at least the *model* of a socialist planning system implies that such things should not happen. Why they *do* happen will be analysed later in this book.)

In general, socialists should be stressing the importance of *externalities*, these being circumstances in which effects external to the given transaction are sufficiently important to be taken into consideration. In a sense, every action has *some* external effects, but they are mostly insignificant, and the cost of taking them into account would be totally prohibitive. However, instances exist, and are recognised by all schools and ideologies, in which externalities matter: diseconomies, such as pollution, ugliness, congestion, noise, the killing of bees by insecticides, and so on; economies, such as the advantage obtained by third parties, or society in general, from efficient urban transportation, reliable postal services, or the planting of attractive flowers in a neighbour's garden. In our modern world the number of instances in which

externalities matter seems to be increasing. So, therefore, does the number of occasions in which private or sectional interest can conflict with a more general interest.

Reverting to the earlier example of employment and unemployment, one sees this particularly vividly in the so-called Third World. The reasons are sometimes obscured by rhetoric. Thus the fact that, in many Third World countries, industrial investment is labour-saving when labour is overabundant is blamed on multinational corporations. This question I discussed in an article many years ago, under the heading of 'The explosive model'.¹ The problem is not in fact due to the machinations of multinationals, imperialists, or foreign investors. For a number of reasons which this is not the place to examine, modern labour-saving technology is in fact profitable to use even where wages of unskilled labour are low. Thus a bulldozer saves so much labour that it would be cheaper to use it even if the labourers it replaced were paid at bare subsistence rates. Domestic capitalists also find that it pays to substitute capital for labour, not only in industry but also in agriculture. The 'explosive' nature of this model arises from the fact that, with high population growth, this leads to a growth of underemployed or unemployed *marginados*, a source of social disorder and human misery.

This is but one of the issues that arise in developing countries which incline many of them to opt for what they believe to be a 'socialist' road. That for many this turns into a disastrous blind alley is not in dispute, at least not by me. What does seem clear is that there are powerful reasons why the capitalist road is rejected. Some relate to traditional attitudes of a pre-capitalist kind. These were strong in pre-revolutionary Russia. Among aristocrats, intellectuals (whether conservative, like Dostoevsky, or radical-revolutionary, such as Lenin or Gorky) and peasants, there was a kind of gut reaction against the mercantile spirit of Western capitalism. Thus the peasants had to have the notion of private property in land forced upon them by the Stolypin reforms of 1906-11, and promptly undid the bulk of these reforms in the chaos of revolution, reverting spontaneously to quasi-medieval forms of communal tenure. These attitudes were among the causes which shaped the Russian revolution. More recently we have seen in Iran the militantly conservative-traditionalist rejection of Western-style capitalist development. One sees, in varying degrees, the social-political unacceptability of rapid transformation of societies in the name of private profit, where highly imperfect markets and uneven development enable some individuals to grow very rich indeed while the very poor remain very poor.

Again, this is a huge subject, with (I know) much to be said on both sides. All I wish to do at this point is to note that there exists an ideology of developmental socialism, often confused and naive, but anti-capitalist. Maybe, as Lord Harris would doubtless argue, development would be speeded if these countries all adopted the policies which produced good results in South Korea (though the latest reports on political repression there are not exactly encouraging). But it may be no more meaningful to advise Algeria to adopt the South Korean economic model than to instruct Great Britain to introduce Japanese-style labour relations. In all societies there must be a minimum of consensus, of acceptance of the political and economic basis of society.

Without it there could be chaos, or organised repression, whether of the Stalin or the right-wing militarist variety. Economic development involving rapid structural change not only provides huge opportunities for (often undeserved) private profit, but also stimulates strong opposition.

It is sometimes said that private ownership of the means of production is a necessary condition for political democracy. Maybe. But it most certainly is not a sufficient condition. The experience of many (most?) developing countries suggests a reverse correlation: the capitalist development road requires the maintenance of order by a powerful repressive apparatus, a military or one-party regime. Or one could look at the question another way. Rapid, destabilising structural change hurts many people, upsets traditional modes of life, often involves sacrifice. This must be in the name of something, a principle, an ideology. It is surely no accident that this ideology is so frequently socialist in its language, though nationalism is also a potent force. So we will have to pay some attention to the logic (and dangers too) of 'developmental socialism'.

There is a point of more general application. Contrary to the belief of many economists, 'no social system can work which is based exclusively upon a network of free contracts between (legally) equal contracting parties, and in which everyone is supposed to be guided by nothing except his own short-run utilitarian interest'. The quotation is from Schumpeter;² it can be reinforced by a similar one from Joan Robinson, and I have already cited Pareto in a similar vein. Societies concerned *only* with profit will fall to pieces. Corruption, in the literal and the figurative sense, can flourish where the making of money becomes the primary aspiration, the dominant criterion of success.

As will become clear in the course of this book, I am aware that human acquisitiveness is a force which cannot be ignored, which indeed must be harnessed in the search for efficiency. But it hardly requires to be stimulated, by advertising and militant commercialisation. There is something genuinely repulsive in the amount of money to be made by pandering to the lowest common denominator, in the mass communication industry, with some of the highest incomes going to presenters of shows, or disc-jockeys. The very concept of 'show business' can hardly fail to offend anyone seriously concerned about culture. Concern for quality of life frequently collides with the profit motive. Galbraith's 'public squalor' is a consequence of the concentration of attention on commercially meaningful activities, on private wealth. In my own city of Glasgow an excellent parks department has built a splendid walkway along a river, and maintains fine botanic gardens, available to the public free. It is not obvious that expenditure for such purposes generates less human satisfaction than private spending on girlie magazines, or on advertising detergents and deodorants.

'Socialism' is thought of as an alternative to a society still based largely on private ownership and private profit. Generations of reformers and revolutionaries envisaged a world in which there would be no great inequalities of income and wealth, where common ownership would prevail, where economic (and political) power would be more evenly distributed, where ordinary people would have greater control over their lives and over the conditions of their work, in which deliberate planning for the common good