

ECONOMY AND PROPERTY RIGHTS IN SOCIALISMS

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The title is intended to provoke, since I maintain that it is not possible to speak of a “socialist economy” because the notion of “property rights” simply does not exist in the socialist system. This premise is based on in-depth studies of several East European and former Soviet “Kombinates²” (industrial complexes) carried out just after the collapse of socialisms and the period that ensued³. They revealed that economic concepts such as property rights, commodities, currency, prices and firms cannot be applied to the analysis of the functioning of production and distribution mechanisms in socialisms (section 1). However, almost all the western “experts” called in to these countries after the collapse did not think so. As a result, the initial understanding of the stakes and processes involved was flawed. The processes following the collapse of the socialist state were erroneously described as “transition” from socialism to capitalism (section 2). This led us to formulate some propositions on the nature of economic thought and the conditions in which it is possible (section 3).

1. On socialisms

In the late eighties, the premise that it is possible to speak of a “socialist economy” and analyse it with the help of concepts used to study capitalisms was hegemonic. All schools of economic thought, whether neoclassical, Keynesian, institutional or Marxist, shared this view⁴.

¹ This paper is a mere translation, with minor changes, of a paper originally presented in French at the Cerisy Symposium on “Ownership” in July 1999. I have found no reasons for updating it deeply, since I believe it keeps asking challenging questions on the Chinese recent history.

² Kombinat was the name given, in the former German Democratic Republic, as well as in the Soviet Union, to big industrial production units. As we will see, they were much more than mere production units. Actually, they looked more like Chinese “Danweis” than like western business “firms”.

³ Studies carried out in several scores of “Kombinates” in various industrial branches with Olivier Bomsel and Christian von Hirschhausen, of the CERNA (Centre d’Economie Industrielle de l’Ecole des Mines) as well as Sylvain Lazarus of the University of Paris-8, with whom the hypotheses presented here were developed. The original idea: “There is no economy in socialism” was given by Sylvain Lazarus who presented it in: “Chercher ailleurs et autrement”. Sur la doctrine des lieux, l’économie, l’effondrement du socialisme”. Conférences du Perroquet No. 35, May 1992.

⁴ Among the Marxists, it was already the thesis of Stalin: “Economic problems in the Soviet Union”, but also of Charles Bettelheim in: “Calcul Economique et formes de propriété ‘(Economic calculation and types of property rights)», Maspéro, 1970.

The opposing thesis is however not without precedent. It was adopted by scholars as diverse as Max Weber, Ludwig von Mises and Boris Brutzkus in the twenties⁵. The debate then centred on comparisons between capitalism and socialism. On the one hand⁶, from the point of view of economic efficiency, the premise of the theoretical equivalence of both systems was upheld, as it was felt that planning would be able to produce a price system identical to the market pricing system. Socialism would thus offer the advantage of better distribution, mainly because it would do away with private monopolies. The three authors mentioned above questioned these assumptions, stating that economic calculation was impossible in socialism. Thus Mises declared: "*The paradox of planning is that it cannot plan, because of the absence of economic calculation. What is called a planned economy is no economy at all.*"⁷ *It is just a system of groping about in the dark*⁸." Their position was essentially critical. They described all that socialism was not, but failed to provide any positive analysis and had no explanation to offer for the way production was to rise in a spectacular fashion in the Soviet Union. In the twenties, they must have been convinced that the "system would not work", as it was still too soon to see things in a historical perspective. With the result that in the thirties, with the able support of Soviet "economists"⁹, the following hypothesis prevailed: socialisms were indeed economies characterised by: 1) the predominance of public ownership of the means of production (of different kinds: of the whole people, collective, etc.); 2) coordination of productive activities by the plan. For the neo-classicists, these economies were however inefficient. For the Marxists, it was a "transition" moving towards communism which alone would put an end to the economy.

The consequence of this thesis is that it is possible to analyse the dynamics of production and distribution in socialist countries with the help of universal economic concepts applicable to all societies such as: property right, commodity, currency, price, firm, bank, coordination (through the

⁵ Max Weber: "Wirtschaft und Gesellschaft" vol. 3, Tübingen, 1921. Ludwig von Mises: "Economic calculation in the Socialist Commonwealth" in: "Collectivist Economic Planning", Hayek (ed.), Routledge, London, 1935 (the text was written in 1920), also in: "Socialism", 1932, and "Human Action", 1949. Boris Brutzkus: "Problems of Social Economy under Socialism", Ekonomist, Winter 1921/1922.

⁶ Cf. for example Oskar Lange who summed up this position in 1938 in: "On the Economic Theory of Socialism".

⁷ Underlined by me

⁸ Mises "Human Action", op. cit., p. 696/697

⁹ Cf. in particular: Stalin, op. cit. as well as the "Manual of Political Economy" of the Academy of Sciences of the USSR.

market or the plan), crisis, etc. The conceptual apparatus was obviously not identical for the various economic schools but all claimed it was applicable to “different social formations” such as capitalisms and socialisms but also the so-called “primitive” societies.

Now the studies we carried out in the former “Kombinates” just after the collapse of the socialist States of Eastern Europe allowed us not only to appraise the challenges that the former would have to face on account of the collapse of the latter, the real issue to begin with, but also to better understand how Kombinates and more generally speaking the productive systems functioned within the framework of socialism. It soon became evident that economic concepts served no purpose in the context of socialism. Even when they were used in those countries (e.g. currency, price, wage, bank), they did not mean the same thing as they did in a capitalist economy. Here are some illustrations¹⁰.

Absence of currency

There were not one but three pseudo currencies in the socialist countries of Eastern Europe. First, a paper currency which was distributed to the “members” of the Kombinat and could only be used by them to buy some final consumer goods, representing only a small fraction of the consumption of these individuals. Second, a bank money which was used to record trade among Kombinates, automatically created by their accounting “deficits” and cancelled by their “surpluses”. Third, a currency convertible in foreign exchange by the Bank of Foreign Trade was used exclusively for foreign trade. The essential point is that these three currencies were not inter-convertible. None of them had the attributes of a “general equivalent” that currencies in capitalist countries have. Industrial Kombinates never had to face “monetary constraints” which would have compelled them to cover expenditures by earnings, with credit pledged against future earnings. As a result, banks (or so they were called) were not banks in the capitalist sense of the term whereby they are institutions issuing general equivalent currency through their credit activity.

¹⁰ I will permit myself to be brief and schematic here to the extent that what follows (on money, the Kombinat and the Plan) has been discussed at length by Christian von Hirschhausen in “Du combinat socialiste à l’entreprise capitaliste – Une analyse des réformes industrielles en Europe de l’Est”, L’Harmattan, Paris, 1996.

Industrial Kombines did not behave like firms

The Kombines which were the units of production in socialism cannot be compared to “firms” in the capitalist sense of the term.

They were “multifunctional” entities. They combined the production function with functions that one would define in capitalism as “social”: free supply of consumer goods, leisure, health care, education as well as control and political mobilisation functions. Kombines did not recruit “wage earners”. One was a “member” of a Kombinat. Besides, the notion of wages was very different: the paper money that the members received was only a fraction of what the Kombinat supplied them with and could in no way be considered the selling price of their “labour force”.

The three main functions of a Kombinat were not hierarchically stable and priorities kept changing. As a result, it was impossible to demonstrate a stable rationale of the productive function. This was not guided by any economic calculation, a fortiori any monetary calculation. First, prices did not have the same meaning as in capitalism. They were fixed by the Plan taking into account diverse considerations and did not even reflect, as one may have expected, a labour value corrected by distribution goals. As such, they could not be used for economic calculation with a view to minimise quantities of factors of production used in a given production line. Furthermore, such calculations which could have been done substituting labour values for prices did not govern production related decisions as they always took into account the other functions of the Kombinat.

A Kombinat did not behave like a firm, not even like a “public” production enterprise. There was no economic rationale behind it, not even the skewed imperfect rationale of planned pricing. In our view, it was a piece of the State constituting the basic unit of the socialist Party-State. Consequently, no specific autonomous production rationale existed. This is what prompted superficial western observers to dismiss the planned “economy” as synonymous with inefficiency and dispare decisions which would be considered absurd in a capitalist economy. Socialisms were not irrational. Simply, their rationale was not “economic”. Production, social and political targets were all inextricably linked; they were defined and pursued by the Party-State. Production was not distinct from the State.

The Plan as a mechanism of coordination

Official discourse claimed that it was only after several rounds of discussion between planners and the production units that plan allocations were made in respect to quantities to be received, produced and delivered. Yet we could not help but being struck by one fact: while visiting iron and steel plants which received iron ore and coal, produced and delivered rolls of laminated iron sheets, we observed that there was no weighing mechanism either upstream when the wagons came in nor downstream. It was enough to count the number of wagons and the number of rolls produced. Quantities thus recorded were approximations with a 10-20% margin of error! A more detailed analysis of the inter-Kombinat coordination mechanisms revealed, on the one hand, the existence of a paper circuit – documents which certified that production targets had been met, goods had been delivered to the designated Kombimates and were in circulation. All these documents were, if not false, at least crude approximations of reality. On the other hand, real coordination was ensured by direct and personal contacts among directors or Kombinat officials, both upstream and downstream. This took a considerable amount of their time. In reality, the modes of inter-Kombinat coordination were identical to intra-Kombinat workshop coordination. The delimitation of Kombimates not being stable, one could not speak of “commodity trade”¹¹ between distinct Kombimates. Indeed, in the history of the Soviet Union and the countries of East Europe, the boundary of the Kombinat has always varied. On several occasions, Kombimates were grouped together into larger entities, assuming the shape of inter-sector Kombimates and immense almost self-sufficient multi-industrial Kombimates (especially in the field of military production), followed by the reverse movement of de-concentration. The boundary of a Kombinat could not be governed by any rationale of an economic nature unlike the firm¹² in a capitalist economy.

The Party of which all the top Kombinat officials were members directed the material flow from the natural resource to the final consumer. The Plan provided only a rough indication and its goals were met on paper. The whole productive system was in point of fact one vast workshop in which the real

¹¹ Thus Bettelheim, who saw in the existence of monetary exchange (we have seen how the situation was, cf. above) between Kombimates considered as “firms” the reason for the subsistence of the “commodity form” in socialism, was, in our opinion, laboring under an illusion. “Calcul économique et formes de propriété”, Op. cit., p. 82.

¹² Since Coase and his famous article “The nature of the firm”, it has become quite an active field of contemporary economic analysis.

coordination was ensured by the Kombinat directors who functioned like team leaders.

Absence of ownership

The “Manual of Political Economy” of the Academy of Sciences of the USSR makes a distinction between two forms ownership: ownership of the whole people (State ownership) and collective ownership (ownership of more restricted groups of people: in practice, the kolkhozes). According to the Manual, commodity trade took place between the State owned production units (Kombinates) and the kolkhozes. This is debatable to the extent that agricultural prices were fixed by the State and imposed on the kolkhozes. However, a debate of this nature is futile. What matters is that the concept of ownership in socialism has nothing in common with the term as it is used in the economic analysis of capitalisms.

An essential characteristic of a property right in capitalism is that it can always be sold and thus has an exchange value (its market price) and. This is the case of collective ownership as well as private ownership. In fact, two distinctions are relevant: the absence of ownership (thus free access for all) and ownership; in the latter, there is collective ownership (including State ownership) and individual ownership. A collective ownership right can only be sold if the community decides to do so in accordance with the decision making procedures specific to that type of collective ownership. This distinction has no bearing on the nature of the right. As an illustration of the “economic” identicalness of State ownership and private ownership, it may be observed that when a State decides to create an ownership right for a productive resource hitherto freely accessible (air, for example), it can decide either too appropriate it and then “rent” it through a tax system applied to those who pollute air or to sell it to individuals, thus creating an individual property right, and then build up a market for “polluting rights”. Economics demonstrate that the two solutions are strictly equivalent with respect to the initial objective of the State, namely to reduce pollution by abolishing free access to air. To sum up, all State ownership in a capitalism has a market value such that “privatisation” is a mere technical formality.

In any capitalism, this is not enough that property rights can be sold, there is a trend that make them increasingly liquid, i.e. close to a currency. This is especially true in the case of property rights over the means of production. In the case of limited companies, the property rights over the means of

production of the company are the shares of the company. Shares are financial assets which have a high degree of liquidity, i.e. can be exchanged almost immediately for cash. They are, among all the property rights, closest to cash itself, this not being the case for the direct property right over a machine. The same trend is visible with future contracts where property rights over commodities have a high degree of easy liquidity. In a more general way, the growth in capitalisms of financial activities, of which stock exchanges and derivative markets are two illustrations, form part of the movement tending to allowing for maximum possible liquidity of property rights.

Naturally, the development of the legal form of the limited company poses the problem of who really heads the firm: the shareholders or the managers? A problem often formulated in the following manner: Who is the “real owner”? We do not intend to dwell on these issues, but will merely point out that power equations between shareholders and managers are governed by the fact that the shareholders can at any time sell their property rights if they are not happy with the managers. This reconfirms the essential feature of a capitalism in which ownership rights are like any other commodity.

This cannot be found in socialisms. Ownership, the peoples’ or collective, cannot be sold. The term, here again, does not have the same meaning. We cannot but support the claim that ownership, in the capitalist sense of the term, did not exist in socialisms. The question: “Who really heads the Kombinat?” is indeed relevant. But asking, “Who is the owner?” according to me, serves no useful purpose. This is confirmed by the complexity and obvious awkwardness of Bettelheim’s analysis¹³, when he tried to take this route. It led him to make complex distinctions: ownership – possession – holding, which lacked conviction, whereas in reality the question he was asking was: “Who heads the Party-State?” It would have made more sense to approach the question directly with adequate conceptual tools, as ownership, to my mind, is quite ineffectual.

Socialisms

“Really existing” socialisms had thus since the thirties in the Soviet Union and the fifties in Eastern Europe largely fulfilled their initial programme, namely “to do away with merchandise, money and the law of value”. As

¹³ Bettelheim, op. cit., p. 57, 112, 122.

further proof, all attempts at “reform” aimed at introducing a dose of the market, currency and private appropriation of a part of the “profits” in the management and coordination of the Kombimates were failures¹⁴. It was not possible to usher in reforms by “shifting the cursor” from plan to markets and collective and state ownership to private ownership as the former did not exist. In such conditions, the economic concepts relevant for the analysis of capitalisms were ineffective in the analysis of socialist productive systems. In socialisms, production was not autonomous. It did not have a dynamic capable of separating it from politics, or more precisely, from the historical development of the Party-State in all its internal¹⁵ and external¹⁶ dimensions. As a result, there could be no relevant analysis of production and distribution without the role of the Party-State. Socialist regimes did not have an economy. So it was not possible to analyze them with the tools of economics.

2. On post-socialisms

This discussion is not merely of historical interest. Indeed, the dominant ideas about the nature of socialisms of the Soviet type had inspired the “economic” policies implemented after the collapse of the socialist States. Proof of this is the almost universal use of the term “transition” (from socialism to capitalism). For most western economists, who were in agreement in this with the “reformers” of socialisms, these economies were located at the bottom left hand corner of a schema describing all the various kinds of economies possible, the two axes of which are as follows:

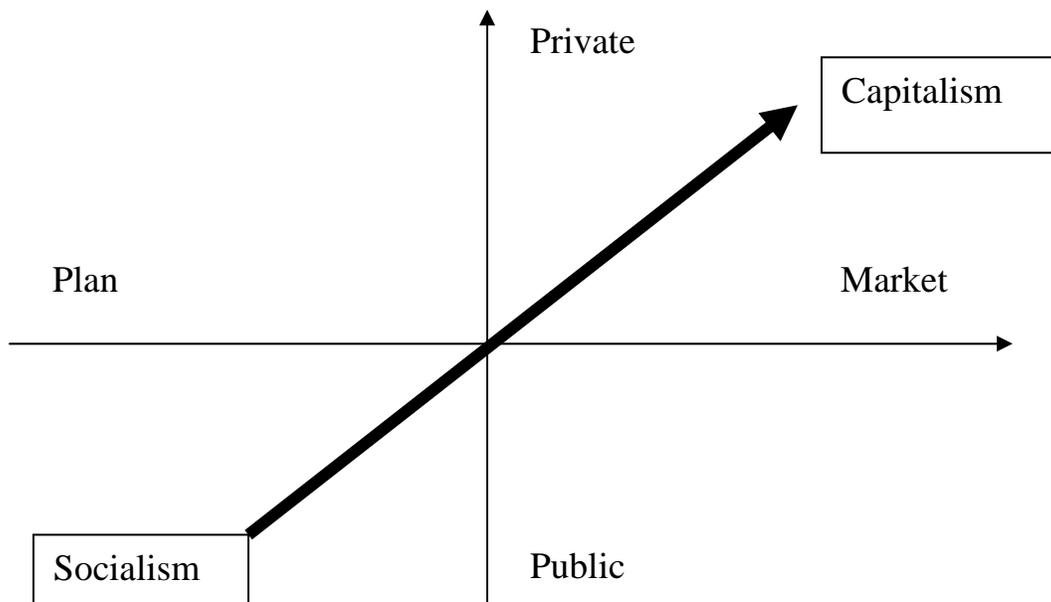
- Dominant mode of coordination (abscissa): from 100% plan to 100% market
- Dominant ownership type (ordinate): from 100% public to 100% private

¹⁴ Things changed in China since 1978. The Chinese case deserves to be discussed at length. Let us simply say here that individual ownership and commodity coordination were introduced “alongside” the Kombinat system (Danwei in China) and not within it. In the second phase, this coexistence has eroded progressively the Danweis.

¹⁵ It thus appears that one has grossly underestimated the significance of the occupation policy and the Russian peopling of the Asian space in the USSR. This alone explains a good number of productive “aberrations” in terms of economic logic.

¹⁶ In the USSR, an evidently essential role in the productive system dynamic of the Cold War and the arms race.

The vision of “Transition”



For a successful transition, according to this conception, it was enough to:

- 1) Move from the Plan to the Market: abolish the Plan and let demand and supply fix prices on the markets.
- 2) Privatise “public enterprises”.

In other words, according to the “transition” conception, the former socialist countries of East Europe required the same kind of therapy as capitalist countries which had allowed the State to play “an excessive role” in the economy, such as Chile before Pinochet and Great Britain before Thatcher.

Very often, the same experts who had advised Chile were the ones summoned to the bedside of Poland and other post-socialist countries¹⁷.

Now this proved to be impossible, the major stumbling block being the privatisation of the Kombines. This was not, as the experts claimed when these difficulties became obvious, because the first part of the reform, namely the creation of markets, was not in a sufficiently advanced stage, the nascent national markets being therefore not in position to “value” correctly the property rights over the Kombines. Indeed, attempts were made to sell them to foreign firms. They were generally unsuccessful, the main reason being the very nature of the Kombines, brought out clearly by the impossibility of selling them as they were. The Kombines were not “public enterprises”. In a capitalism, a public enterprise can be easily privatised, but one cannot privatise what was a “piece of the socialist Party-State” even after the collapse of its head. The initial assumption of the experts (just set up markets and privatise) was flawed. The former State needed first to be a lot more deeply destroyed.

The Kombines had to be broken up and their social functions isolated and transferred to the new State; their productive entities had to be carved out, many of which had to be abolished and then the first owners had to be designated before finally allowing the market to redistribute their property rights. In a nutshell, one had to start building on the ruins of the socialist Party-State, create hitherto non-existent property rights (which meant setting up appropriable entities) and build a new State of the capitalist kind, i.e. one from which production was separate. This is why the term transition seems inadequate to us. The collapse of the State¹⁸ had caused a radical break and the construction of something entirely new. The process of creating property rights assumed varying forms, two extreme ones being on the one hand the GDR where this happened quickly, centralised by the Treuhandanstalt, and on the other hand, the States that emerged from the collapse of the Soviet Union.

3. On Economic thought

Economic concepts, those that defined and articulated economic thought since Adam Smith, i.e. since the time that an economic discourse became

¹⁷ Jeffrey Sachs of Harvard, at that time, was one of the most well-known.

¹⁸ This is the fundamental difference with China where the Party-State remains firmly in command.

more autonomous of other social discourses with the purpose of studying “the creation and distribution of material wealth”¹⁹, are thus not universal in so far as they cannot be applied to all societies for the purpose of such a study. The difficulty in analysing socialist productive systems and the initial stakes of post-socialism using these concepts confirms their non universality. It also allows us to formulate some propositions about its origin.

The impossibility of any economic analysis of socialism results from the fact that socialism does not separate production related decisions from other decisions, especially political decisions, and don't ascribe to them a specific autonomous rationale.

When production is internal to the Party-State, its orientation, rate of increase, technical development and geographic distribution are all the result of political decisions. Production is only one aspect of the history of the Party-State and is marked by its scansion. In the Soviet Union: collectivisation of agriculture and the resultant agriculture-industry relationship, Stakhanovism, anti-Nazi war, Cold War, colonisation of Asiatic territories. In China: collectivisation, the Great Leap Forward, people's communes, Cultural Revolution, Deng's reform in 1978 and the acceleration of the reform in 1983. If one insists on speaking of a socialist “economy” as an object, it is entirely subordinated to politics. If one insists on speaking of “economics” as the thought of this object, it is only a branch of the history of a specific socialism. Here, as we have already seen, the standard concepts of economic analysis are inadequate.

It is thus clear that we cannot speak of the economy, the object and of economics, the thought of this object unless two conditions are fulfilled. Firstly, that production is separated from the State such that production results essentially from individual decisions. Secondly, that the behaviour of

¹⁹ Cf. Ricardo's famous letter to Malthus: "Political Economy, you think, is an enquiry into the nature and causes of wealth. I think it should rather be called an enquiry into the laws which determine the division of produce of industry amongst the classes that concur in its formation. No law can be laid down respecting quantity, but a tolerably correct one can be laid down respecting proportions. Every day I am more satisfied that the former enquiry is vain and delusive, and the latter the only true object of the science." (David Ricardo, "Letter to T.R. Malthus, October 9, 1820", in *Collected Works*, Vol. VIII: p.278-9). There was thus a debate between the classicists on where the “emphasis” was to be laid, creation or distribution of wealth, but there was agreement on the subject.

the individual “players” remains stable over time. Indeed, the stability of behaviour is a condition for economic analysis to be able to discover and provide a rational basis for regularities and trends, which some like to refer to as “laws”. For economic thought only explains stable behaviour and schematise the effects of their interaction. Essentially, it is always a question of individual behaviour. This is clearly the case in neoclassical microeconomics. But it is also the case in the classical political economy which groups individuals in social classes and in Keynesian macroeconomics where individuals are grouped in hierarchical entities (firms) or in statistical categories (the households). The capitalist class (for the classicists including Marx) or the group of “firms” (in macroeconomics) behaves like the individual capitalist or “representative” company director.

In my view, individual ownership is the only institution capable of effecting the separation of the economy and the State and guaranteeing stable individual behaviour. Individuals behave in a stable manner with respect to wealth, thereby making autonomous the phenomena of production and distribution, only because they are bound in social relationships created by individual ownership, thus in societies where this form of ownership dominates, namely capitalist societies.

Of course, there is an entire school of economic thought, neoclassical to begin with, which supports a different point of view. Hayek, for example, states that the stability of behaviour in respect to wealth is part of “human nature” and is the mere expression of reason. It follows that economic analysis, according to this conception, can claim to universality. As such, it is the science of rational behaviour. By definition, it is a-historical and can work in all societies. It is the a-historical universal. It claims to model not just production and distribution of all possible societies but also suicide, crime, marriage, choice of studies, in brief, all activities which are supposedly governed by a comparative individual appreciation of advantages and disadvantages, joys and sorrows. The analysis of socialisms shows that this conception of the economy is excessively ambitious. A critical appraisal of all that is said on production and distribution in pre-capitalist societies under the garb of “economic anthropology”, will, I believe, demonstrate the same: it is indeed anthropology, it is not economics.

That in capitalisms production is separated from the State and governed by individual behaviour is not to suggest that the State does not intervene to influence individual economic behaviour and thus act on the economy.

However, it does so externally through regulatory and fiscal constraints as well as currency manipulations which define and limit the exercise of individual property rights. Yet in some circumstances, State interventions in the economy can be changed²⁰ in such a way as to give rise to an economic dynamic very different from that of the previous period. This is true of all the State interventions of the post-war period in affluent countries and inter-State relationships²¹. They gave a new direction to the capitalisms of these countries, a departure from the period before the war. Consequently, even if economics (or political economy, or the critic of political economy...) is restricted to the analysis of capitalisms, it cannot, contrary to what Marx thought, establish “general laws” of capitalism. It can merely formulate the laws of a specific capitalism shaped by stabilised State interventions of a certain type²².

In short, there is no economy other than capitalist. Economic thought can only focus on production and distribution in capitalisms. It is only in capitalist societies that these two activities are separated from the State and thus likely to experience, at least in some periods, independent development which can be analysed as such.

²⁰ Which is a political decision.

²¹ The Bretton Woods agreements.

²² I have developed this point at greater length in “L’Inégalité du Monde”, chapt. 1, Gallimard, Collection Folio Actuel, Paris, 1996.

English translation available on the author home page: <http://www.cerna.ensmp.fr/CVs/Giraud.html>

