

What Kind of Economic System?

Lane Kenworthy

PROGRESSIVES OF ALL STRIPES, particularly in the United States, tend to be far too cavalier in their thinking about what kind of economic system they favor. Karl Marx is undoubtedly a chief culprit in this regard. His warnings against attempts to lay out a blueprint for socialism have served as a rationalization for countless efforts to avoid detailing the concrete institutional features of what a good economic system might look like. With or without appeal to Marx, however, there seems to be an unfortunate tendency on the part of many on the left to focus solely on criticism of existing institutions. We have numerous convincing accounts of the ills of capitalism, but too few cogent suggestions about what to put in its place.

This article is an attempt to help repair this deficiency. My discussion here is pitched at the level of economic systems, rather than of policy options for the left within the present market-capitalist system in the United States. Though the latter is undoubtedly more important in terms of orienting the left's short-term political strategy, the former can be neglected only at great peril. Short-term policy demands should be guided by some sort of longer-term vision. What follows is a very brief outline of the institutional frameworks of 14 economic systems. Some of these systems are actually existing ones; others are models which have been proposed by various advocates. Some are well-known, others less so. The list discussed here is by no means exhaustive; I present only a selection of actually existing and proposed models. My

I am grateful to Mieke Meurs, David Stark, and Erik Wright for helpful comments on earlier drafts of this paper.

intent is not to advocate any particular one of these systems, but rather simply to provide at least some of the information and context needed for the readers to be able to make a relatively informed judgement.*

Basic Economic Institutions

ECONOMIC SYSTEMS are configurations of institutions. A brief overview of the most fundamental of these institutions will prove useful to understanding and evaluating the taxonomy of systems that follows.

A system's *coordinating mechanism* is the process through which decisions about resource allocation and use are made and coordinated. It has three components. The first is the locus of decision-making authority over certain decisions about a firm's operations. These include decisions about production goals, production techniques, sources of credit or other investment financing, the use of profits, input suppliers, prices, and output buyers. Such authority may be held by firms, groups of firms, or the state. The second component is the way the information on which decisions are based is generated and transmitted. This may be done through impersonal competitive prices, direct communication and bargaining among enterprises, or commands given from above by a superordinate actor. The third component is the motivation of actors in pursuing transactions with one another, which may be for instance to maximize material self-interest, to maximize the overall welfare of the parties involved, or to comply with the directives of a superior or with tradition. Coordinating mechanisms include most prominently the market and planning, but also networks and custom or tradition.

Property ownership consists of the right to income generated from property and to transfer one's control over the right to that income. It need not entail control over the various decisions relevant to a firm's operation listed above. I shall use the term "capitalist" to denote an economic system with predominantly private ownership of property, and "socialist" to refer to a system characterized by the predominance of state property ownership. I use this terminology purely for expository

*While it would be desirable to discuss at least tentatively discuss some of the positive and negative features of the various systems based on their actual or likely performance in terms of growth, unemployment, inflation, equality, freedom, democracy, or self-realization in work, space limitations preclude this. I refer the reader to the references cited herein for pertinent discussion.

convenience, and in no way because I wish to preempt discussion about what a “socialist” or “post-capitalist” economic system should consist of.

A *budget constraint* is the feedback mechanism which determines the consequences of an enterprise’s actions.¹ It is considered “hard” if a firm can spend only as much money as it can generate from its sales, or from credit provided under a guarantee that it can be repayed with the proceeds from future sales. It is “soft” if a firm has access to free state grants or credit with very lenient conditions—that is, if it need not stay in the black financially to remain in operation.

The fourth and final central institution in an economic system is the form of *intra-firm organization and control*. On the one hand control may rest chiefly with employers (private or state) or appointed managers. This may coexist with various forms of worker participation in decision making, ranging from collective bargaining over wages and work conditions, to participation in quality circles which help design the work process, to codetermination schemes in which labor representatives sit on a firm’s board of directors. A second basic type of intra-firm control arrangement is worker self-management, in which employees unilaterally control most or all of the various decisions listed above.

Fourteen Economic Systems: Four Market Capitalist Systems

THE FIRST THREE SYSTEMS outlined in this section feature private property ownership, a market coordinating mechanism, a hard budget constraint for firms, and various forms of managerial control within the firm. These actually existing market capitalist systems differ most fundamentally in the relative balance of power and degree of cooperation or competition among the state, business, finance, and labor in the making of economic decisions—about, for example, macro-economic measures, the allocation of resources among sectors and firms, or wage levels.² They differ, that is, in the extent to which the market is shaped and regulated. As John Zysman has persuasively argued, this is closely connected with the type of financial system that predominates in the economy.³ The fourth system differs from these three in that firms are controlled (and in most cases at least partially owned) by their employees.

Pluralist Market Capitalism

This system is characterized by unstructured confrontation among economic actors. Firms may be of varying size and degree of concentration, but for the most part they are highly autonomous. Societal interest groups are poorly organized. The financial system is based on capital markets: firms’ chief sources of finance are retained profits and sales of equity, and financial resources are allocated at competitive prices by private industrial and financial actors. The state has neither the capacity nor the will to intervene coherently and extensively in the allocation of resources. Due to the political pressure of various actors and interest groups, however, it cannot avoid being pulled into the fray. The intervention which occurs is typically ad hoc and reactive, aimed at appeasing assorted demands in an uncoordinated fashion.

Along with Britain, the United States is the best representative of this system.⁴ In many sectors in the United States, business is highly concentrated but very decentralized, in large part due to antitrust legislation enacted in the late 1800s. A very individualistic, competitive, uncooperative attitude prevails among most firms. Hence there is little collaboration for production or research. Labor, too, is weakly organized and extremely decentralized. The financial system is capital market-based. Banks are divided by legislation into separate financial and commercial entities, and they are prohibited from taking equity stakes in firms. The state is wholly unsuited to pursue an active, anticipatory policy of economic intervention: it is fragmented between and within levels and has no autonomous bureaucracy (with the exception of the Federal Reserve and the military). Government efforts to stimulate economic growth and employment have been confined primarily to arms-length Keynesian demand management. With the exception of agriculture and a few sectors (e.g., aerospace, computers, semiconductors, and telecommunications) tied to the military or the space program, direct government intervention has consisted typically of ad hoc, reactive measures, such as tariffs and bail-outs of failing firms.

Corporatist Market Capitalism

In this system the state attempts to facilitate a process of bargaining between representatives of societal interest groups—especially business, labor, and finance—over issues such as wage levels and the direction of state subsidies. Employers and workers are generally well-or-

ganized and highly centralized into federations with the authority to negotiate on behalf of their membership. The financial system is typically of the negotiated credit-based type. Firms rely heavily on loans for their financing, and the terms of this credit are worked out in negotiations with banks and in some cases the state. Banks often develop close relationships with enterprises and participate in their decision-making.

Two examples of corporatist capitalism are Sweden and West Germany.⁵ In both countries the state tends to take a relatively hands-off approach toward economic management, preferring to allow business, labor, and finance to reach agreements on their own, but attempting in various ways to push the process of negotiation along. Two chief facets of the "Swedish model" are its centralized collective bargaining and active labor market policy. Wages and working conditions are established through a process of formal negotiation between the blue-collar labor federation (LO) and the employer association (SAF), both of which have very high membership rates (LO, for example, bargains for over 90 percent of blue-collar workers) and are extremely centralized. Wage levels for all industries and firms are pegged to those in export industries, which are determined by competitive market pressures. Wages are set irrespective of any particular firm's ability to afford them. This in turn forces uncompetitive enterprises out of business. Displaced workers are retrained and placed in new jobs by an extensive and well-funded labor-market program, which is administered by boards composed of representatives of the state, LO, and SAF. In West Germany, too, business and labor federations negotiate wage levels, in this case at the industry level. Large commercial banks have significant equity holdings in firms and often play an influential role in enterprise decision making. Important economic policy decisions are in many cases made through a process of informal bargaining between the state, business, and the large banks.

State-Guided Market Capitalism

In this third type of market capitalist system, dominant elites, and in particular state managers have the will and power to intervene in a coordinated, proactive fashion to influence the allocation of resources among sectors or firms. In other words, the state engages in an anticipatory industrial policy. Such intervention consists mainly of selective subsidies or tax benefits to encourage investment in research and development, capital, or training; government procurement programs;

export promotion; import restrictions; and the encouragement of cartels or industrial concentration. Each of these measures is usually aimed at restructuring industry—favoring key "linkage" or "sunrise" industries and speeding the movement out of declining sectors. Decisions on these matters are typically made in consultation with business and financial institutions. The financial system is credit-based and state-directed: the state itself administers the price and quantity of credit available to key sectors of the economy, via either nationalized banks or direct control of privately owned credit. The government may also engage in a process of indicative planning, which consists chiefly of collecting information from industry associations or firms about projected production decisions and distributing this to other sectors and firms. This provides enterprises and the state with more information on which to base their decisions than is available from prices alone. Labor in this model is typically poorly organized and very decentralized.

Japan and (until the mid 1970s) France represent the principal instances of this system in the post-World War II period.⁶ In Japan the Ministry of International Trade and Industry (MITI) has helped promote certain industries—typically those with important links to other sectors or in high demand on the international market—through subsidies, export aid, protection, and other measures. The state-run Bank of Japan, which has considerable leverage over private banks, has been used to administer the loan and credit policy. France has a long tradition of active state intervention. Following World War II, the Commissariat du Plan was formed to guide an export-led, modernizing growth strategy. The Commissariat, aided by the nationalized Bank of France, used its influence over the granting of tax advantages and the issuance of industrial bonds and bank loans and credits to stimulate preferred industries and firms. Since the mid-1970s, however, the use of industrial policy has fallen somewhat into disfavor in France, and even the socialist Mitterand government since 1981 has been reluctant or unable fully to reinstate it. The state in both of these countries also has engaged regularly in indicative planning, along the lines described above.

In what sense is this a market-dominated rather than a planning-dominated system? First, the state's role is confined chiefly to offering incentives to enterprises. It does not actually dictate decisions to the firm; nor does the state narrow the firm's array of options to the

extent that occurs in, for instance, a centrally planned socialist system (see below). Secondly, the state's intervention is limited for the most part to affecting decisions having to do with what is produced and with the conditions of credit. It generally does not interfere with firms' ability to transact freely with one another.

Worker Self-Managed Market Capitalism

One of market capitalism's most objectionable features has been its association with hierarchical decision-making inside the firm. This is not, however, a logical necessity, and various advocates have proposed a form of market capitalism in which enterprises are managed by their employees.⁷ State intervention in this system would be confined to the various measures used in the three systems outlined above; the state would not give direct orders to firms. Enterprises would compete and face hard budget constraints. Control over the firm would be exercised on a day-to-day basis by a workers' council and a management team (and perhaps an individual director). These would be elected by and accountable to an assembly composed of all workers in the firm. This assembly would also make general and longer-term decisions about the firm's operations. Enterprises would be privately owned, in some cases by their workers alone but in many instances also in part by external actors (individuals, banks, pension funds, etc.), since pure self-ownership could create severe impediments to labor mobility and absorption of the unemployed. There would be two principal sources of external finance. One would be creditors who receive a fixed interest payment on their investment. The second would be equity-type investors, who would in effect purchase shares in the firm and receive a percentage of its profit. What exactly counts as "profit" would be determined by the workers' assembly or one of the elected bodies, after allocating a portion of the firm's receipts for reinvestment or wage payments. In order to please present investors and attract new ones, however, the employees would have an incentive to make the share classified as profits reasonably large. These two types of investors would be the de facto owners of the enterprise (probably in most cases they would have joint ownership with the firm's employees), but they would have no control over the firm's decision-making.

Labor-managed firms (often called cooperatives) exist in all market capitalist economies. The Mondragon cooperatives in Spain, the Israeli kibbutzim, and the plywood coops in the United States are among the best known of these. Nowhere, however, do such firms currently com-

prise a very significant portion of an economy. Some advocates suggest that self-management should apply only to firms under a certain size, for instance those with fewer than 1000 employees. Most agree that workers should not be forced (through legislation or otherwise) to manage their firm; if they prefer to work in a more traditional hierarchical capitalist enterprise, they should be permitted to do so.

Three Planned Socialist Systems

THE THREE MODELS outlined in this section combine planning with state ownership of property. They differ in the way the planning is organized and conducted—centralized or decentralized, and bureaucratic or democratic.

Bureaucratic Centrally Planned Socialism

This model applies to most sectors of industry in most countries in Eastern Europe and in Cuba. The model consists of centralized, non-democratic planning, with enterprises which are owned by the state, controlled by state-appointed managers, and have a soft budget constraint.⁸

There are three basic levels in the economic hierarchy: the central commissions (for planning, banking, material-technical supply network, capital construction, science and technology, etc.), sectoral- or branch-level ministries, and enterprises. Decision-making power lies ultimately with the central bodies—particularly the planning commission—but is exercised chiefly through the ministries. The planning process typically involves the following. First, the central-planning commission indicates general targets for the economy for the year (or five years). Based on these targets, the sectoral ministries assign specific targets and quotas to enterprises under their direction. Based on knowledge of their specific needs and capabilities, firms suggest adjustments for output levels and supply and cost requirements. These go back to the sectoral ministry, which then supplies an overall estimate for its unit to the central planning commission. From this information the central commission devises the final plan for the economy (usually subject to approval by the highest governmental body within the society, i.e., the party central committee or politburo). Plan indicators are then sent back down through the hierarchy to the individual firm. The ministry assigns a variety of "success indicators"—including, for example, the

wage fund, value of sales or output in physical units, introduction of new techniques—to the enterprise, to which the latter must adhere.

Credit is generally available only from a centralized state bank, and fixed and working capital requirements are met almost wholly through grants allocated by this bank. Supplies are allocated by the center. In theory, little or no direct horizontal exchange is permitted. In practice, however, enterprises must be allowed to exchange informally with one another, since information is both insufficient and too complex for the central commission to be able to create a perfect plan. Most of the firm's net revenue goes to the state. Directors at all levels in this model are appointed, and workers typically have little or no input into the making of decisions.⁹

Two modifications of this basic model have been implemented in various countries at various times. The first consists of reducing the number of indicators given to the enterprise and placing increased emphasis on the firm's profit, rather than its output. This is basically an attempt to facilitate central planning by confronting one of its chief bogies—the impossibility for those in the center to collect sufficient accurate and up-to-date information from the base to design a coherent, well-coordinated plan which allocates resources efficiently. The second modification consists of an attempt to streamline planning by decentralizing the command system. Authority previously held by the ministries is transferred to “production associations.” These latter are usually composed of a number of firms, often ones producing similar goods. In East Germany, associations have been replaced by “combines,” which are units integrated vertically rather than horizontally. The association or combine centralizes the resources of the enterprises under its control, although enterprises remain separate entities with their own accounting systems. The amount of decision-making power allotted to the associations varies. In some instances it is quite significant, in which case the coordinating mechanism approaches what might be called “bureaucratic decentralized planning.” In Poland from 1973 to 1977, for example, industrial associations were given considerable discretion in determining wages and prices, were allowed to retain a significant portion of profits, and were permitted access to foreign bank loans and international credits. This decentralization does not, however, bring an increase in decision-making power for the enterprise itself; in fact it usually results in a decrease of such power.¹⁰

Democratic Centrally-Planned Socialism

This is the model most commonly advocated by Marxists.¹¹ It features public ownership, democratic central planning, a soft budget constraint for firms, and worker control of enterprise decision-making. The model differs from bureaucratic centralized planning in three fundamental respects. First, the officials of central and ministry-level planning bodies are to be elected and recallable by the workers. In addition to its intrinsic democratic value, it is hoped that this would ensure greater responsiveness on the part of these bodies to the preferences of the population than is the case under bureaucratic centralized planning, and that it would remove, or at least reduce, distortions in the plans stemming from the desires of various bureaucrats to secure their own interests. Second, enterprises themselves are to be controlled by their workers and elected representatives. This, again, would eliminate distortions in the planning process caused by self-interested actions on the part of appointed directors. Perhaps more importantly, it is assumed that worker control would increase the quality of the information given by the enterprise to the higher planning bodies, since workers would know better than a director the needs and capacities of the firm. Third, elected consumers' councils would aid the planning process by providing information about consumer preferences.

Democratic Decentrally Planned Socialism

In principle at least, planning need not entail a centralized decision-making structure. If enterprises could coordinate their decisions on their own, a decentrally planned system could exist. In the democratic centrally planned socialism model, elected central bodies aggregate information passed up from individual enterprises and then send back (more or less detailed) directives for these enterprises to follow. Michael Albert and Robin Hahnel reject this model in favor of one in which there is planning, but the enterprises themselves, through a bargaining process, make the final decisions on the plan targets for each firm.¹² In this model enterprise-based workers' councils (and community-based consumers' councils) would put forward initial input and output targets, based largely on those for the past year. Computers would be used to calculate the effects of each firm's proposals on other sectors in the economy, and this information would be made available to all firms. Enterprises would then adjust their requests and submit a second proposal.

A repeated sequence of iterations—proposals are made, assessed, altered in light of the assessments and new information, assessed again, etc. for a few rounds—would ultimately “converge,” not by magic, but because the iterations would progressively whittle away excess demands by reducing unjustifiable consumption requests, decreasing unfair work commitments, and shifting resources and labor from low priority tasks to higher ones.¹³

An obvious question is: What happens if firms refuse to cooperate with each other? Albert and Hahnel propose two mechanisms to deal with this possibility. First, each firm in the economy will know three things about each other firm: its performance from the past year, its current proposal, and the estimated effects of this proposal on various sectors and branches of the economy. Hence, they argue, honesty would be encouraged “by making dishonesty impossible to conceal”; firms “will be compelled to a greater extent than today to parade the logic of their behavior in public.”¹⁴ Second, in the event that, despite this incentive, the iterative procedure does not result in a feasible plan, targets and allocations would be dictated to individual enterprises by majority vote of enterprises within their sector or geographic region.

Market Socialist Systems

IS STATE OWNERSHIP of property compatible with a market coordinating mechanism? The systems and models outlined in this section constitute attempts to construct an affirmative answer to this question. The first two are systems currently in existence (in Hungary, China, and Yugoslavia), while the other four consist of proposals advanced by some innovative economists.

Partial Reform Socialism

This model features state ownership, a quasi-market guided by indirect central planning, a soft budget constraint for firms, and managerial control of the enterprise. It is best exemplified by the industrial sector in Hungary following the reform measures of 1968.¹⁵

The central goal of the 1968 measures was a limited increase in the independence of firms from the state. Ownership of enterprises remains in the hands of the state, and it retains the right to dictate the enterprise’s production activities (though firms are given some freedom to widen the range). However, obligatory enterprise plan indicators—including output targets, input requirements, wage levels, etc.—were

abandoned; production decisions are now made by the firm. Horizontal linkages, including direct exchange relationships between enterprises, are permitted. And a system of taxation on profits has replaced direct appropriation of enterprise profit, with firms now free to use what is left after taxes as they see fit.

Several things have prevented Hungarian industry from being truly market-coordinated. One is that the state continues to intervene fairly regularly into the exchange relationships between firms and the formation of prices. Second, control over sales is incomplete, as firms are often responsible for supplying certain domestic users or fulfilling Council of Mutual Economic Assistance agreements. Third, the financial independence of the enterprise is severely limited. This is due in part to high tax rates and a variety of arbitrary fiscal deductions by the state. Peter Bihari has observed that “the revenues withdrawn from the enterprises are so large that enterprises themselves are incapable of surviving on their own. They must constantly ‘beg’ for state funds.”¹⁶ It stems also from the fact that access to credit is still monopolized by the state. Since most industrial firms are incapable of financing any major project from their own profits, this greatly limits their autonomy. And according to János Kornai, the granting of credit continues to be “almost uncorrelated with the past or present profitability and credit worthiness of the firm.”¹⁷ A change with respect to the availability and choice of financing may, however, come in the near future. There is currently a proposal to set up a two-tiered banking system, with lower-level banks competing on commercial criteria. Furthermore, enterprises are now permitted to raise funds through the sale of bonds, which can be purchased by private citizens.

The budget constraint on firms in Hungarian industry continues to be soft, because the state remains unwilling to let unprofitable firms fail. There are several possible reasons why this is the case. One is the political constraint of guaranteed full employment. Hugo Radice points to a second: “the equally political constraint imposed by the requirement of maintaining the unity and hierarchy of the administrative system as a whole.”¹⁸ A third reason may be the seemingly legitimate claim of enterprise directors that, since the state continues to play a significant role in regulating the enterprise, if the latter fails, the state is at least partly at fault.

Within the firm, after 1968 the state retained the right to appoint the enterprise director. New regulations in 1985 transferred this right to the employees of the firm, who now elect directors either directly or indirectly. The state, though, may still veto either the preselection of candidates or the election outcome.

THE INDUSTRIAL SECTOR in China represents the second major empirical instantiation of partial reform socialism.¹⁹ Measures instituted in 1978 and 1984 have significantly increased the autonomy of the enterprise, though to a lesser extent than in Hungary (that is, if we exempt the "Special Economic Zones" in China, where enterprise autonomy is greater than in Hungary). Output targets are still given to the enterprise by the state. After these are fulfilled, however, the firm can engage in production which is partially autonomous. The planned part of the firm's production takes place under conditions similar to those in the bureaucratic centralized planning model: output targets, input quotas, and wage levels are all set by the state, which also is the buyer of the product. The firm, though, is allowed to choose the supplier of its state-assigned quota of raw materials, and even to obtain them directly from other enterprises (their above-quota production) without going through the state supply commission. The firm also can alter prices up to 20 percent from the level set by the state. For above-quota production, enterprises are allowed much greater scope to make their own decisions: they can decide what and how much to produce, set the price, and choose the buyer. As in Hungary, the state retains its leverage over the firm ultimately through its control of investment funds. Since 1984, profits have been taxed rather than directly appropriated by the state. I do not know whether the rate of taxation is as high as in Hungary, but it is unlikely that Chinese firms are any more financially independent in this respect than their Hungarian counterparts. Most importantly, credit can be obtained only through state banks, which continue to operate primarily on political, rather than commercial, criteria. Although a bankruptcy law was enacted in 1988, the Chinese government has yet to allow any enterprise of significant size to fail; the budget constraint on firms, in other words, remains soft. Workers elect the director of their enterprise, but from a list drawn up by the firm's party committee. Workers' congresses are elected and meet twice a year, but implementation of their resolutions and proposals is dependent upon agreement of the factory director.

Worker Self-Managed Market Socialism

The self-managed market socialist system of Yugoslavia differs from its capitalist counterpart chiefly in two respects: it features public ownership and a soft (or perhaps at most a semi-hard) budget constraint for firms.²⁰

Worker management was introduced in Yugoslavia as early as 1950, but prior to 1965 there was a great deal of state intervention in enterprise decision-making. Firms had a significant amount of control over production goals and techniques, but the state intervened through employment, wage, and bonus regulations. Price controls limited the firm's discretion further still. Enterprises were free to exchange directly with each other. Profits, though, were heavily taxed, and credit was available only from the central authorities through state banks. A series of reforms in 1965 released firms from a number of these constraints. The state has continued to intervene at times through wage and price controls, but far less than formerly. Firms now are taxed less heavily and can get credit from banks which operate for the most part on commercial criteria. The independence of banks is still limited somewhat: state agencies sometimes stipulate that funds must be used for specific projects or purposes, and they set the rate of interest banks must use. Nevertheless, having a choice of credit source and access to it based on performance, rather than political influence, is a significant step in the direction of enterprise autonomy. The budget constraint for firms in Yugoslavia has been soft for the most part, which again poses the question of whether hard budget constraints are likely, or even feasible, in a system with predominantly state ownership of property.

The identifying feature of this model is its system of worker self-management. In Yugoslavia enterprises are governed, at least on paper, by a general workers' assembly consisting of all of the firm's workers, and by a workers' council composed of representatives elected by the workers. The council also selects a management board and a director, who make the day-to-day decisions for the firm. It appears, however, that actual worker participation in the management of enterprises has not been extensive. The general workers' assemblies meet infrequently and make few decisions. The workers' councils play more of a role in decision-making, but most decisions are made by the director and the management board.

Langian Market Socialism

A model designed in the 1930s by Polish economist Oskar Lange represents what would be a further extension of the partial reform system.²¹ Enterprises in Lange's model are to be state-owned, but the coordinating mechanism is to be a pure market, with one exception. Firms would set their own production goals and techniques, choose from various sources of credit, exchange directly with one another, and control their after-tax profit. Prices, however, would be determined by the state.

Lange's idea is that a state-controlled Central Planning Board could set prices at equilibrium levels, thus ensuring a perfect market and optimal efficiency for the economy. This Board would receive regular inventory reports from all enterprises. "The right prices are simply found out by watching the quantities demanded and the quantities supplied and by raising the price of a commodity or service whenever there is an excess of demand over supply and lowering it whenever the reverse is the case, until, by trial and error, the price is found at which demand and supply balance."²² Lange believed this system would be more efficient than a market capitalist system, because state control of prices would protect against distortions existing in actual markets, which are inevitably "impure"; in other words, this is the only way to guarantee that prices are set at equilibrium levels. The budget constraint on firms is to be soft, and decision-making within the enterprise would be controlled by state-appointed managers.

Holding-Company Market Socialism

This model of a market socialist economy, proposed by Hungarian economist Márton Tardos, moves even further in the direction of decentralized decision making.²³ The basic economic units in this system are "holding companies," which are similar to the industrial associations or combines discussed above in that they consist of a director or management team supervising a number of enterprises, which may be connected vertically and/or horizontally. Yet the holding companies in this model are to have far more autonomy from the state than do the associations currently existing in East European countries. In fact, they are to have complete autonomy. Each individual firm, however, is to be subordinate to its holding company.

The holding company would have many of the same powers over its firms as the state does in the partial reform model: it would assign production activities, reallocate assets, close enterprises, and open new ones. The enterprise would make decisions about specific production goals and techniques, prices, suppliers and purchasers, and what to do with profits. The holding company also is to be the sole source of investment funds beyond what the firm can save from its profits. Holdings themselves are to be financed through a network of independent state-owned banks, which use strictly commercial criteria in determining the terms of financing and crediting. Holding companies are to compete with each other and face hard budget constraints; those that fail would go bankrupt. Whether the budget constraint of a particular firm would be hard or soft is a decision to be made by the directors of its holding. The directors of both holdings and banks are to be appointed by an elected parliament. Some form of worker participation in management would exist, but not full worker control: "Generally, formal and hierarchical management is indispensable within enterprises."²⁴

Investment-Bank Market Socialism

Leland Stauber's proposal for a market socialist system is centered around "investment banks" controlled by local governments.²⁵ Stauber suggests that the state supply credit to such banks, which in turn would purchase equity shares offered by enterprises. The banks would thus be the owners of enterprises. No bank would be able to monopolize control over a particular firm, however; they are to be prohibited from owning more than 7 percent of the shares of a firm. Firms would compete with each other and face hard budget constraints. Enterprises would retain their profits after taxes and interest payments to the investment banks. Stauber proposes, however, that "all corporate firms be legally required to pay out in dividends the bulk of their profits, perhaps 90 percent of their net earnings, so that those resources would be reinvested, perhaps in other firms, where the relative profitability of current investment projects is highest."²⁶ The banks which own an enterprise would jointly appoint its management, but would not interfere directly with the firm's decision making.

In order to avoid centralized control over the investment banks and to induce competition among the banks, Stauber recommends that each bank be placed under the control of a local government. They "would pay their dividend and interest earnings to their respective local govern-

ment, which in turn would be free to use this income...for any purpose, i.e., either tax reduction, operating expenses, or improvements and expansions in public services. This would give the local government a self-interest in enforcing management of its fund (bank) so as to maximize return on its assets."²⁷ In order to counter pressures on the managers of the banks to invest in local enterprises, each bank would be prohibited from investing in firms with plants in its own immediate locality. The national government would not be allowed to intervene into the management of the banks. Its role is to be confined chiefly to a periodic distribution of new capital funds, from tax revenues, to the banks.

Entrepreneurial Market Socialism

This model developed by Tibor Liska, also a Hungarian economist, represents another proposal for combining public ownership with a market coordinating mechanism.²⁸ Publicly owned enterprises in this model are to be leased to entrepreneurs through an auction system: whoever bids the highest proposed rate of profit is granted the rights to the enterprise. The decisions described in the first part of this article would all be under the control of the entrepreneur. The budget constraint on the enterprise is to be hard; enterprises would compete against each other and those which fail would be forced into bankruptcy. The lessee would pay an initial fee (part of the "bid") to the state, to be used as collateral in case of failure. Lessees also would pay a prearranged tax to the state, the level of which is based on the initial bid price (the rate of tax would be the same for all enterprises). Entrepreneurs would not have the right to transfer control over the enterprise. And they may lose control of it at any time if someone else offers a higher bid. The entrepreneur may protect against this threat by continuously raising the bid (which constitutes the "auction value" of the firm) as the enterprise brings in profits. According to Liska this arrangement ensures that property will always be in the hands of those who are most motivated and best able to make efficient use of it.

The state in this system is to have minimal duties and powers with regard to the economy. Its central functions would be collecting taxes, running the auction, and distributing what is called a "social inheritance." The latter is a sum of money equal to a per-capita share of the country's national wealth, which would be distributed without obligation to each citizen.²⁹ Individuals would use this sum to purchase whatever services they need during the course of their lives, including

education, medical care, etc. This social inheritance would also be the chief source of wealth used in bidding for an enterprise. Another source would be capital accumulated from past successes with other enterprises. The inheritance is to be financed through taxes on profits and wages. Intra-firm decision making is to be controlled by the entrepreneur (or someone appointed for this purpose). Workers would have a substantial amount of influence, however. Because of the social inheritance, people would not be forced to work, and so the entrepreneur in charge of an enterprise would have to bargain with organized groups of workers—"intrapreneurial teams"—as though they were autonomous subcontractors.³⁰

Mixed Economy Systems

A mixed economy is a hybrid of two or more of the above systems. Its defining characteristic is the existence of both private and state-owned property. The state-owned sector may have either central planning or a market as its coordinating mechanism, while the private sector is market-coordinated.

Most existing advanced capitalisms, of course, are mixed economies.³¹ They are dominated by market processes because most goods and services, and the most important of them (especially producer goods), are produced in the private sector; this makes enterprises in the state-owned sector more dependent upon those in the private sector than vice-versa. Nevertheless, in some cases the state-owned sector in these is quite large, accounting for as much as 40 percent of employment.

The experience of Hungary also provides useful empirical reference. Since the early 1970s in industry and services, and even earlier in agriculture, a "second economy" of small-scale private enterprise, both formal and informal, has arisen in Hungary.³² Second-economy entrepreneurs have the right to accumulate and transfer their property, and have complete control over most of the decisions listed in the first section above. The chief exception is that the maximum permissible number of employees is restricted at present to nine (in industry and services). Access to credit, too, is limited due to the centralization of the Hungarian financial system. The limit on number of employees is of course a major constraint, and keeps the second economy truly secondary to the state-owned sector in the scope of its operations. It consists mainly of shopkeepers, restaurant owners, craftspersons, con-

struction contractors, repairpersons, cab drivers, and the like. And for many of these, second economy activities are only part-time. A truly mixed economy would allow greater scope to the private sector.

Alec Nove's recently proposed "feasible socialism" is actually a type of mixed economy.³³ Nove envisions an economy characterized by wide variety of ownership, coordinating mechanisms, budget constraints, and workplace control across and within sectors. He lists the following species of production and service entities: (1) state enterprises, centrally controlled and administered; (2) state-owned (or socially owned) enterprises with full autonomy and a management responsible to the workforce; (3) cooperative enterprises; (4) small-scale private enterprise, subject to clearly defined limits; (5) individuals (e.g. freelance journalists, plumbers, artists).³⁴ The first would consist of firms which are "by their nature" large, hierarchical units with a monopoly position, such as electricity, steel, oil, and railways. Nove also includes banks and other credit institutions in this category. Enterprises in the second group would be in a position similar to those in the partial reform socialist system. Nove, though, postulates that they are to have "full autonomy," despite the fact that "the state would have a residual responsibility for their use or misuse, or for debts incurred."³⁵ The experience of state-owned industrial enterprises in Hungary since 1968 might give reason for doubting that the extent of such autonomy would be large; and with the state controlling all access to credit it would likely be rather limited. The third, fourth, and fifth types are each to be owned privately, with owners having the right to transfer property at their will. Cooperatives would be managed by their employees or elected representatives. The existence of these privately-owned forms on a significant scale would make the economy a genuinely mixed one, for there is to be no restriction on the number of employees they may hire.

State officials in Nove's model would be democratically elected. An assembly (parliament) composed of these representatives would be responsible for broad macroeconomic decisions, such as investment priorities and income distribution; Nove proposes that referenda could also be used to make such determinations. State officials also would have considerable leverage over the functioning of the economy through their control of credit, and of course they would directly command the centralized state enterprises.

ONE THING that should be clear from this paper is that there are a multiplicity of theoretically possible economic systems. The choice is not simply between plan and market, or between public and private ownership; nor is there only a single way in which these can be combined with each other and with other institutions. Across the developed countries, a movement (in some ways very gradual, in others quite rapid) away from the polar opposites of pluralist market capitalism and bureaucratic centrally planned socialism seems to be occurring, and in my estimation the next thirty or so years are likely to be characterized by widespread experimentation with a variety of diverse economic systems that fall somewhere between these extremes. Most nations will probably have mixed economies of some sort. Hence, the important questions will concern, first, the relative size and centrality of the public versus the private sector and, second, which coordinating mechanism, form of state intervention, budget constraint, and intra-firm control arrangement is to obtain in each sector.

In any event, if the left is to play a significant role in determining what type of economic system the future holds in the United States (and elsewhere), we need to engage in a much more explicit and sustained dialogue about where it is we would like to go.

REFERENCES

- 1 This concept was developed by János Kornai. See his "The Reproduction of Shortage" and "'Hard' and 'Soft' Budget Constraint," both in Kornai, *Contradictions and Dilemmas: Studies on the Socialist Economy and Society* (Cambridge, MA: MIT Press, 1987).
- 2 See Andrew Shonfield, *Modern Capitalism* (London: Oxford University Press 1965); Alexander Hicks, "National Collective Action and Economic Performance," *International Studies Quarterly*, vol. 32 (1988); Harold Wilensky and Lowell Turner, *Democratic Corporatism and Policy Linkages* (Berkeley: Institute of International Studies, 1987); Lucy Gorham, *No Longer Leading: A Scorecard on U.S. Economic Performance and the Role of the Public Sector Compared with Japan, West Germany and Sweden* (Washington, DC: Economic Policy Institute, no date).
- 3 John Zysman, *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca, NY: Cornell University Press, 1983).
- 4 See Ira Magaziner and Robert Reich, *Minding America's Business* (New York: Vintage, 1983); John Zysman and Laura Tyson, eds., *American Industry in International Competition* (Ithaca, NY: Cornell University Press, 1983); Richard Ellsworth, "Capital Markets and Competitive Decline," *Harvard Business Review*, September-October 1985; Shonfield, *Modern Capitalism*, chs. 13-14; Graham Wilson, "Why is There No Corporatism in the United States?," in *Patterns of Corporatist Policy-Making*, Gerhard Lembruch and Philippe Schmitter, eds. (London: Sage, 1982).

- 5 On Sweden, see Hugh Heclo and Henrik Madsen, *Policy and Politics in Sweden* (Philadelphia: Temple University Press, 1986); Walter Korpi, *The Working Class in Welfare Capitalism* (London: Routledge & Kegan Paul, 1978); Helen Ginsburg, "Labor-Market Policies for Full Employment," ch. 6 in Ginsburg, ed., *Full Employment and Public Policy: The United States and Sweden* (Lexington, MA: Lexington Books, 1983); Barry Bosworth and Alice Rivlin, eds., *The Swedish Economy* (Washington, DC: Brookings Institution, 1987).
On West Germany, see Kenneth Dyson, "The Politics of Economic Management in West Germany," in *The West German Model*, William Paterson and Gordon Smith, eds. (London: Frank Cass, 1981); Dyson, "The State, Banks and Industry: The West German Case," in *State, Finance and Industry*, Andrew Cox, ed. (Sussex, England: Wheatsheaf, 1986); Peter Katzenstein, *Politics and Policy in West Germany* (Philadelphia: Temple University Press, 1987); Zysman, *Governments, Markets, and Growth*, pp. 251-65.
- 6 On Japan, see Ira Magaziner and Thomas Hout, *Japanese Industrial Policy* (Berkeley: Institute of International Studies, 1980); Ryutaro Komiya, Masahiro Okuno, and Kotaro Suzumura, eds., *Industrial Policy of Japan* (Tokyo: Academic Press, 1988); Bernard Eccleston, "The State, Finance and Industry in Japan," in *State, Finance and Industry*; Kozo Yamamura and Yasukichi Yasuba, eds., *The Domestic Transformation*, vol. 1 of *The Political Economy of Japan* (Stanford, CA: Stanford University Press, 1987). On France, see Zysman, *Governments, Markets, and Growth*, ch. 3; Peter Hall, *Governing the Economy* (New York: Oxford University Press, 1986), chs. 6-8; William James Adams and Christian Stoffaës, eds., *French Industrial Policy* (Washington, DC: Brookings Institution, 1986); Claude Seibel, "Planning in France," in *Comparative Economic Systems*, 4th edition, Morris Bornstein, ed. (Homewood, IL: Richard D. Irwin, 1979).
- 7 See Yaroslav Vanek, "The Participatory Economy," in *Comparative Economic Systems*; Alasdair Clayre, ed., *The Political Economy of Co-operation and Participation* (Oxford: Oxford University Press, 1980); Jon Elster and Karl Ove Moene, "Introduction," in *Alternatives to Capitalism*, Elster and Moene, eds. (Cambridge, England: Cambridge University Press, 1989); Derek Jones and Jan Svejnar, eds., *Participatory and Self-Managed Firms* (Lexington, MA: Lexington Books, 1982).
- 8 See Alec Nove, *The Soviet Economic System* (London: Allen & Unwin, 1977); Nove, *The Economics of Feasible Socialism* (London: George Allen & Unwin, 1983), ch. 2; Komai, *Contradictions and Dilemmas*; Włodzimierz Brus, "Evolution of the Communist Economic System—Scope and Limits," in *Remaking the Economic Institutions of Socialism: China and Eastern Europe*, Victor Nee and David Stark, ed. (Stanford, CA: Stanford University Press, 1989); Ian Jeffries, ed., *The Industrial Enterprise in Eastern Europe* (New York: Praeger, 1981); Murray Yanowitch, "Work Hierarchy and Management 'Participation' in the Soviet Union," in *Classes, Power, and Conflict*, Anthony Giddens and David Held, eds. (Berkeley: University of California Press, 1982); Nelson Valdés, "The Cuban Revolution: Economic Organization and Bureaucracy," *Latin American Perspectives*, vol. 6, no. 1 (1979).
- 9 Cuba has been somewhat of an exception with regard to worker participation in enterprise decision making. See Andrew Zimbalist, "Cuban Economic Planning: Organization and Performance," in Sandor Halebsky and John Kirk, eds., *Cuba: Twenty-Five Years of Revolution* (New York: Praeger, 1985).
- 10 To this point, it appears that Gorbachev's reforms in the USSR do not go beyond these two modifications of bureaucratic central planning. See Gertrude Schroeder, "Gorbachev: 'Radically' Implementing Brezhnev's Reforms," and Philip Hanson, "The Shape of Gorbachev's Economic Reform," both in *Soviet Economy*, vol. 2, no. 1 (1986). But see also A.G. Aganbegyan, "What Perestroika Means for Soviet Enterprises," *International Labour Review*, vol. 128, no. 1 (1989).
- 11 For a recent statement see Ernest Mandel, "In Defence of Socialist Planning," *New Left Review*, no. 159 (1986). See also Alec Nove, "Markets and Socialism," *New Left Review*, no. 161 (1987); Mandel, "The Myth of Market Socialism," *New Left Review*, no. 169 (1988).
- 12 See their "Socialist economics," ch. 7 in Albert and Hahnel, *Socialism Today and Tomorrow* (Boston: South End Press, 1981); "Participatory planning," in *Socialist visions*, Steve Roskamm Shalom, ed. (Boston: South End Press, 1983). See also Ellen Comisso, "Yugoslavia in the 1970s: Self-Management and Bargaining," *Journal of Comparative Economics*, vol. 4 (1980), for discussion of Yugoslavia's attempted use of a decentralised planning process after 1974.
- 13 Albert and Hahnel, "Participatory Planning," p. 263.
- 14 Albert and Hahnel, "Participatory Planning," p. 292; "Socialist Economics," p. 329.
- 15 See Komai, "The Hungarian Reform Process: Visions, Hopes, and Reality," *Journal of Economic Literature*, vol. 24 (1986); Tamás Bauer, "The Hungarian Alternative to Soviet-Type Planning," *Journal of Comparative Economics*, vol. 7 (1983); Hugo Radice, "The State Enterprise in Hungary," in *The Industrial Enterprise in Eastern Europe*; Peter Bihari, "Hungary: Towards a Socialist Market Economy?," *Studies in Political Economy*, no. 18 (1983).
- 16 Bihari, "Hungary: Towards a Socialist Market Economy?" p. 16.
- 17 Komai, "The Hungarian Reform Process," p. 1696.
- 18 Radice, "The State Enterprise in Hungary," p. 135.
- 19 See Jan Prybyla, "The Chinese Economy: Adjustment of the System or Systemic Reform?," *Asian Survey*, vol. 25, no. 5 (1985); Dwight Perkins, "Reforming China's Economic System," *Journal of Economic Literature*, vol. 26 (1988); Susan Shirk, "The Political Economy of Chinese Industrial Reform," in *Remaking the Economic Institutions of Socialism*; Jeanne Wilson, "The Institution of Democratic Reforms in the Chinese Enterprise Since 1978," in *Worker Participation and the Politics of Reform*, Carmen Sirianni, ed. (Philadelphia: Temple University Press, 1987).
- 20 See World Bank, "The Decentralised Self-Managed Economic System of Yugoslavia," in *Comparative Economic Systems*; Ljubo Sirc, "The Industrial Enterprise in Yugoslavia," in *The Industrial Enterprise in Eastern Europe*; Laura D'Andrea Tyson, "Investment Allocation: A Comparison of the Reform Experiences of Hungary and Yugoslavia," *Journal of Comparative Economics*, vol. 7, no. 3 (1983); Ellen Comisso, "Yugoslavia in the 1970s: Self-Management and Bargaining"; Comisso, "The Logic of Worker (Non)Participation in Yugoslav Self-Management," *Review of Radical Political Economics*, vol. 13, no. 2 (1981).
- 21 See Lange, "On the Economic Theory of Socialism," part 1 and 2, *Review of Economic Studies*, vol. 4 (1936-37); Abram Bergson, "Market socialism revisited," *Journal of Political Economy*, vol. 75, no. 5 (1967); Don Lavoie, *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered* (Cambridge, England: Cambridge University Press, 1985).
- 22 Lange, "On the Economic Theory of Socialism," p. 67.
- 23 Tardos, "Development Program for Economic Control and Organization in Hungary," *Acta Oeconomica*, vol. 28, no. 3-4 (1982). For Tardos this model actually would apply only to the state-owned sector of an economy which is mixed in its ownership forms; cooperatives and small-scale private enterprise would exist alongside enterprises owned by the state. Furthermore, he believes certain industries

are best kept directly under the control of the state. His full model thus represents one form of what I call a "mixed economy"; see below.

- 24 Tardos, "Development Program," p. 310.
 - 25 Stauber, "A proposal for a democratic market economy," *Journal of Comparative Economics*, vol. 1, no. 3 (1977). Like Tardos, Stauber sees his model as comprising only part of an economy. He also envisions a publicly owned sector administered by the state and a sector of small-scale private ownership.
 - 26 Stauber, "A proposal for a democratic market economy," p. 250.
 - 27 Stauber, "A proposal for a democratic market economy," p. 241.
 - 28 Liska's writings have not yet been translated into English. I rely in the summary below on Barnabas Buky, "Tibor Liska's Challenge to Hungarian Economic Orthodoxy," *Radio Free Europe Background Report*, March 1982; J. Barsony, "Tibor Liska's concept of socialist entrepreneurship," *Acta Oeconomica*, vol. 28, no. 3-4 (1982).
 - 29 This has been referred to by others as a "universal grant" or "basic income grant". Robert van der Veen and Philippe Van Parijs have recently advanced an interesting proposal for a "capitalist road to communism," involving the introduction and progressive extension of a universal grant within an otherwise market capitalist system. See *Theory and Society*, vol. 15, no. 5 (1986)—a special issue devoted to discussion of their proposal.
 - 30 The internal subcontracting teams (VGMS) recently legalized in Hungary may represent an embryo form of this type of arrangement. See György Sziráczi, "Internal Subcontracting in Hungarian Enterprises," in *Alternatives to Capitalism*; David Stark, "Organizational Innovation in Hungary's Emerging Mixed Economy," in *Remaking the Economic Institutions of Socialism*.
 - 31 See R. Joseph Monsen and Kenneth Walters, "State-Owned Firms: A Review of the Data and Issues," in *Research in Corporate Social Performance and Policy*, vol. 2, Lee Preston ed. (Greenwich, CT: JAI Press, 1980); John Freeman, *Democracy and Markets: the Politics of Mixed Economies* (Ithaca, NY: Cornell University Press, 1989).
 - 32 On the second economy in general, see István Kémény, "The Unregistered Economy in Hungary," *Soviet Studies*, vol. 34, no. 3 (1982); István Gábor, "The Second (Secondary) Economy," *Acta Oeconomica*, vol. 22, no. 3-4 (1979); Kornai, "The Hungarian Reform Process," pp. 1704-10. On agriculture see Csaba Csaki, "Economic Management and Organization of Hungarian Agriculture," and Michael Marrese, "Agricultural Policy and Performance in Hungary," both in *Journal of Comparative Economics*, vol. 7, no. 3 (1983); Kornai, "The Hungarian reform process," pp. 1701-04. Though it is most developed in Hungary, a second economy exists in all state-socialist societies. See for instance Jacek Rostowski, "The Decay of Socialism and the Growth of Private Enterprise in Poland," *Soviet Studies*, vol. 41, no. 2 (1989).
 - 33 Nove, *The Economics of Feasible Socialism*, ch. 5.
 - 34 Nove, *The Economics of Feasible Socialism*, p. 200.
 - 35 Nove, *The Economics of Feasible Socialism*, p. 206.
-