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Was Market Socialism a Feasible Alternative for Transition Economies?

According to the literature and the dominant perception of the International Monetary Fund (IMF), the World Bank, and the economic policymakers within the mature market economies, adoption of the capitalist market economy was the only possible way to avoid stagnation in Central and Eastern Europe and the former Soviet Union (CEEFSU). In reaction to the failures of Stalinism, capitalism came to be seen as the only viable alternative for the people of CEEFSU, even though a capitalist class did not exist in these economies. However, this view is not necessarily accurate. Events might have taken a different course and might have resulted in the adoption of a noncapitalist economic system. Capitalism was not necessarily the mode of production into which these societies were bound to evolve.

The collapse of the centrally administered economies cleared the way for development of economies based on market relations. The use of market relations was proposed because of the advantages in the areas of information dissemination and motivation. It was argued that the market was a superior form of organization that would result in a superior outcome compared with central administration, even in the presence of market failure. But even if we take as given that the collapse of centrally administered socialism required the adoption of market relations, as the market socialists argued, did this necessarily imply the adoption of a capitalist system? Because the transition process did not automatically lead to a capitalist economic system, market socialism was worthy of serious consideration.[1]

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Market socialism in CEEFSU was not attractive because any form of socialism was considered a form of Stalinism. In the meantime, however, capitalism was linked with prosperity, the rule of law, democracy, and the elimination of shortages, despite the experiences of mature market economies. In the transition economies there was a "celebration of the market, the virtues of free enterprise and greed unlimited" (Miliband 1991: 6), which did not promote the socialist goal. However, according to the market socialists, the collapse of centrally administered socialism should not have been interpreted as the exhaustion of all egalitarian prospects or a failure of untried forms of socialism, especially market socialism. "That [the irrelevance of socialism] is far from the truth" (Roemer 1999: 64). Writing premature obituaries for socialism is very popular these days. But socialism is not Stalinism, and the market socialist proposal avoided any elements associated with the Stalinist inefficiencies.

The aim of this paper is to develop a market socialist model of transition for the CEEFSU economies by analyzing the sequence of reforms with regard to price liberalization, privatization, institutions, monetary policy and the financial system, fiscal policy, international trade, and social policy. It could be argued that history seems to have made the transitional strategy toward market socialism an academic exercise. Nonetheless, a transitional strategy toward the development of a market socialist system demonstrates that the cost of transition would have been substantially lower than the shock-therapy strategy imposed by the Washington Consensus. This is because a market socialist transition process would have exploited elements of centrally administered socialism instead of destroying the economic infrastructure in the form of shock therapy. The shock therapy was an imposed expectation that a new economic system would rise from the ashes as a result of the destruction of centrally administered socialism. This did not imply the inevitability of socialism but, rather, its historical possibility as a desirable goal for which to strive—a radical egalitarian ideal worth pursuing. In addition, in a period when so many transition economies (and nontransition economies) are disillusioned with the outcomes of capitalism and therefore searching for alternatives to the Washington Consensus, the market socialist proposal presented in the paper, I would argue, maintains its relevance, as the egalitarian goals of socialism have not been uprooted from the culture and the mentality of the people thus far.

A Market Socialist Approach to the Transition Process

In general, the socialist revolutions in the Soviet Union and Eastern Europe were not born in conditions favorable to democracy. Market socialism could only have been peacefully and democratically introduced in transition economies by strictly legal and democratic processes. A market socialist party in CEEFSU would have had to convince the majority of people that it stood for humane government, as well as material improvement and a more rational use of resources than capitalism. "There is no undemocratic road to socialism. If we were forced to conclude that there cannot be a democratic road to socialism, then we would also have to conclude that the entire socialist enterprise is illusory" (Howe 1994: 65). Popular control in both the state and the economy was the only alternative for CEEFSU—that is, socialist democracy (Gordon, Weisskopf, and Bowles 1996: 259).

The analysis of the political structure of market socialism contradicts the current dominant perception that socialism is inherently authoritarian and oppressive and that capitalism alone is capable of providing freedom and democratic rule. The demands for democratic processes, not only in the political structure but also in the economic structure, could only have taken a socialist form (Yunker 1997: 276). Livingstone claimed that "everything I saw confirms that democracy will either be socialist or it will not exist" (1993: 103). Actually, market socialism would have significantly improved the quality of democracy in transition economies.

Experience teaches us that the transition would be a lengthy process, interrupted by setbacks and fraught with tensions, conflicts, difficulties, and errors. To a large extent, policies would have to be implemented on a trial-and-error basis, making people aware of the need for radical solutions. This implies working and reworking policy within the framework of participative democracy, probably insinuating more than just a trial-and-error process. The transformation would require considerable learning capacity on the part of everyone involved. Policies should not have been formed as they were in the past, under the old administrative methods, on the basis of what is desirable and possible. Policies should have been based on compromise among interest groups. "But if it is to be a socialist society of free men and women, there can be no other way" (Howe 1994: 65). As such, a participatory process of decision making would also be able to maintain political support for the necessary reforms in the face of likely setbacks and frustration due to the long and challenging road of transition.

The transition to market socialism from central administration would, therefore, have been a slow and lengthy process. The transformation of social relations into entirely different settings that were not centrally administered and were noncapitalist could only have taken place through a gradual process. Progress would have been evolutionary and incremental—a succession of small steps forward. The belief that it could have taken place in one shot and still achieve desirable results was inconsistent both with social reality and with the goals associated with socialism. Moreover, "any harmful effects which participation may pose for economic efficiency can be minimized by gradualism" (Howard and King 1992: 379). Contrary to popular myth, an attempt to make an immediate transition to a market capitalist economy did not offer a tried-and-true path to prosperity, anymore than would an attempt to build a democratic market socialist economy. In the contemporary climate of opinion, it is too easy for proponents of socialism in CEEFSU and anywhere else to be casually dismissed as naïve idealists (Yunker 1997: 71). However, people were brought up to expect full employment and universal welfare and, therefore, were unlikely to give their wholehearted support to the type of capitalist model imposed (Cox 1998: 77).

The transition to a market socialist economy required a mechanism by which the ultimate goal would be achieved. A transition to market socialism from centrally administered socialism would involve reforms in the economic structure in the areas of price liberalization, privatization, institutions, monetary policy and the financial system, fiscal policy, international trade, and social policy. It should be remembered that these elements of the transition process should use only policy instruments consistent with the application of Marxist analysis to market socialism.

Reforms Required for the Establishment of Market Socialism in Transition Economies

Price Liberalization and Stabilization

The introduction of market relations in centrally administered socialism would have led to the establishment of a new form of accountability for the producer. By lifting some restrictions on the market, it could have been expected that individual activity would help to satisfy consumer demand. Price movements through competition in the market would have adjusted socially undesirable differences in profitability of different types of products. It was the responsibility of the transition government to intervene to dampen price fluctuations and the associated effects on incomes. The high level of market concentration that resulted from the introduction of full market relations was of critical concern. It was necessary to restrict unjustified monopoly power and to develop market competition among the enterprises. Competition in market socialism was treated as the antithesis of monopoly power, not as a potential generator of monopoly power. In contrast to Lange and Taylor's (1939) model of competitive market socialism, market socialists envisaged an economic system that incorporated a measure of discretionary power.

Without price reform in the transition economies, it would have been impossible to secure any assessment of costs or for the results of production to ensure an equivalent exchange of goods and services, stimulate scientific and technological progress, and encourage the economizing of resources. This meant, among other things, an end to subsidies, which undermined the incentive for producing efficiently and resulted in a wasteful attitude by consumers. Subsidies also imposed a considerable burden on the state budget. The typical enterprise would have to have been self-supporting. Higher prices, at which demand and supply balance, were in the interest of society because they eliminated possible corruption by the administrators of the shortage. However, the price formation process would have to have been transparent: a public process subject to public checks, not one controlled by enterprises.

In mature market economies, most enterprises determine their prices by adding a markup to the unit cost. However, the costs and the markups are not disclosed to the consumer. In a socialist market, the barriers to information would have been dissolved. There was a need for government intervention because market forces could not have generated all the information required for decision making in the social interest. The producer would have worked in a climate of publicity, consultation, criticism, and measurement. Natural monopolies and oligopolies that result from economies of scale, product differentiation, and technology (including intellectual property) will occur in any market system. In a socialist market, there would be a purposeful endeavor to reduce the serious negative spillover effects of monopoly power and the social and political barriers to information disclosure present in capitalist systems; as a result, it is likely that production for profit would have been socially desirable. Furthermore, a market cannot incorporate externalities (positive or negative) without state resort to subsidies, taxes, and/or regulations. Although economic efficiency demanded that enterprises should not have been subsidized, clearly articulated positive externalities and social goals should have been supported by the society.

Differential remuneration in the transition to market socialism was necessary if labor services were to be used in the most advantageous way, in addition to eliciting the desired effort. The system of work remuneration under centrally administered socialism did not depend on efficiency considerations. Market socialists reject “mindless egalitarianism” and seek to reward, materially and morally, those who work harder. It is efficient to develop the talents in which people have comparative advantages. The differences in the value of the marginal product of labor in various occupations should be equal to the differences in the marginal disutility involved, necessitating differentiation in wages and income. Consequently, inequality will continue to exist. Blackburn argues that in an egalitarian socialist society, even quite small differences of pay could have been highly valued (1991: 224). Although wage levels would have been subject to the law of supply and demand, they would have been shaped by collective bargaining undertaken by free trade unions and bounded by social regulations such as incomes policies. This would have been supplemented with adequately designed and funded education and job-training programs.

Wages plus distributed profits would determine individual income. Wages differentials are decided by the working collective, as a result of an iterative and converging process of deliberations, negotiations, and mutual persuasion (Horvat 1982: 269). Within each industry, individual firms operate at very different levels of efficiency. Variability in efficiency is reflected in variability in labor incomes. However, the average labor income, weighted by formal skills, must be approximately the same for all industries (ibid.). Income differentials are substantially smaller within the diversified ownership of resources in market socialism than in private firms in capitalism. With the demand and supply of labor just about equal and personal monopoly rents absent, income distribution in market socialism is based on work performed (ibid., 272). Wage differentials and income distribution are established by a process involving the most direct interpersonal welfare comparisons. It is unacceptable, in market socialism, to argue that injustice contributes to welfare (ibid., 277).

The abolition of subsidies in transition economies was expected to lead to the closing of a large number of enterprises or at best to layoffs, as enterprises sought ways to function efficiently by meeting the market test. The question was whether market socialism allowed unemployment. Unemployment was rejected as being inconsistent with socialism. Market socialists argued that, in a plan-based economy geared to meeting the needs of society as fully as possible, there was no need for unemployment. Even if some fundamental technological improvements made entire trades no longer necessary, the plan should have been able to foresee this in advance and take the appropriate corrective action. Market socialism was capable of adjusting distribution through an incomes policy so as to achieve full employment output without inflation.

The introduction of markets would lead to the establishment of a new form of accountability: that of the producer in relation to the citizen as a consumer via the market test. The producer would operate in a climate of publicity, consultation, criticism, and measurement. Although enterprises were to become accountable to citizens as consumers, the management of enterprises would also have been accountable to society via a national allocative plan. The genuine difference between socialism and capitalism is not negating either plan or market but in the particular interests that the plan and market serve. In a market economy, markets could not allocate investment efficiently, due to negative externalities. During the transition, it was essential to involve the state in investment planning. The responsibility of the state was to internalize the externalities associated with investment, to produce public goods, and to compensate for incomplete markets.

The dominant perception in CEEFSU was that planning must always mean administrative allocation of resources, as it did under Stalinism. However, to attempt to include the whole economy in an all-embracing, disaggregated central plan was impossible, self-defeating, inefficient, and also undesirable on social and political grounds. Plans are definite, overall, governing guidelines, constructed regularly at certain periods for the development of a large number of mutually varied, dependent economic activities. Horvat argues that planning improves macroeconomic efficiency regarding such aggregates as investment, saving, infrastructure investment, government social programs, and so on in conjunction with a development fund with the following objectives: implementation of investment programs, short-term investment in working capital for special purposes, operating subsidy schemes and compensations, and influencing aggregate demand and supply (1982: 335). The social plan has four basic functions: forecasting, coordinating economic decisions, and guiding and directing economic development (Horvat 1982: 333–34). The outcome of centrally planned investment would have been less wasteful, because it would have eliminated duplication and would have been more efficient and desirable from society's point of view. A market socialist system could have made its investment decisions in full view of all economic, political, social, and human factors. Planning was an unavoidable component of modern economic management in any society, especially in a socialist society, to realize particular outcomes such as greater social justice. Effective planning required the use of markets. In this regard, the market socialist model bears a close resemblance to the Sik (1967) model, which is based on the interventionist Keynesian tradition of market planning. The market process and economic planning were distinct yet mutually supporting assignments.

The plan had to determine priorities. It had to reflect the priorities of society as a whole and those of the separate social groups whose interests were recognized as being especially important. Prioritizing was a complex process and had to be based on social compromise within an open and pluralistic-democratic system. Social and investment priorities were inevitably political decisions for instrumental and desirable reasons. Planning was a decentralized and democratic process of consultation and discussion, concerned exclusively with plan construction and elaboration. The process provided a forum in which information could have been pooled. Also, diverse interest groups could have confronted one another about spillover effects, giving voters an equal voice in determining the plan's objectives. In itself, the plan did not contain an implementation procedure. As every actor "bargains" through successive "iterations," the process of negotiated coordination, rather than price taking, would have occurred. "Such a procedure contains rather more teeth than might at first sight appear" (Estrin and Winter 1990: 116), because one of the major actors in a market socialist economy was the state (Roemer 1991: 563). However, the use of the political process to decide investment planning "opens up the Pandora's box of rent seeking, the wasteful use of resources by interest groups who aim to influence the outcome of the process" (Roemer 1994a: 106). Yet, under socialism, the tension between sectional and social interest would have been explicit, with the possibility of partial reconciliation and also some transformation of the perceptions and levels of social awareness of those involved. Hence, planning itself should be participatory. Plans are formulated at all levels and then are gradually integrated into an overall plan by an interactive process of consultation and negotiation. The remaining disagreements are eventually ironed out through political process (Horvat 1982: 333).

In any event, a transition to market socialism would require the gradual liberalization of prices. Actually, in the initial stages of transition, prices would remain fixed to facilitate the restructuring of state enterprises and the transformation of property relations. Market planning in the form of industry and incomes policies, taking advantage of the planning infrastructure of centrally administered socialism, should be maintained throughout the transition and afterward, as they are permanent features of market socialism.

Privatization

Practically every dictionary defines socialism as public ownership of land and capital. "Everyone is equally an owner, which means that no one in particular is an owner. . . . If no one is excluded, then everyone has equal access to the means of production owned by the society" (Horvat 1982: 236). In the case of CEEFSU, the first task should have been to maintain state property. However, market socialists would have introduced fundamental changes in property relations. Forms of ownership were determined by, among other things, the varying degree of concentration of the productive forces. Diverse forms of technology gave rise to diverse forms of socialization: Technology was not neutral. Thus, to impose a common form of ownership was inconsistent with social reality. It could hardly have been correct to describe the progress of socialism as a mechanical increase in the share of state-owned assets at the expense of other forms of ownership. The simplistic view that state property was clearly superior to all other forms of ownership could not be sustained. Markets and planning could have been used in conjunction with a number of different kinds of ownership institutions, both private and collective.

This argument did not dismiss the role of state property in the socialist economy. State-owned enterprises would have been large enterprises characterized by monopoly power. State ownership would have ensured that the behavior of large enterprises was in line with the social good. State enterprises would have been both instructed and motivated to maximize the long-term rate of profit and thereby also efficiency. Managers of state-owned enterprises would have been induced to pursue profits, not only by making their salaries and bonuses subject to achieved profits but also by threatening job security (Yunker 1997: 14). Decision making in state enterprises would have been based not on the conventional hierarchical structure of the organization but rather on a democratic process in which all workers participated.

The labor-managed firms would have filled the gap left by the state sector. It would have counterbalanced state monopolies and stimulated changes in the state sector. Unsuccessful state enterprises can become labor-managed firms. Strangely enough, Roemer was against labor-managed structure of firms (1994b: 301; 1996b: 388). Roemer has repeatedly argued that increasing employee control over the workplace is not a necessary element of the socialist vision. In this vein, an egalitarian distribution of profits was far more important than democratic control over the workplace. I believe that socialism required dramatically increased democratic control in the form of labor-managed firms of medium-size enterprises. Labor-managed firms appear to be less expansionary than capitalist firms; they tend to be smaller and to expand only so as to capture economies of scale. The experience of Mondragon, although not Yugoslavia, is consistent with this argument (Schweickart 1993: 98). Moreover, the trend in modern technology was toward teamwork; custom-made products and small establishments also foster self-management. "Meaningful participation is in fact indispensable for the normal functioning of a postindustrial society" (Horvat 1982: 250).

The new perception of property relations under market socialism went further than the labor-managed form. Private property should have been legalized, thereby recognizing that it had a role in a socialist system. Market socialists would have encouraged privately owned businesses; peasants, artisans, and small-scale family business are just as much "socialist elements" as those working in nonprivate sectors (ibid., 238). However, they would have been restricted to small-scale enterprises with no market power, with large-scale, privately owned capitalist organizations that by definition have market power abolished. "Capitalist firms that are sufficiently small do not pose a serious threat to the well-being of others" (Winter 1990: 157). Because capital is scarce, it would be under public ownership, administered by the state, and rented to business enterprises. In this case, "capital income cannot be appropriated either privately or collectively" (Horvat 1982: 237).

Private property was considered complementary to state- and labor-managed firms. Individuals should have been permitted to operate their own enterprise subject to certain regulations administered by local government, regulations covering such areas as the level of activity permitted, the obligation to pay tax on profits, and a "capital use tax," because the means of the production was under public ownership (Yunker 1988: 76). It should also have been possible for a private entrepreneur to employ a few people. Although this would have made the entrepreneur an exploiter, he or she would have had to work within, as well as manage, the enterprise. This would have been subject to conditions such as the number of people employed or the value of capital assets, which would have varied across sectors. In market socialism, private property was considered the most effective structure for the development of labor-intensive activities, especially in the service sector, and this was one of the major weaknesses of centrally administered socialism. Perhaps the most important reason for legalizing individual property was the need to liquidate the black market and associated activities. By bringing the shadow economy into the open, its activities could have been taxed and regulated.

However, private ownership rights should be abolished when the firm reaches a certain size and transformed into a labor-managed firm. As the privately owned firm grows and uses more capital, the threat of exploitation increases. Imposing a limit to the size of the private firm is meant to prohibit extensive exploitation, remembering that capital would be under public ownership, administered by the state, and rented to business enterprises. "In a classless socialist society, property implies the absence of control over the exploitation of the labor of others" (Horvat 1982: 237). The transformation of the private firm into a labor-managed firm would reduce exploitation by allowing workers participation in decision making and the sharing of profits. Would the threat of transition to self-management act as disincentive for small firms to grow and to provide jobs? Would the level of risk-taking be reduced, diminishing the pace of economic innovation and thus lowering long-term productivity growth? This problem is inescapable and firms might remain small. However, it may well also have a desirable byproduct of reducing speculative risk-taking but not for technical change and product innovation. Bowles and Gintis argue that the problem is overstated, as an equitable distribution of property rights might promote greater innovation as a result of greater incentives and access to education and resources (1998: 47–48).

Under market socialism, expenditure for basic research would be funded by the state, and the results of this research would be freely available to all enterprises (Schweickart 1993: 133). Mondragon firms tend to be small, which is not at all at odds with innovativeness, as technical innovations tend to originate in small companies. As firms are small, each firm does not have research facilities, but the Mondragon structure has one to serve the collective needs. Many new firms in market socialism would begin, as they do in Mondragon, as units within a larger firm, from which they separate. The associated bank's entrepreneurial division could provide advice and perhaps adjustment finance, as does the Empresarial Division in Mondragon.

For industrial democracy and self-management to be meaningful, the members of each enterprise must have a substantial degree of control over their work environment. This can be reflected in areas such as decisions about the products to be made and methods of production. Workers' self-management at the enterprise level would have been a democratic process of decision making and fostered and reinforced democracy at the political level. Workers would still have required unions to protect them from overzealous managers, even if they had the power to remove management (Roemer 1991: 567). Under market socialism, the national government would have had no authority to hire and dismiss managers of corporations. Managers would have been accountable to the rank-and-file employees through elections. Hence, the transition to market socialism did not involve a substantial change in property relations, thus reducing the cost of associated with the transition process. Large enterprises would remain state owned, medium enterprises would be easily transformed into labor-managed firms, and small enterprises would be privatized under the authority of local government.

Why was this proposed decentralized property structure and control of enterprises not initiated in the "socialist" countries of CEEFSU? The rulers of the CEEFSU formed a class, which for lack of a better term we can call the bureaucracy apparatus (i.e., the sum total of all those who participate in the monopoly of power administration at whatever level of the society). The monopoly in the exercise of power entailed important material social privileges. The bureaucrats were quite conscious of their specific material interests and defended them against all adversaries. The means of production were state property; control of the state by the bureaucracy made the bureaucracy the real administrator and decision-making body of the society without being accountable to anyone. The bureaucracy, as a class, "owned" the state as its private property. In its pursuit of power and privilege, this apparatus acted to perpetuate and expand itself into a new form of social stratification. The bureaucracy would not initiate any significant reform, especially in property relations, because this would undermine its power. The elimination of the bureaucracy as a class during the transition to market socialism would facilitate the adoption of the proposed property structure.

Institutions

In the meantime, the imposition of the shock-therapy model was based on an inadequate understanding of the institutions of the previously centrally administered socialist countries, and it ran counter to the historical traditions, present-day realities, and actual possibilities of transition economies. Despite all their systemic similarities, the transition economies differed considerably from each other in many respects. The transition to market socialism was, by its nature, a path-dependent process. Path dependency meant not only that transformation would have been affected by the initial state and, therefore, by the history of the system and country undergoing transformation, but also those steps taken earlier would have influenced the direction and speed of later policy choices. Shock-therapy apologists sometimes repeat the excuse "you can't make an omelet without breaking a few eggs." Cohen argued that, if we were to learn anything from the past, "there would be no omelet, only a mass of broken eggs in the form of crushed hopes and lives" (1998: 249).

Market socialists, following Marx, argue that the construction of socialism in each country would need to take into account the specific idiosyncrasies and uniqueness of each nation's experience and could not have been applied like a "cookbook recipe." The same argument could have been used for the construction of market socialism in the transition economies. Transition economies could have been transformed only within the limits of their own traditions and possibilities.

Under market socialism there would indeed have been markets, but there would also have been a wide range of other social, political, and legal institutions to constrain them. Institutional norms would have fostered participation in self-management, the establishment of information-disclosure laws, and the implementation of periodic "social audits" to monitor infringements of ecological and egalitarian standards. In this context, collusive behavior and cartels would have been illegal. Such institutions could only have been the result of targeted societal and state action. Market exchange also requires an informal system of institutions, similar to those that have evolved painstakingly over time, and, in a variety of ways, in various market economies. The development of informal relationships in transition economies required positive encouragement, the importance of which was often underestimated. Roemer stated: "I remain agnostic on the question of the birth of the so-called socialist person, and prefer to put my faith in the design of institutions that will engender good result with ordinary people" (1996a: 35). The transition to a socialist market would have required the development of new institutions, though possibly no more than those required for the transition to capitalism.

Consequently, the establishment of formal socialist institutions was the first task of the transition government. As is easily understood, the establishment of the formal socialist institutions by state action serves as the foundation on which the remaining reforms would be initiated, influencing the construction of socialism. However, it should be recognized that institutions cannot be implemented only from above, as they need to evolve through praxis. In addition, the transition process toward market socialism would take advantage of any institutions of centrally administered socialism that are conducive to the cause. The interconnectedness between (pre-)existing institutions and specific policies for market socialism can be demonstrated by the following examples. Medium-size labor-managed firms could easily be established due to the presence of a labor-managed culture; Bardhan (1993: 154) and Bardhan and Roemer (1992: 115) argued that the bank-centric monitoring system for the financial system would very likely be less difficult to introduce to the transition economies, where there is a preexisting set of public investment banks and financial institutions; the Council for Mutual Economic Assistance (CMEA) could easily be transformed into a socialist customs union; and the basic guaranteed livable income would not receive great resistance in the presence of an extensive social framework. The development of informal social institutions could only be gradual thorughout the transition process.

Monetary Policy and the Financial System

The instruments the government could have used to influence the pattern of investment are discounts and surcharges on the market interest rate. The central bank would have manipulated the money supply (post-Keynesians would have denied this was possible) and would have been empowered to lend money to enterprises with a specific interest rate discount or surcharge for each consumer good sector. Lange (1939) proposed that interest rates be used by the socialist government to regulate investment. As it was assumed that the market was able to reach the Walrasian equilibrium, it could also have been assumed that the market would have been able to reach the Lange equilibrium. "One assumption is as robust as the other" (Roemer 1994a: 103).

It was anticipated that the bankruptcy rate among publicly owned enterprises under market socialism would have been approximately the same as it was among privately owned businesses under market capitalism. The imposition of a hard budget constraint and the possibility of bankruptcy would have provided the same incentive toward efficiency as it does at present. However, an anticyclical monetary and fiscal policy would have safeguarded against business depressions, in which bankruptcies become widespread, owing to general market failure rather than to individual firm inefficiencies.

A complex socialist economy would have required new types of financial intermediaries, which would have been owned by the state, just as they were under central administration, if they had market power—which was very likely—to promote greater workplace democracy and to negotiate coordination through planning. The market socialist model proposed for the transition economies involved a democratic plan-centric monitoring system for enterprises. Therefore, financial regulation, which was part of the formal socialist institutional structure, had to be established immediately, independent of whether the banking system was state owned. The reason was to avoid an evil widely emphasized in the Marxist literature: the domination of the economy by "financial capital."

Fiscal Policy

A market-based economy, even if it were socialist, would have been characterized by instability in investment and thus in employment, but hopefully to a lesser degree than in capitalism. Consequently, a discretionary fiscal policy would have been required in times of recession to increase investment and employment. There would have been no reason in the socialist society for resources to be unemployed. Planning, discretionary fiscal and monetary policies, and an indirect mechanism involving tax and credit incentives would have ensured full employment; discretionary mechanisms were also a feature of centrally administered socialism. The funds required for government expenditure and investment would have been raised by turnover taxes on individual income and the profits of enterprises. Privately owned small businesses would have been subject to a "capital use tax" for the part of the capital stock used in the firm that was publicly owned and administered by the state. This tax rate would have been based on the average rate of return on capital in the economy, which is equal to the rentals on natural resource use plus the return on assets employed minus the value of investments (Yunker 1997: 178, 208). A progressive tax on income and wealth and appropriate transfer payments would have reduced inequalities. Transfer payments would have taken the form of a guaranteed livable income. Hence, discretionary fiscal policy would not only be present during transition but would also be a permanent feature of market socialism. The tax structure had to be established immediately—as part of the formal socialist institutional structure—to facilitate the restructuring of state enterprises and the establishment of a guaranteed livable income.

International Trade

Naturally, a customs union of several market socialist countries in CEEFSU would have been both possible and desirable: a common socialist market with close cooperation and perhaps a common currency. The socialist customs union would have provided the means to avoid the destructive elements of free international trade with the capitalist countries and, at the same time, might have become a vehicle for the development of market socialism. A supranational planning body would have ensured that prevailing regulations and interventions in member socialist countries encouraged social equality and ecological responsibility for entire global production. These regulations would have incorporated standards for conditions of production such as health and safety, rights to overtime, redundancy and maternity pay, sickness benefits and rights, and facilities for workers. In this way, the international market for equity and debt capital would have continued without essential change but within a framework of the socialized ownership of investment resources. Although the proposal for a socialist customs union was quite similar to the post-Keynesian recommendation for a permanent international clearing union (Marangos 2001), there were some important differences. The socialist customs union would have been based on an international socialist market, guided by a supranational planning body based on the principles of consultation, debate, democracy, and self-government among member countries. As such, the erstwhile CMEA could easily be transformed into a socialist customs union, substantially reducing the cost of transition.

If the mature market economies really wished to improve the chances of a democratic consolidation in transition economies, they should have forgiven old debts, offered generous new aid, and dismantled their own trading restrictions. Instead, the conditional nature of IMF and World Bank funding assured investors that transition governments would not bend to popular pressures to abandon the shock-therapy policies. IMF and World Bank financial and technical assistance programs to CEEFSU stipulated that recipients could neither place restrictions on foreign direct investment nor encourage development banking. Moreover, these international organizations barred transition economies from pursuing gradualist reforms or state intervention still less contemplating the possibility of market socialism. Furthermore, the deterioration in relations between the Soviet Union and its constituent republics and the Central and Eastern European countries that preceded the breakup did not permit the idea of transforming CMEA to flourish. This is because the newly formed ex-Soviet republics and Eastern Europe had to depend on trade with Russia for a substantial number of years. Such a union might have provided a mechanism to impose centralization of trade and restrictions on the free movement of capital. CEEFSU, encouraged by mature market economies and international organizations, was moving against these links, and the degree of economic and political commonality was rather shallow.

Social Policy

A guaranteed basic livable income for all citizens has been linked with the classic market socialist concept of the social dividend as outlined by Oscar Lange and recently refined by Roemer and Yunker. It was that part of the national income that was not distributed as wages or interest but that belonged to the people as owners of the means of production. However, the social dividend, as proposed by Roemer, would have fluctuated in line with market conditions and would not necessarily have provided an adequate income. For Yunker, it would have fluctuated, in addition to market conditions, on the basis of labor effort: The social dividend would be a fixed percentage of labor income. In fact, under Roemer's calculations, the actual profit dividend each person would have received would not have been enormous (1996a: 18). In Yunker's proposal, people unable to work would not have received a social dividend.

I prefer the provision of a guaranteed basic livable income to the social dividend suggested by Roemer and Yunker. Profits of state enterprises would have become a part of government revenue, which would have funded the guaranteed basic livable income, not the social dividend. An unconditional basic income would have been a grant paid to every citizen, irrespective of his or her occupational situation and marital status and without regard to his or her work performance or availability for work. There would have been a framework of objective minimum standards, which would have been determined with the help of social scientists and approved after public debate, facilitating social solidarity and the promotion of social justice. The implementation of the guaranteed basic livable income would have freed the resources of the Social Security Administration, given that the taxation office would have administered the system. The Social Security Administration would have been transformed; it would have concentrated on the provision of services. The highly progressive tax system would have ensured that those who did not require the guaranteed basic livable income returned the gain through normal taxation. In transition economies, the funding of the guaranteed minimum income would not have been affected by fiscal constraints. The elimination of the privileges of the bureaucracy, the gradual removal of subsidies, and the introduction of the hard budget constraint would have provided adequate funding.

In line with this thinking, the expenditure on health, education, and welfare services under centrally administered socialism should be maintained or even increased and distributed according to need. Under conditions of full employment, all citizens would be able to have a job without giving up the guaranteed basic livable income. Having these elements of social and taxation policies in place and with no private ownership of the means of production, as they are under public ownership administered by the state and rented to businesses, there would have been no private fortunes and no legal means of making money by speculation. Inequality would have been reduced substantially.

The Process of Reform

The adoption of a gradual process of transition would not only involve specifying the required policies of a successful transition but also entails a process: a sequence by which the reforms should be introduced. There was a need for a strategy by which the reform program would be implemented, stipulating the order of reforms based on the interconnectedness of transition policies. Consequently, a gradual process of transition necessitated a process of the sequencing of reforms, at least a rough sketch of possible routes, if not a precise map. This would make the transition process more complex, because the modeling process involved a judgment not only with regard to the program of reform but also in relation to the priority of necessary reforms. Supposedly, the shock-therapy approach to transition avoided this problem because all the reforms were introduced in one shot. The time framework for the completion of the transition process was a disputed issue. The time framework adopted in this paper is for a phased-in transition over ten years. However, the time framework is not important, but rather the sequencing.

According to the market socialist approach to the transition, the first priority was the establishment of the institutional structure to assist the development of market socialism; this would also have facilitated the development of informal institutions and in general the evolution of institutions through praxis. At the same time, the establishment of financial regulation, the tax structure, and guaranteed basic livable income and the transformation of CMEA to a socialist customs union should have been initiated. Tariffs with the capitalist countries would have been permanent, whereas tariffs with the members of the socialist customs union would have been eliminated. The privatization of small firms and the transfer of medium firms to labor management could have followed in Year 1. The restructuring of large state enterprises could have been initiated in Year 2, lasting to the end of Year 3. Discretionary fiscal and monetary policy, together with incomes and industry policies, would fine-tune the transition process. After the restructuring of state enterprises was completed in Year 4, the gradual liberalization of prices could be initiated. The market socialist process of transition is demonstrated in Table 1. As envisaged here, the transition to a market socialist economic system puts priority on the development of the institutional structure (interpreted broadly to incorporate financial regulation, tax structure, the socialist customs union, tariffs with nonmember states, and guaranteed basic livable income); once in place at the end of Year 1 these institutions effectively establish the foundation of a market socialist society. What needs to be highlighted is that this process utilizes any institutional elements conducive to the development of a market socialist society. The preexistence of an institutional structure, even though contradictory and segmented, provided the basis for rebuilding institutions not on the ruins of centrally administered socialism but making full use of the remains of centrally administered socialism. Change, even revolutionary change, such as the transition process, was the result of adjusting to the new uncertainties: adapting the previous norms to the new economic conditions, thus reducing the cost of transition. The shock-therapy approach, conversely, required a destruction of the institutional structure and essentially asked transition economies to build capitalism on the ruins of centrally administered socialism.

Conclusion

Although market socialists were very critical of the Stalinist system, they did not develop a coherent guide for the development of socialism in transition economies. The starting point of the writings of market socialists is capitalism, but in reality in CEEFSU that starting point was centrally administered socialism. Market socialists had to answer the call for the development of a socialist market in CEEFSU. The transition economies faced a momentous task of institution building. No matter what kind of market system was desired, the costs of designing market socialism would have been no greater than the costs of building a capitalist system. Miller argued that the market element of market socialism had to be in place before the socialist element (1994: 262); however, this was in contradiction to the transition process initiated in CEEFSU. In contrast, it could have been argued that the evolution of centrally administered socialism in CEEFSU toward market socialism would have been the easiest and least destabilizing path (Kagarlitsky 1996: 38; Roemer 1994a: 126–27; Weisskopf 1993: 135). Market socialism had an advantage over other models of transition. One of its most important goals—that the majority of property be socially owned—was realized. In addition, planning, discretionary monetary and fiscal policies, state-owned banks,

Table 1

The Market Socialist Process of Transition

		Years 0–10
1. Price liberalization stabilization	Price deregulation	
	Market planning industry incomes policy	
2. Privatization	Restructuring large state enterprises	
	Privatization of small enterprises	
	Medium enterprises: cooperatives	
3. Institution	Formal institutions	
	Informal institutions	
4. Monetary policy and the financial system	Financial regulation	
	Discretionary monetary policy	
5. Fiscal policy	Discretionary fiscal policy	
	Tax structure	
6. International trade	Socialist Customs Union	
	Tariffs with nonmembers of the Socialist Customs Union	
7. Social policy	Guaranteed basic-livable income	

CMEA, tariffs, and an extensive social welfare program were all features of centrally administered socialism that could have been utilized to reduce substantially the cost of transition. What remained was the development of market relations in accordance with these socialist goals. In the transition to a market economy, the transition economies had to take advantage of any elements in the old system that were potentially conducive to successful operation within a new decentralized competitive market socialist system. In particular, the skills and the education of workers and their detailed knowledge of production processes might have been best harnessed by a system in which management remained more accountable to insiders than to external financiers.

Market socialism prescribed fundamental changes for transition economies in every area of the economic system—in property relations, radical transformation of the centralized management of the economy, fundamental changes in planning, reforms of the price formation systems and financial and credit mechanisms, and restructuring foreign trade. All of this had to be actively supported by government economic policy. The market socialist process of transition encouraged a great extension of social provision, broad popular participation in the whole decision-making process, and the creation of new organizational mechanisms of management, such as the self-management principle.

Socialism, as envisaged by supporters of the model, is able to provide economic growth and, equally importantly, higher forms of accountability than capitalism. This was what was so "special" about socialism. It was no longer central administration replacing the market, or state property replacing private property, or even a single party system replacing "bourgeois democracy." These were not characteristics of socialism but rather of Stalinism, which did not have any relevance to socialism. For market socialists, socialism was described as a system superior to capitalism because it was able to eliminate some forms of power, and, where power still existed, it could control it more effectively than under capitalism. Although capitalism had achieved both high efficiency and accountability, socialism could go even further. The fact that nonpluralistic socialism failed to achieve these goals was an argument against Stalinism, not against socialism.

Market socialists seek to achieve a higher level of accountability in six areas of relations that influence economic choices. First, the communist party, like all political parties, would be accountable to its members through pluralism and democratization of the party structure. It would be a truly political vanguard of the society. Second, governments at all levels would be accountable to the citizens they represented. Power would be transferred by the central bureaucracy to the union, republic, and local governments, and each would be given discretion over and access to its own financial resources. Accountability required that deputies of these governments would be elected in multicandidate elections, with candidates representing different interest groups competing in a democratic atmosphere. Elections would take place with secret balloting, and voters would retain the right to recall poorly performing deputies.

A third aim of the model was making members of the public service, including planners and administrators, accountable to the government and the people. This required ending the bureaucratic command-style methods of administration, cutting back the state bureaucracy considerably, and, at the same time, upgrading the qualifications of the personnel employed. Fourth, producers would be accountable to the citizens as consumers, through the market process. The market was seen as having been the most effective, democratic, and highest form of accountability with respect to economic management. Fifth, enterprise management would have to be accountable to the workforce through the electoral principle. This was necessary because income would be linked to the performance of the enterprise, and it would increase management accountability.

Finally, the sectoral and spatial distribution of investment would be subject to political pluralism, with a five-year national allocative plan. A link between the plan and pluralism was possible under socialism because of the absence of the concentrated capital, including international capital. The planning process would be facilitated by the democratization of the society, making the process one of negotiated coordination. The government would arbitrate during the decision-making process and then implement the decision at its own discretion. Implementation would be carried out under a process of openness and democratization, which would make each action of government officials accountable to the people.

Although the market socialist model aimed to reproduce the accountability of capitalism, it envisaged new forms of accountability. In particular it incorporated national allocative planning and workers' election of management, which had been inhibited under capitalism due to the power of domestic and international capital. One of the problems with a high concentration of private ownership in capitalist societies is the consequent influence on the political process. In the market socialist model, this was less likely to happen and also for the media to be influenced by particular interests.

Hence the market socialist reforms would have provided the basis for the development of a socialist ideology, which did not bear much resemblance to socialism as previously practiced. Like all ideologies, it advocated the establishment of a superior form of society. It borrowed methods and analysis from competing ideologies, particularly classical liberal and liberal interventionist concepts. The outcome would be different from all liberal as well as nonpluralistic forms. The model proposed a pluralistic society in which the forms of ownership would facilitate a level of accountability beyond the grasp of capitalist society. Such ideology is termed *socialist interventionism*, whereas the economic system is market socialism. Although it bears a close resemblance to the liberal interventionist model, it attempted to transcend the levels of individualism and accountability achieved so far in capitalist societies.

Although the idea of market socialism could be regarded as radical, people in transition economies were likely to be much more willing to endure sacrifices if the gains and losses during the transition were seen to be reasonably equitably distributed. The fact that a more equitable transition was more conducive to maintaining popular support meant that it also offered more hope for keeping up the momentum for a change within a context of political democracy. Kornai argued that, despite the historical failure of market socialism, the greater the difficulties encountered in the transition from socialism to capitalism, the greater the influence of market-socialist ideas tended to become (1993: 56). Yunker optimistically stated that people were aware of permanent economic injustices under capitalism and hopefully had a natural predisposition toward a sympathetic interest in socialism (1997: 326).

Nevertheless, the transition to market socialism required the development of a practical, workable form of socialism "to replace the misguided and half-baked proposals of the past" (Yunker 1997: 195). However, market socialism was and remains a hypothetical possibility, not only for transition economies but for anywhere in the world, because it has not yet been implemented anywhere. Economic analysis did not necessarily support the conclusion that market socialism *would* have worked better than capitalism; rather, that it *might* have worked better than capitalism (Yunker 1986: 679; 1994: 16). Consequently, the relative performance of market socialism was an empirical rather than a theoretical question. In response to this criticism, Yunker (1997: 143, 151) and Stauber (1977: 244) claimed that regarding the working of market socialism it would have operated "almost exactly" like contemporary capitalism. Thus, it is necessary to recognize that the socialist model developed in this paper for transition economies can be criticized by socialists as only making marginal gains from capitalism, which is quite the reverse of how the building of socialism has been defined historically. In defense of this approach, a minimalist process for the establishment of market socialism in transition economies has been adopted in this paper with the hope that it can become attractive to the citizens of transition economies. This approach is consistent with what Wright names "real utopias": "What we need, then are 'real utopias': utopian ideals that are grounded in the real potentials of humanity, utopian destinations that have pragmatically accessible way stations, utopian designs of institutions that can inform our practical tasks of muddling through in a world of imperfect conditions for social change" (1998: ix).

However, only an actual experiment with market socialism would have provided truly definitive evidence on its economic performance. But this did not appear possible due to the cry from CEEFSU of "no more socialist experiments on us," even though experiments could not have been avoided in any kind of transition to a market economy. It was Stalin who called on people to make sacrifices for the sake of socialism. The word "socialism" was discredited and brought bad memories to the people in CEEFSU. In transition economies there was a political fatigue; there had been enough societal experiments and there was no taste for new ones. People in the transition economies wanted a system that had proven its workability, independently of whether capitalism was good, bad, or indifferent.

The question then arises: To what extent was the proposed strategy of market socialism politically feasible? The dominant ideology imposed on transition economies was unfavorable to egalitarian alternatives such as market socialism. The kind of market socialism advocated here could only have been politically possible if a substantial section of state-owned firms had been maintained and political parties calling for a more egalitarian denationalization had possessed influence (Roemer 1994a: 127). In fact, there was strong evidence that, due to privatization, popular cynicism, and the lack of credible advocates of an alternative approach, the idea that market socialism as a viable option for transition economies "was effectively dead" (Weisskopf 1996: 282). Meanwhile, the IMF and World Bank's conditional loans, dominated by the free market ideology, were based on reducing government expenditure, social protection, and public investment; achieving a balanced budget; and applying the shock-therapy model. How then can the implementation of a gradualist approach by a few countries be explained? The promises of substantial funding never materialized, as the shock-therapy supporters noted as well. As a result, few of the transition governments, quite belated, ignored the recipe for shock therapy and chose to follow their own gradual capitalist course.

Today, more than a decade since the transition process was initiated, the Washington consensus has not produced the results that it promised. Although it might be argued that capitalism is firmly established in the transition economies, the culture and tradition of most of the people are rooted in egalitarianism, creating a favorable environment for the growth of the market socialist idea. Under these conditions, it is hoped that noncapitalist approaches might be considered as alternatives for transition economies; the minimalist approach presented in this paper attempts to provide a workable process toward market socialism.

Note

1. Due to space limitations, nonmarket socialist alternatives for transition economies are not considered in this paper.

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