

# **Ten Theses on Marxism and the Transition to Communism**

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Presentation to the Symposium

"Modernization, Globalization and China's Path in Economic Development

Hangzhou, China

July 5-7, 2002

## Introduction

The remarks that follow are not the work of a China specialist. I am a philosopher who has spent most of his scholarly life--from my days as a graduate student in the early 1970s to the present--grappling with one of the great lacunas in Marx's work. As everyone knows, Marx thought that capitalism will eventually be replaced by a higher form of society that will resolve humanity's economic problem. He characterized this ultimate *communism* in various ways: rather whimsically as a socio-economic order that allows us to hunt in the morning, fish in the afternoon, criticize after dinner, without ever becoming hunters, fishermen or a critical critics; more seriously, in accordance with the need for a compelling political slogan, as one that allows us to work according to our abilities and consume according to our needs; more philosophically, as one that reduces the realm of necessity to a minimum so as to maximize the realm of freedom. But Marx was no utopian dreamer. He knew that we would have to pass through a transitional stage to get from capitalism to this truly human society. This would be a stage marked by its origins, hence imperfect, even in theory, and yet capable of surmounting the fundamental contradictions of capitalism.

Well and good--but Marx never told us what this transitional society would look like. He

made suggestive remarks here and there, but he offered no blueprint, not even a rough sketch. I don't criticize him for that. Marx was too much the scientist to spend long hours speculating about things he couldn't possibly prove. There were no data. No great experiments had yet been undertaken.

This is no longer true. The twentieth century has witnessed a plethora of large scale socio-economic experiments--experiments with various forms of capitalism, experiments with various forms of socialism. Economic theorizing has also developed considerably since Marx's time. (There have been regressions as well, but that is another story, which need not concern us here.) Techniques of data collection have advanced enormously. My work over the past thirty years has involved sifting through the evidence, constructing a theoretical framework to make sense of it, and attempting to answer the question that Marx did not: What would a transitional economy from capitalism to communism look like? What would be its institutional structure?

I would like to take this occasion to summarize the results of this research, and to use them to reflect on the future of China. I beg your indulgence here. China is a vast and complicated society of 1.2 billion people. I am one person, not Chinese, not knowledgeable of the language, not a scholar of China. I have long been interested in the world-historic experiment that has been going on in this country for half a century, but this is my first visit. The theses that I will discuss here are general in nature, but they would seem to have implications for China. I will have occasion to suggest some. I offer these deductions as suggestions only, since I am in no position to make dogmatic pronouncements about the exceedingly complex developments now underway here.

Thesis One: The basic principles of historical materialism are correct.

I think it important to assert this basic claim. It has become an unquestioned axiom, at least in the West, that three factors--the collapse of the Soviet Union, the conscious attempt on the part of Eastern European countries to restore capitalism, and the widespread introduction of market reforms in the countries still calling themselves socialist--taken together constitute definitive proof that the basic tenets of Marx's theory of history are false. But if we actually examine these tenets, we see that recent historical events constitute nothing of the sort. Let me simply enumerate what I take to be the salient principles. The truth of these principles--or at least their enduring plausibility--should be obvious:

- # We are a pragmatic, problem-solving species, capable of inventing new solutions to pressing problems. We are a creative species. We learn from our mistakes.
  
- # We have over time, by means of technical and organizational innovation, increased both our power over nature and our capacity for species solidarity. Hence it is meaningful to speak of "progress" in human history.
  
- # This progress is not steady, but dialectical. Proposed solutions do not always work. Sometimes they fail dramatically. Even when successful, solutions to one set of problems often gives rise to new problems, which intensify over time, and hence call forth new solutions, "negations of negations" that do not return to the original position, but

represent a genuine advance.

- # Economic structures profoundly condition a society's political institutions, ethical values and cultural life.
  
- # Class struggle is endemic to class-based societies and has often been a decisive force for historical change. Individuals who stand in similar relations with respect to the means of production tend to have common interests, which they usually perceive to be universal interests. They try whenever possible to advance those interests. (Class contradictions, however, need not always be antagonistic; fruitful alliances are possible.)

I won't defend these principles here. Surely the burden of proof must lie with anyone who seriously disputes them. But if these principles form the constituent core of historical materialism, it should be obvious that the failure of the first great attempt to move beyond capitalism in no way refutes the theory. What is surprising is not the failure of the Soviet experiment but that fact that it was able to endure as long as it did in the face of such powerful and aggressive hostility. It shouldn't surprise us, either, that the Western powers worked mightily to insure that the Soviet system not reform itself into a more viable form of socialism.<sup>1</sup> (The West wanted a viable capitalism to replace Soviet socialism, but an economy in ruins was deemed preferable to a reformed socialism.)

Thesis Two: Marx's basic insights into the nature and dynamic of capitalism are correct.

Let me list what I take these insights to be. These are more controversial than the basic principles of historical materialism, but they are, in my view, equally valid.

- # Capitalism is a distinct form of human society, with a specific historical origin, that can be characterized by three dominant institutions: private ownership of means of production, the market, and wage labor. Wage labor--labor-power as a commodity--was the last to develop, and is the most important in determining the distinctive nature of the system.
- # Unlike earlier economic systems, capitalism is inherently dynamic rather than conservative, in that it provides maximal incentives, both positive and negative, for continuous technological and organizational innovation.
- # Capitalism is based on class exploitation. (I will elaborate on this point later.)
- # Capitalism is fraught with internal contradictions that intensify as the system matures.

Let me highlight four that I take to be central to our current global predicament:

Intractable Unemployment: Capitalism, although creating employment possibilities undreamed of by earlier societies, renders increasingly large masses of humanity "superfluous," i.e., unemployed. Capitalism's "invisible hand" cannot insure that sufficient employment opportunities will be created to absorb those "set free" from

production by technological change. Moreover--this is the system's dirty little secret--a healthy capitalism requires unemployment. For the threat of unemployment is the fundamental disciplinary mechanism of the system.

**Economic Instability:** Capitalism is haunted by the prospect of "overproduction," and hence, is prone to recessionary instability. Competitive pressure to keep costs low tend to hold down wages--the ultimate source of effective demand--while at the same time this pressure forces the introduction of ever more productive technologies. (From a systems-historical perspective, this sort of instability is most peculiar, since it arises not from externally-induced scarcity--war, drought, etc.--but from internally-generated surplus.)

**Poverty in the Midst of Plenty:** Capitalism's need for ever-expanding markets, coupled with the ever-increasing mobility of capital itself, give rise to desperate poverty in the midst of dazzling wealth, both in its core countries and in the world at large. Capitalism, despite its enormous productivity, cannot resolve the problem of global poverty. To the contrary, the problem intensifies as capitalism globalizes. The destruction of local agriculture and local enterprise frees more labor than the system can absorb. Lacking sufficient effective demand to stimulate the local economy, and plagued by ever more intense social pathologies, large regions of world--and significant sections of core-country populations--are abandoned to their own misery. (The income gap between rich and poor countries is estimated

to have been 3:1 in 1820, 11:1 in 1913, 60:1 in 1990, 74:1 in 1997.<sup>2</sup> The number of poor, living on less than one constant U.S. dollar a day, rose 25% between 1987 and 1999--a figure that would have been even higher had not China succeeded in reducing the numbers living in poverty during this period dramatically.<sup>3</sup>

Irrational Development: Capitalism's "grow or die" imperative inhibits the shift to an economy of more rational consumption, more leisure and more meaningful work, and puts increasing strain on the fragile ecology of the planet.

These specific contradictions form the ground of the system's ultimate contradiction:

- # Capitalism develops the technological and human preconditions for a truly free society, but such a society cannot come into being so long as the basic structures of capitalism remain intact.

(It does not follow that each and every society must pass through a capitalist stage.

Marx's insight is that capitalism, as a world system, makes possible for the first time in human history a world of peace and abundance, but that the very institutions that have created this possibility block its actualization. Each and every society need not pass through a capitalist stage, but post-capitalist societies must learn from the accomplishments as well as failures of capitalist societies.)

A final Marxian insight, already mentioned in my introduction:

- # To get from capitalism to this free and fully human economic order, societies must pass through an interim stage, a stage marked by its origins, but capable of surmounting the central contradictions of capitalism. (As is usually done in the Marxian tradition, we will call this stage "socialism.")

To this point I've done little more than state what every Marxist knows. Let me now advance to the more controversial theses, which, in my view, are fully consistent with the basic tenets of Marxism.

Thesis Three: We can now discern, more clearly than Marx possibly could, the institutional shape of the socialist "successor system" to capitalism, at least as an ideal type. It is appropriate to call it "Economic Democracy."

We can see, more clearly than Marx could, the institutional shape of a viable successor system to capitalism, because the century that has just come to an end has witnessed an extraordinary number of large-scale economic experiments. It has also witnessed considerable scientific analysis of these experiments. We are far better situated than Marx or Lenin or Stalin, or Mao to say what will likely work and what won't. As a pragmatic species, we learn from the successes--and the failures--of our predecessors.

For example, we can see now that a blanket rejection of "the market" is wrong. There are



various Left theorists today who insist that "market socialism" is a contradiction in terms, but their numbers are dwindling. For good reason. The evidence, empirical and theoretical, is compelling that

- # some form of market is necessary to coordinate, and correctly motivate, the vast number of economic decisions that must be made in a technologically advanced economy, and
- # there exists, at least in theory, an economically viable form of market socialism capable of overcoming the fundamental contradictions of capitalism.

Needless to say, it is the second of these claims that is most controversial today.

Demonstrating its truth has been the central preoccupation of my academic career.<sup>4</sup> I won't rehearse the full arguments here, but let me offer at least a sketch.

If it is not the market that is the most objectionable feature of capitalism, what exactly is most objectionable? To answer this question, we can do worse than turn to Marx himself. Let us recall Marx's critique, as presented in Chapter Seven of *Capital*, "The Labour-Process and the Process of Producing Surplus-Value." In this theoretically central chapter Marx assumes that the market is in equilibrium, and hence, prices are "right." He looks closely at a paradigmatic firm. He looks at a typical worker.

This worker, supplied with machinery and raw materials by a capitalist, works six hours. Marx calls these six hours "necessary labor," since the worker is in effect replenishing by his labor the labor that others have expended on him to provide him with food, clothing, shelter and other

necessaries of life. (The value created by this labor is precisely the value of his wage, which he will use to purchase these items.) Were he to stop working at this point, he would have given back to society the exact equivalent of what society has given him.

But the worker does not stop working at this point. He has been hired--as a wage laborer--for a day, and the working day has been set at twelve hours. Of course, the length of the working day is not a natural phenomenon, but the result of class struggle, as Marx makes abundantly clear. Be that as it may, the worker must abide by the terms of his contract and work an additional six hours. This six hours of "surplus labor" creates six hours worth of "surplus value," the source of the capitalist's profit. Marx designates the ratio of surplus labor to necessary labor, "the rate of exploitation."

The question to ask here is this: Why does Marx call the ratio of surplus labor to necessary labor a rate of exploitation? No economist, in his day or in our own, would deny that the "value added" by workers in production must exceed the wages paid, if a profit is to be made. But no non-Marxist economist, in his day or in our own, would call this discrepancy "exploitation." Why does Marx introduce a normative category here? What's wrong, ethically, with the process just described--which Marx sees (correctly) as the defining moment of capitalist production.

One thing is certain: Marx does not hold that the worker should be paid the full value of his labor. Marx does not think that the worker, under socialism, would in fact stop working after six hours. This he makes clear in his scathing critique of the Lassalleans in his Critique of the Gotha Program. If workers were paid the full value of what they added to the raw materials with which they worked, there would be no surplus available to provide citizens with "public goods"--

education, health care, and other free or subsidized cultural amenities. There would be no surplus available to maintain the people who cannot work. There would be no surplus available to devote to the scientific research necessary to enhancing our technologies and improving the quality of our lives. Indeed, it is precisely the magnitude of this "surplus value" that defines the degree of material freedom in a society--the real possibilities that lay open to it.

What then is the substance of Marx's critique? I submit that Marx's critique is, at bottom, a democratic critique. Although labor the source of value, those who create that value have little or no control over

# the conditions under which this value is produced, i.e., no control over their conditions of work, or

# the disposition of the surplus value created by their surplus labor.

Instead, this decisive control is exercised by the class that owns the means of production. It is the prerogative of the owners of means of production to determine the conditions of work and to determine what is to be done with the surplus.

If this is the substance of Marx's critique, how might it be addressed? How might a society be structured to avoid this two-fold democratic deficit?

The simplest solution, conceptually, is to institute a planned economy, where the planners are charged with acting in the interests of the working class. Both conditions of work and disposition of the surplus are to be determined by a party whose duty it is to advance those

interests.

This solution has been tried, and, although not without significant accomplishments to its credit, it has shown itself to be inappropriate for an economy that has reached a certain level of material and cultural development. This is the great lesson to be drawn from the failure of the Soviet experiment.

The correct solution, one fully compatible with a society of advanced technological and human capabilities, addresses the two elements of the Marxian critique separately.

- # To give workers meaningful control over their conditions of work, enterprises should be run democratically. Workers should have full authority to select their managers.
  
- # To give workers collective control over the disposition of the social surplus, investment should be socially controlled, and not left to market forces.

If these two imperatives are institutionalized, the economy can continue to function as a market economy. Enterprises compete with one another to satisfy consumers. Workers in a given enterprise receive, not contractual wages, but contractual shares (not necessarily equal) of their enterprise's profits. (Thus their incomes are determined by how successfully their enterprise performs in a market environment.) To be sure, the market will have to be regulated, for reasons well recognized by all reputable economists: to block monopolistic tendencies and to compensate for externalities and various other market failures. (Economist differs as to the seriousness of various forms of market failures and the efficacy of proposed solutions, but none pretend that an

unregulated market will produce an optimal allocation of resources in the real world.)

It is my contention that this model of socialism, a market socialism with worker-control of enterprises and social control of investment, is the logical successor system to capitalism. Of course, the model is stylized and highly simplified, as are all economic models, but it highlights the essential structural features of an economic order that is qualitatively different from both centrally-planned and capitalist economies. Let us call this "ideal type" Economic Democracy.

Economic Democracy is not only economically viable, but it is capable of overcoming the central contradictions of capitalism. It is a worthy successor to capitalism, an economic order that has outlived its world-historic progressive moment. I won't defend this claim here. As already indicated, I have done so at length elsewhere. Let me take a moment, though, to elaborate a little more on the defining institutions.

Workplace democracy is straightforward enough. Ultimate authority for the management of an enterprise should rest with those who work there, one person, one vote. Needless to say, in enterprises exceeding a certain size, some form of worker representation will have to be established, some sort of worker-council--the functional equivalent of a board of directors in a capitalist corporation--which will appoint the upper management and ratify major decisions. Among these decisions are those pertaining to inequalities of income within a firm. Since managers and skilled workers are free to seek work elsewhere if they feel themselves under-compensated, and since everyone's income is tied directly to the firm's performance, worker-representatives are motivated to make optimal tradeoffs. The consequences of bad decisions will be swiftly felt.

Social control of investment is a general requirement that can be institutionalized in a

variety of ways, depending on specific circumstances. Whatever the specifics, however, there must be two conceptually distinct institutional components to this feature, answering to two distinct questions: How are investment funds generated? How are investment funds allocated?

As to the generation of investment funds, it is essential--at least as an ideal to which a socialist society should aspire--to replace reliance on private savings as the source of investment funds with public savings, i.e., taxation. The national investment fund should be generated publicly, not privately. For economic reasons, the optimal tax is a flat-rate tax the capital assets of each enterprise. The capital assets of enterprises should be regarded as public property, to be leased to worker collectives. The tax is the leasing fee. (There is a strong affinity here with the Chinese household responsibility system in agriculture. The land remains the collective property of society, but families have long-term control over its use.)

For historical reasons, capitalism has relied on private savings to finance investment--these private savings being concentrated in the hands of the capitalist class. But as governments everywhere know, it is exceedingly difficult to control the quantity of such savings. Savers must be induced to save more or spend more, depending on economic conditions. This is not so easy to do--as Japan, for example has recently learned. When an economy slumps, many people feel the need to save more, so as to protect themselves from an uncertain future, whereas increased savings is exactly the opposite what an economic recovery requires. (By some accounts, China is also encountering this problem today. People are saving rather than spending; hence aggregate demand is suffering.)

If an economic system is to rely on public, not private, savings, it is imperative that it institute social programs that eliminate--or at least sharply mitigate--the need for individuals to

save. That is to say, the society must provide free health care, free education and decent retirement benefits for its citizens--traditional benefits associated with socialist and social democratic societies. If people must save so as to protect themselves from such life contingencies, it will be far more difficult to regulate macroeconomic variables than if private saving is largely incidental.

If investment funds are generated by taxation, the state has far more control over their allocation than if it must rely on indirect means. Private investors--especially the large, powerful ones--strongly resist allocational controls, since they feel that the money they wish to invest is theirs (which by law it is), and hence they should be free to invest it wherever and in whatever they choose, or not invest at all if prospects do not seem conducive to a maximal return. Governments under capitalism must, therefore, devise intricate systems of interest rates and tax incentives to "encourage" private investors to behave in ways that enhance the common good--systems that sometimes succeed, but often fail. It is far better to generate investment funds publicly, so that they can be allocated directly.

Tax generated funds should be allocated through a public banking system, according to criteria that will promote the common good. Needless to say, such criteria are not easy to devise, but there are good reasons for thinking (as I've argued elsewhere) that such a system can outperform a market allocation. (Market considerations will not be absent from the allocation procedure, but they should not trump all others.)

As an aside, let me note that there is little to be gained--and much potential for mischief--in setting up some sort of "socialist stock market" as an instrument for investment allocation. As Nobel Laureate Joseph Stiglitz has demonstrated, stock markets are useless as a mechanism for

rationally allocating investment funds. Bank allocation--although by no means trouble-free--is more likely to be effective.<sup>5</sup>

An exceedingly important function of this socially-controlled allocation is to provide for harmonious regional development. If capital is allocated by market criteria alone, it will inevitably flow disproportionately to regions already relatively plentiful in capital, at the expense of regions that are less so. (Neoclassical economic theory asserts the contrary, but the empirical evidence overwhelmingly confirms this pattern.) If regional stability is to be maintained and large scale population migrations averted, capital must go to where the people are, and not vice versa. Regions should not have to compete for capital. It should be allocated to them by a visible--and publicly accountable--hand.

What I have sketched so far is an ideal type. But anyone can draw up "recipes for cookshops of the future"--to quote Marx's sardonic phrase.<sup>6</sup> If one takes the basic tenets of historical materialism seriously, one must make the case that this particular "ideal type" is on the historical agenda.

Thesis Four: There are objective forces in the world pressing for reforms that move in the direction of Economic Democracy. There are no forces pressing for the wholesale elimination of the market.

This thesis consists of three distinct claims:

# There are forces pressing in the direction of workplace democracy.



# There are forces pressing for social control of investment.

# There are none agitating for wholesale elimination of the market.

The last claim is the most obvious. The market caters to consumers, and since everyone is a consumer, a pro-market constituency is enormous in almost every country. There exist no political movements of significance anywhere that are calling for the wholesale abolition of the market. In retrospect we can see that the early socialist experiments blundered mightily in eliminating markets altogether. The lack of consumer goods--which a market economy certainly would have supplied--was doubtless a key catalyst in cutting short the socialist experiments of the Soviet Union and Eastern Europe. The fact that every remaining socialist society has introduced market reforms should be regarded neither as a betrayal of principle, nor as proof that capitalism is inevitable, but as evidence that a viable successor-system to capitalism must be a market socialism.

Is workplace democracy on the historical agenda? There can be little doubt that "democracy" as a normative concept has shown itself over a long historical period to have energizing power. Western countries that began their experiments with political democracy more than two centuries ago have seen the steady expansion of formal rights to all the citizenry--to non-property holders, to women, and to ethnic minorities. These struggles have been mostly peaceful, but often intense. In other parts of the world we have observed a steady decline in personal and military dictatorships, since these have proved almost everywhere to be corrupt and inept. Where they persist, they lack legitimation, and must rely on the police and often torture to maintain their

hold on power. (Let me note that the category "personal or military dictatorship" is not meant to include one-party rule. It is by no means obvious that democracy requires multiple political parties. It may well be that the institutions of genuine political democracy can be developed within the framework of a single party.)

It is difficult to predict when an strongly articulated demand for workplace democracy will make itself felt in developed capitalist countries, but it is hard to imagine the demand being forestalled indefinitely. "If we are competent enough to elect our political representatives, why can't we elect our bosses?" Sooner or later, this question is bound to be asked.

In fact, the two central components of workplace democracy--profit sharing and worker participation--are already being promoted by Western management consultants and industrial relations researchers, since these elements, particularly when combined, produce a better motivated and more efficient workforce. As the evidence mounts that workplace democracy works in limited and extended forms, we can expect the demands for workplace democracy to become more insistent.

In socialist countries such as China, large numbers of experiments are underway with various forms of enterprise organization, many of which involve significant degrees of worker participation and worker self-governance. Even more so than in "democratic" capitalist countries the dominant ideology in socialist countries supports ever-increasing worker involvement in enterprise governance. It is hard to see how this trend can be reversed, apart from a regression from socialism to capitalism.

As to social control of investment, the series of financial shocks that have rocked the world over the last decade, from the Mexican "tequila crisis" to the East Asia debacle to the

current crisis in Argentina, have increased calls for at least some serious regulation of capital flows. The widespread protests against the WEF, the WTO, the IMF and the World Bank have given clear expression to the deepening sense that the great promise of free trade and free capital mobility was a false promise. Free capital mobility is making the world economy less stable and poor countries poorer. Although "reputable" voices are not calling for replacing private savings with public savings, or private investment with public investment, the appeal of deregulation is clearly losing ground. The great neoliberal experiment--although still strongly supported in policy-making circles--is running out of excuses. The invisible hand will not solve the world's economic problems. A more visible hand is needed. When economists of the stature of Joseph Stiglitz and Amartya Sen dissent from the dominant view, others can be expected to follow.<sup>7</sup> (This not to say that Western economists--other than a small minority--will any time soon call for an end to capitalism. Historical materialism is surely correct that the academic superstructure of a country is ultimately subservient to the economic base.)

There would seem to be a clear recognition in China that the state must play a major role in the allocation of capital if regional inequities are to be addressed and some sort of balance restored to economic development. The recent decision to invest massively in the infrastructure of the poorer regions evidences an understanding the freeing up market forces will not, in and of themselves, advance the common good. Tax-generated public funds are being allocated here according to non-market criteria. What the theory of Economic Democracy suggests is that publicly funded investments should not be confined to infrastructure, and that reliance on private investment should be kept to a minimum.

Thesis Five: There are two serious challenges that a society which has moved beyond capitalism to Economic Democracy will have to confront: 1) providing full employment and 2) motivating adequate "entrepreneurial" activity.

The theory underpinning Economic Democracy as a successor-system to capitalism makes it clear that even the form of socialism best suited to humanity's current level of development will not eliminate all economic problems. One will be particularly acute in the immediate aftermath of the transition (if the transition should occur abruptly), and will require considerable creative energy to resolve.

Unemployment is endemic to capitalism. It constitutes the fundamental disciplinary mechanism of the system. Capitalism must have unemployment, and, moreover, the condition of being unemployed must be sufficiently degrading that workers will submit to the rules imposed upon them at work. Of course, these rules vary from enterprise to enterprise, but all are shaped by the fundamental contradiction that lies at the heart of each and every capitalist firm: so long as labor power is a commodity, it is in the immediate interest of capital to extract as much labor from the workforce as possible for as little pay, and it is in the immediate interest of labor to secure as high an income as possible for as little work.

Economic Democracy dissolves this basic contradiction. By tying the incomes of workers wholly and completely to the profitability of the firm, a positive incentive replaces a negative one. It is in the interest of each and every worker to work efficiently, and to monitor her fellow workers. The threat of job-loss, although still present, loses its predominant importance. Sustainable full employment, impossible under capitalism, becomes possible.

Full employment has long been a socialist objective, and not without reason. Work is fundamental to a human being's sense of self worth. Since every living being is a consumer, every human being benefits from the labor of others. Self-respect demands that this labor be reciprocated. Moreover, it is through labor, as Marx clearly saw, that human beings exercise their faculties and develop their powers. (Not only through labor, but labor is a major medium.) Capitalism is incapable of satisfying this basic, universal, human need--the need for good work.

It does not follow that transcending capitalism guarantees a full-employment economy. One of the undeniably positive accomplishments of centrally-planned socialism was its ability to do just that--although at the cost of considerable "disguised unemployment" and considerable inefficiency. Full employment is more problematic under Economic Democracy. Democratic firms do not automatically take on new entries into the workforce, or those displaced from shrinking sectors of the economy. If anything, they are even more resistance to taking on new workers than capitalist firms, since both income and control must be shared with these new workers.<sup>8</sup> Economic Democracy does not require unemployment, as capitalism does, but it must still face the problem of creating jobs for all.

In my view, this problem is the paramount economic problem confronting contemporary China. There are no magic solutions. Theoretically, it is always possible to reduce the length of the working day until all surplus labor is absorbed, but in practice this solution is enormously difficult to implement.

One thing, however, should be clear. Transforming China from a socialist society to a capitalist one will not solve the problem. On the contrary, such a transformation would guarantee that the problem will never be solved. (This is not to say that there is no place in China for

capitalists. As my explication of Thesis Six will demonstrate, having capitalists in a socialist economy and transforming socialism into capitalism are two quite distinct matters.)

Although Economic Democracy does not automatically tend toward full employment, it is better positioned to solve the unemployment problem than is capitalism for two basic reasons. The first has already been noted. Economic Democracy does not require unemployment to keep its workforce in line. The second is social control of investment. Investment funds can be allocated so as to enhance employment creation, even if this comes at the expense of optimal efficiency. Needless to say, there is potential for abuse here, but this potential must be set against the terrible social costs of unemployment, particularly when it becomes endemic. Solving this problem may well be the fundamental task of socialism in the twenty-first century.

It should be noted that neoclassical economics--and experts blinded by the mathematical brilliance of the theory--will be of little use here. For example, many "experts" hold that if China is to continue to develop, it must reduce the size of its agriculturally-based peasant class as rapidly as possible. It is argued that the low productivity of agriculture, as measured by either technical comparisons with Western agriculture or the value of output per worker in comparison with other sectors of the Chinese economy, is a fundamental obstacle to growth. Neoclassical theory is often invoked to demonstrate that, if growth takes place, a Pareto-optimal increase in well being is possible, that is to say, that some people can be made better off without anyone being made worse off.

There are two problems with this argument. First of all, if raising the productivity of agriculture entails a massive increase in unemployment and large scale labor migrations, it is by no means assured that the net effect on economic growth will be positive. Neoclassical theory

assumes that workers will automatically find employment elsewhere. But as Joseph Stiglitz points out, "New jobs are not created automatically. Moving workers from a low-productivity sector to unemployment does not--let me repeat--does not--increase output."<sup>9</sup>

Secondly, even if growth should be positive, it is by no means assured that the general well-being of society will be enhanced. The neoclassical theorem shows that Pareto-optimality is possible, but it does not show that the fruits of increased growth will in fact be so distributed. It is equally possible--more likely in fact--that the benefits will accrue to those already better off, at the expense of those currently worse off. It might well be preferable for China to devise policies aimed at promoting the quality of rural life, so as to keep a large fraction of its population engaged in agriculture, rather than embracing the dogma that progress demands an urban/rural population distribution comparable to what is found in the West.

The second problem confronting a society that has made the transition to Economic Democracy should be less serious than the problem of unemployment, but not one to be ignored. It is the problem that took a heavy toll on centrally-planned socialist societies: the lack of entrepreneurial innovation. To be sure these societies, particularly the Soviet Union, made some impressive contributions to basic science, and to certain targeted projects--space exploration, for example. But the gap between socialist and capitalist countries in the development and distribution of new and better consumer products was glaring. Clearly, the early socialist experiments failed to find satisfactory substitutes for the innovative energy with which Marx himself credited capitalism.

This is not to say that alternative institutional substitutes cannot be found. Perhaps they can. The entrepreneurial activities associated with the Mondragon complex of cooperatives in the

Basque region of Spain have been impressive.<sup>10</sup> So too have been the accomplishments of Cuba's biotechnological industry, which is the most advanced in Latin America and leads the region in the production of pharmaceuticals and vaccines that are sold worldwide.<sup>11</sup> Moreover, it should not be forgotten that many of the most sophisticated technological innovations produced under capitalism have come from publicly funded research centers.

It should also be noted the peculiar entrepreneurial activity associated with capitalism--focusing as it does on the creation, production and distribution of new consumer products may be less important than the other kinds of creativity required by a post-capitalist society: new and better ways of providing public goods, or meaningful work, or a better balance between work and leisure, or more ecologically sustainable ways of living.

With these caveats in mind, we still must insist that a post-capitalist society should not be complacent about the level of entrepreneurial energy it generates, certainly not in a world still dominated by capitalist countries.

Thesis Six: Entrepreneurial capitalists may play a role in resolving these employment and entrepreneurial difficulties. Allowing capitalists to play such a role does not necessarily compromise the socialist character of a society.

In thinking about the role of capitalists under socialism, it is important to be clear as to the function of capitalists in a capitalist society. What exactly do capitalists do? Historically, capitalists have served three functions:



- # Capitalists have invented new production processes, new products and new ways of marketing. They have set up new enterprises. This is the entrepreneurial function of the capitalist class.
- # Capitalists have been the managers of enterprises. They have made the key decisions as to the operation of their firms, and supervised the implementation of their orders. This is the managerial function of the capitalist class.
- # Capitalists have provided investment funds to individuals wanting to start up new businesses, and to existing enterprises wanting to introduce new technologies or expand production. This the financial function of the capitalist class.

As capitalism has matured, these functions, initially combined in the person of "the capitalist," have become increasingly distinct. Of course, in many small businesses these functions remain united in the owner, but at the opposite end of the spectrum, the modern corporation, the capitalist as an active agent has been pretty much eclipsed. Entrepreneurial activity in a large corporation is undertaken at the instigation of management, often employing ideas from the firm's research and development department. The owners--the stockholders--play no part in this. Stockholders play no role in managing the corporation either. Managers, from top to bottom, are employees of the firm. Major stockholders are sometimes able to replace senior managers, who are held to be underperforming, but such actions are rare, and in any event they have nothing to do with the ongoing management of the firm. As for financing, funds for expansion come overwhelmingly from retained earnings, supplemented by bank loans and bond sales.<sup>12</sup> (Firms acquire cash from owners only when new stock is issued, which is not often. In recent years U.S.

corporations have bought back far more stock than they have issued, so that net equity financing has been negative.)

Let us ask another basic question: "What exactly is meant by 'a capitalist'?" Definitions here are important, particularly in a country like China, where until recently, to be a "capitalist" or a "capitalist roader" was to be an enemy of the people, whereas now capitalists are being welcomed into the Communist Party and awarded May 1st Labor Medals.

But what is "a capitalist"? Three different definitions are commonly employed.

- # A classical Marxist might define a capitalist as a person who hires wage laborers, supplying them with means of production and raw materials, to produce goods or services that will be sold on the market.
- # Alternatively, a Marxist might focus on sources of income, and define a capitalist as a person who derives enough income from his capital that he can live comfortably on that income without working.
- # A neoclassical economist will define a capitalist as the person who supplies capital to an entrepreneur, who will use these funds to rent space, hire workers and purchase the necessary equipment to produce marketable goods or services.

In considering the problems and possibilities of capitalists under socialism, the second definition is the most fruitful. The classical Marxist definition, although analytically central to our understanding the basic structure of capitalism, does not pay sufficient attention to the functional distinctions noted above. These distinctions, as we shall see, have important policy implications.

The neoclassical definition makes the important distinction between capitalist and entrepreneur, but the distinction is too sharply drawn to be useful in practice, since real-world entrepreneurs must have at least some capital of their own before they can get additional funding from the capital markets. Real world entrepreneurs are at least "petty capitalists."

If we are going to consider "actually existing capitalists," the second definition is the most promising. It picks out the class of individuals that most closely corresponds to the "ruling class" of a capitalist society. If capitalists are to play a role in a socialist society, we must concern ourselves with the danger that this class might come to constitute the ruling class, in which case the socialist society would be socialist no longer, but capitalist. Neither the classical Marxist nor the neoclassical definition is of much help in assessing this danger.

Before considering this danger, let us consider some of the benefits that follow from allowing some capitalism under socialism.

Not surprisingly, all significant benefits flow from the entrepreneurial function of the capitalist. Clearly we don't need capitalists to manage enterprises or to provide them with capital. (Non-capitalists have long managed enterprises in capitalist as well as socialist countries. Public savings can readily replace private savings as the primary source of investment funds.) It is the entrepreneurial function that is crucial. So let us analyze this function more closely. We begin by observing that there are in fact two kinds of "entrepreneurs" in capitalist societies, both of which are economically important.

First of all, there is the class of people that may be designated "petty entrepreneurs," the individuals who start up small businesses. Although it is relatively large and quite active, very little technical innovation comes from this class. The vast majority of new small businesses are

patterned on existing businesses: retail stores, repair shops, restaurants, and small-scale production or service enterprises. Setting up such businesses takes energy and skill, but little or no technical innovation.

Secondly, there is the class of "grand entrepreneurs," the great innovators, the founders of new industries, the economic "revolutionaries." These entrepreneurs gain access to large amounts of capital, and often take large financial risks. There are spectacular successes and spectacular failures. The spectacular successes often result in spectacular fortunes: we think of John D. Rockefeller, Andrew Carnegie, and Henry Ford, and of Ray Kroc (of McDonald's), Sam Walton (of Wal-Marts), and of course Bill Gates (of Microsoft.) Although such figures are rare, they embody, in the public mind, the image of "the capitalist."

In fact, such figures are not representative of the capitalist class, certainly not in an advanced capitalist society. These figures are grand entrepreneurs. Most capitalists are not. If we employ our preferred definition of capitalist, i.e., someone who can live comfortably solely on the income from his investments, we find that this category includes the "grand entrepreneurs," but also many other individuals as well, few of whom are entrepreneurial in any significant sense.

It is not hard to see why. In a capitalist society, money breeds money. Two million dollars in the bank, earning a mere 5% interest, yields \$100,000 per year (two and a half times the median family income in the United States)--more than enough to "live comfortably." This \$100,000 keeps coming in, each and every year, without any entrepreneurial ingenuity on the part of the depositor, indeed, without any effort at all.

In the United States there are one million or so households with assets in excess of two-million dollars. These households constitute a small class (our capitalist class)--one percent of the

population--but vastly larger than the class of grand entrepreneurs.

Since it is the entrepreneurial function that is important to socialism, it is important to distinguish the entrepreneur from the capitalist. On the one hand, most "petty entrepreneurs" are not true capitalists. They are employers of wage labor, but they have to work themselves--often long hours. They are not nearly rich enough to live off their holdings. On the other hand, most capitalists, at least in capitalist countries, are not entrepreneurs, petty or grand. They may well work. Most of them do, at least the working age men, and for high salaries. But the work they do is not particularly innovative or entrepreneurial. It is the kind of work many non-capitalist managers or professionals do.

Let us apply these distinctions to the question: What should be the role, if any, of capitalists in a socialist society?

If we think of Economic Democracy as the logical successor system to capitalism, it should be clear that there should remain a place for petty entrepreneurs under socialism. These individuals serve a useful function, and they constitute no great danger to the socialist character of the economy. Individually owned and managed small businesses can provide jobs for many people. As we have observed, the problem of providing jobs for all will not disappear under Economic Democracy. Ultimately, the government must function as an employer of last resort, but to keep this obligation manageable, it is useful to have a private sector of small businesses that can also provide people with employment.

The government can and should help small groups of workers set up cooperatives, but the fact of the matter is, it is more difficult to set up a cooperative than it is a "petty capitalist" business. The kind of initiative and skill required to set up a successful small business is in short

supply in every society today. (Witness the large numbers of small businesses that fail every year.) Those setting up a cooperative must possess the business skills of a petty capitalist, and the additional skills necessary for recruiting a congenial workforce with whom they will share control. Perhaps a time will come when these skills are so abundant that worker cooperatives will displace the petty capitalist small businesses altogether. But until that time comes, a petty capitalist sector should be permitted, even encouraged, in an Economic Democracy.

To be sure, the interests of the class of petty entrepreneurs will not coincide with the interests of their workers. And it will be a relatively large class. But this sector should be easy to control. Such businesses can be licensed and taxed. Workers can be encouraged to organize and bargain collectively. If necessary, limits can be imposed on the number of employees a petty entrepreneur can hire. Moreover, with most enterprises in the economy democratically run, petty entrepreneurs will be under constant pressure to expand the participation and profit sharing rights of their employees, which will more closely align the interests of the two classes.

What about grand entrepreneurs--real capitalists? The primary rationale for permitting a class of petty entrepreneurs to exist is employment creation, and the provision of services the need for which might otherwise go unmet. The primary rationale for permitting a class of grand entrepreneurs is technical and organizational innovation. It may be that the lure of great wealth is necessary, at least at a certain level of cultural development, to motivate the sort of technological innovation that is capitalism's pride and glory. I am not altogether persuaded of this, but it might be true. If so, it might be desirable to give scope to this motivation by allowing for some private ownership of large enterprises.

We should be clear here about the rationale, and about the danger. The rationale is not

employment creation. Large capitalist firms employ many people, but they also lay them off in large numbers. The technical and organizational innovation that is the hallmark of these firms is often oriented toward decreasing labor costs. This is not, in and of itself, a bad thing. In the long run, we want our society to produce its goods and services with less labor, so as to make more leisure available to all. But in the short run, the labor displaced by technological change places a burden on the state, particularly if the state is a socialist state, committed to full employment. We should not expect our large capitalist firms to absorb the labor that their technologies set free. Labor absorption will be the responsibility of democratic sector (with capital for expansion supplied by the public banks), the petty capitalist sector, and ultimately the state--as employer of last resort.

What we want our large capitalist firms to do is produce efficiently, and to innovate. Our large worker-run enterprises will have to compete with these firms, and so will be under pressure to innovate as well, or at least to be quick to copy the innovative strategies of their capitalist rivals. This is healthy competition, beneficial to the common good.

To what extent would the existence of large capitalist firms--and a class of capitalists who own them--present a danger to the socialist character of Economic Democracy? Perhaps none. So long as most enterprises are democratically run, this class may pose no threat. Rarely if ever do people relinquish their democratic rights without a struggle. It is hard to imagine wage labor being reestablished on a grand scale, once it has been largely eliminated.

Still, some controls might be in order, to check the potential ascendancy of the capitalist class. But what sorts of controls?

The distinctions developed earlier are suggestive. What is wanted is a set of rules that will

allow an entrepreneurial individual to employ his talents and resources in an active fashion, like an entrepreneurial capitalist under capitalism, but will block his ability to translate the wealth he acquires into assets that will reward him (and his heirs) indefinitely. That is to say, we want to confine our capitalists, so far as this is practical, to their entrepreneurial function.

Since in practice the entrepreneurial function requires managerial control, this control can be granted, so long as workers are allowed to form unions to protect their own rights. The financial function of the capitalist is another matter altogether. An Economic Democracy generates its investment fund from a capital assets tax. Capitalists are not needed to "provide capital." Public banks can provide financing for all enterprises, capitalist as well as democratic.

These considerations point to a fairly straightforward set of rules. The owner of a capitalist enterprise may at any time sell his enterprise--but only to the state. If he remains with his firm until the mandatory retirement age, he must sell it. The state can then either turn the enterprise over to the workforce, to be run democratically, or it can look for another entrepreneur to buy it. What a grand entrepreneur cannot do is maintain a claim--via stock ownership or any other mechanism--on the firm's profit stream, once he has ceased his active involvement with the firm.

These rules would prevent the class of grand entrepreneurs from evolving into a permanently entrenched capitalist class--a class of people whose wealth and position derive, not from on-going entrepreneurial activity, but from their passive ownership of means of production. These rules allow individuals to become rich, but they cannot translate their riches into permanent claim to a portion of society's surplus value.

It should be noted that since Economic Democracy's investment fund is tax generated, the



savings of the grand entrepreneurs are not needed for investment. Hence their incomes can be made subject to a significantly graduated income tax. The rates should not be so high as to discourage people from trying to become rich. (After all, it is precisely this motivation that we want to exploit.) But they can help keep the inequalities in check, and at the same time generate additional revenue for the investment fund.

I should emphasize that the specific policies suggested here are suggestions only, deriving from a consideration of a simplified model. The general conclusions I have tried to establish are these: A viable, democratic socialism should permit a petty capitalist sector to exist, and might even want to avail itself of the innovative potential of a full-blown capitalist sector. Both these sectors may require regulation, to prevent the interests of these sectors from becoming dominant and hence undermining the socialist character of society. Such regulation appears feasible.

Let me conclude this section by broaching another topic. You may have noticed that my discussion of capitalists under socialism has made no mention of stock markets. Let me mention them now--in a negative tone. The theory of Economic Democracy--and the empirical record of actually existing stock markets--suggest that these mechanisms have little to offer a socialist society. Stock markets were much in vogue among "transition theorists" a decade ago, who saw them as a way of addressing what many took to be the central problem of transition: clarifying property rights. Perhaps these theorists had a point--if the transition in question is a transition to capitalism. But if the transition in question is a transition to a more efficient and dynamic socialism, that is another matter altogether.

I don't mean to be dogmatic here. I am not an expert on stock markets, certainly not on Chinese stock markets. But the evidence is pretty clear that at least in an advanced capitalist

economy, stock markets do little to enhance the overall performance of an economy. Let me quote Stiglitz again:

Much of the activity in the stock market cannot really be explained by any rational behavior. It is what I have referred to elsewhere as the "rich man's horse track," or the middle class gambling casino. Since trading on the stock market is essentially a zero-sum game, it increases risk without on average increasing mean returns.<sup>13</sup>

Although in theory a stock market reveals information about an enterprise that might enhance rational capital allocation, in practice this information is of limited value, since stockholders have little access to the sorts of information that a rational allocation would require, and little motivation to seek it out. Moreover, stockholder fixation on profit reports motivate managers to concentrate on short-term results, and to manipulate the numbers when these results aren't good--activities that investors in the United States have suddenly become acutely aware, as scandal after scandal unfolds.

Stock markets arose in capitalist societies, under specific historical circumstances, to make it easier for private savings to be mobilized for investment. But Economic Democracy does not rely on private savings for investment, and therefore has no need for what is in fact an anachronistic mechanism--one that might play a role in a regression from socialism to capitalism, or perhaps even a transition from capitalism to socialism, but unnecessary to socialism itself.<sup>14</sup>

Thesis Seven: There are additional problems that must be faced by a society that is trying to bypass the stage of capitalism so as to reach Economic Democracy, among the

most serious, 1) raising the cultural/educational level of the population so that worker self-management and democratic control investment is viable and 2) developing the productive forces of society so that the basic needs of everyone for health care, education, and old-age security can be met.

My discussion here will be brief. The problems of unemployment and (perhaps) an insufficiency of economic innovation are problems a society would have to face, even if it reached the state of Economic Democracy. But there are preconditions that a society would have to attain before the structures of Economic Democracy, if put in place, could be expected to yield optimal results. Let me discuss two such preconditions.

The first has to do with democracy. The economic structure of Economic Democracy has workplace democracy as its centerpiece. In most enterprises ultimate authority over the management of the enterprise rests with the workers who work there. Management is not appointed by the state, nor by stockholders, nor is it exercised directly by a private owner. Management is selected by the workforce, either directly or by a representative worker council. The question of course arises: Are workers competent to select good managers?

The general answer to the question is "yes." There have been many experiments with, and many studies of, worker-run enterprises, at least in the West, and the results have been overwhelmingly positive. However, in a poor country, particularly one in which workers are uneducated and/or have little experience with democratic procedures or a market economy, worker competence might be more problematic. The transition might best be phased in gradually, with education provided that focuses on developing the skills and values necessary to functioning

effectively as a worker-self-managed collective. This period of tutelage need not be long. We should remember that the question of competence has always arisen whenever the democratic franchise has been extended to people previously disenfranchised. Rarely, if ever, have the doubts proven to be well-founded. In general, one becomes competent at the practice of democracy by practicing it.

The second precondition has a less obvious connection to the internal structure of Economic Democracy. That everyone should have free access to health care, education and decent retirement benefits has long been a demand of socialism--a demand that has come close to fulfillment not only in centrally-planned socialist societies, but also in social-democratic ones. (Not, however, in world's dominant capitalist country--to our shame.) There has also been regression in countries that have moved away from central planning--terrible regression in the countries of the former Soviet Union and most of Eastern Europe, but regression as well (I'm given to understand) in China. This should be a matter of serious concern, in its own right, but also for a structural economic reason that was mentioned briefly in the discussion of Thesis Three: economic insecurity makes it difficult to move away from private savings as a significant macro-economic variable.

As Keynes has made clear, a capitalist economy always runs the risk that savings will outstrip investment. Since savings are, in and of themselves, a subtraction from aggregate demand, and since it is aggregate demand that drives the economy, these savings are always dangerous--although also necessary, since these savings constitute a capitalist society's investment fund. Economic Democracy does not rely on private savings to fund investment, and so private savings are unnecessary to the overall health of the economy. They remain, however, a danger.

In small enough quantities they pose no threat, and indeed can be useful in funding an expansion of consumer credit.<sup>15</sup> In large amounts they can be detrimental.

But if people face fundamental uncertainty as to their economic security, they will tend to save a disproportionate amount of their incomes. Thus it is advantageous, economically, to reduce that fundamental uncertainty as much as possible.

Therefore, it should be a fundamental aim of any society making a transition to socialism to maintain and even enhance people's access to decent health care, education and retirement benefits--as socialist values in their own right and as a means to keep down the level of private savings. (This is not to say that the overall savings rate of society should be low. Tax-generated investment funds constitute public savings. This quantity can be as high or as low as deemed necessary.)

Basic health care, education and pensions should be funded from general tax revenues. They should not be the responsibility of individual enterprises, for that would put those firms that are generous at a competitive disadvantage vis a vis those that are not, and, moreover, it would make a firm's failure a far more serious event, in human terms, than it would otherwise be. (In a genuinely competitive economy, some firms will fail. In a socialist society that has assumed the responsibility of insuring jobs for all its citizens, the temptation will be ever-present to loosen the hard-budget constraint and bail out such firms. In general this temptation should be resisted--but this is particularly hard to do when workers' health care and retirement benefits are also at stake.)

Thesis Eight: Foreign capital may play a positive role in the transition to Economic Democracy.

If an economy were structured as a pure model of Economic Democracy, there would be little room for foreign capital in the economy. Foreigners could not buy domestic firms. These firms belong to the society as a whole, and are not for sale. They could not buy shares of firms, for there exist no ownership shares. They could not loan money to firms. Firms obtain their financing from public banks. The only entity authorized to borrow on the international capital markets is the government itself. Presumably it would be cautious in doing so.

It should be recognized that borrowing always carries with it a danger. Common sense is not always a good guide to economic rationality. (Common sense does not suggest deficit spending in times of recession. It took a Keynesian revolution to drive home that maxim.) But common sense is correct in this instance. If borrowed funds are invested domestically so as to enhance future productivity, and if the productivity gains are sufficient to repay the loan with interest, well and good. Borrower and lender both benefit. But it is not easy to ensure that borrowed funds will be properly invested. It is easy to spend money. It is not so easy to spend it wisely.

In general it is not hard for governments to borrow money. The risk to the lender is relatively slight. Although not the iron-clad maxim it was once thought to be, governments (almost) never go bankrupt. If the funds are invested badly, they will still be repaid with interest. The populace will simply have to be squeezed, something governments generally have the power to do--and will be pressured to do by the international agencies and creditor nations involved.

The least problematic reason to seek foreign capital is technology transfer. To this end joint ventures should be the preferred option. If foreign companies will agree to implement

technologies that are unavailable locally and difficult to acquire otherwise, and to train local people in their use, it is reasonable to grant them a share of the profits to be obtained from the business. There is minimal risk in doing so.

Borrowing so as to be able to import technically advanced equipment is also reasonable, although the dangers are more serious. It is one thing to pay for such imports with export revenues. Borrowing is riskier. As indebtedness mounts, so to do the interest payments, which begin to compound if the investments have not been as productive as they were expected to be.

The most problematic influx of foreign capital is finance capital--investments in real estate and in local stock markets. International financial markets are notoriously unstable. A fundamentally irrational "herd mentality" prevails, which has been well documented.<sup>16</sup> This irrationality can be destructive--but tempting as well, since in the beginning the consequences are benign, even thrilling. Asset prices soar--for no good reason, apart from the fact that outside investors want them. Fortunes are made. Business is buoyant. Enterprises and individuals borrow excessively, spend excessively, invest excessively. Then the bubble bursts, as all financial bubbles do, dragging down healthy companies as well as weak ones.

Thesis Nine: Trade can and should continue under Economic Democracy, but such trade should not be "free" trade.

How should a socialist society interact economically with the rest of the world, assuming that a large part of that world is capitalist? Let us consider certain basic principles derived from the theory of Economic Democracy.

Economic Democracy in its pure form differs internally from a capitalist economy in that it replaces wage labor with worker-self-management and capitalist financial markets with social control of investment. In effect, a capitalist economy employs three markets--a commodities market, a labor market and a capital market, whereas Economic Democracy employs only one--the commodities market. Implicit in the judgement that the labor and capital markets should be curtailed under socialism is the assumption that not all forms of competition are good. More specifically, it is assumed that:

- # Competition among commodity-producing enterprises is generally a good thing.
- # Competition among regions to attract capital is generally not a good thing.
- # Competition among workers to offer the most work for the lowest wage is generally not a good thing.

The structures of Economic Democracy are designed to embody these principles. In an ideal socialist world, these principles would apply globally as well as at the national level. Some alternative mechanism would be employed to allocate capital globally. International wage competition would be blocked. But we are assuming here that our Economic Democracy is embedded in a largely capitalist world. How would the basic principles apply in this instance?

The first principle implies that the country would trade with these capitalist countries, rather than cut itself off and attempt an autarchic developmental strategy.

The second principle is consistent with the analysis of the preceding thesis. Economic Democracy should not try too hard to attract foreign capital, although such capital need not be



excluded altogether. Foreign capital may be permitted a role in the economy, but a restricted one, with the emphasis being on technology transfer.

As for the third principle: If a socialist country is poor, its primary comparative advantage may well be the low incomes of its workers. It may be worthwhile to exploit this advantage, but only as a temporary strategy. Since the world contains a near-infinite supply of cheap labor, socialist values rule out competing with this cheap labor as a long-term strategy. Such a "beggary-neighbor" strategy harms all poor countries in the long run--and requires keeping the incomes one's own export-sector workers low.

Although socialist principles do not preclude trade with capitalist countries, they do make one wary of wholly free trade. Western economists are incredibly proud of Ricardian trade theory, the famous theory of comparative advantage, since it is, as Nobel Laureate Paul Samuelson once quipped, one of the few principles of modern economics that is both true and non-obvious. Free trade, the theory purports to demonstrate, is always mutually beneficial, even if one country is more productive than the other in every area.

Unfortunately, as Samir Amin and others have repeatedly shown, the theory is not true.<sup>17</sup> Among other things, it is based on the assumption that workers can smoothly shift to sectors in which they that have comparative advantage from sectors where comparative advantage is lacking. Marx's observation is vastly more realistic. He quotes from the Governor General's Report of 1834-35 on the effects of imported British textiles into their colony: "The misery hardly finds parallel in the history of commerce. The bones of the cotton weavers are bleaching the plains of India."<sup>18</sup>

I sometimes think that this quote should open every academic and political discussion of

free trade. It certainly points to the greatest danger that free trade poses to a poor country-- which is what makes China's entry into the WTO particularly worrisome. Poor countries must be exceedingly careful about opening their markets to rich countries, particularly when the sectors likely to be most vulnerable employ large numbers of people. There is nothing in the nature of the free market's "invisible hand" that guarantees a balance between jobs lost in these sectors and jobs created in the export sectors.

Thesis Ten: The transition to Economic Democracy, from either capitalism or a current form of socialism, will be a peaceful transition. The age of "socialist revolution" is over--but the age of socialism is just beginning.

This thesis is, of course, highly speculative. There is no "science of history" that permits apodictic certainty. Nevertheless, there are good reasons for thinking that the future of socialism is brighter than most people (even on the Left) presently imagine.

One reason for Left pessimism is the tendency to conflate the advent of socialism with "revolution," where the latter term conjures up images of workers storming Winter Palaces and peasant armies sweeping all before them. The conflation is not unreasonable, given the history of the past century. Marx and Engels might have envisaged a peaceful, democratic transition to socialism, at least under certain circumstances, but no such transition has ever occurred. The only transitions to socialism in the twentieth century have come about through the force of arms.

But socialist revolutions of the violent, insurrectionary sort that marked the twentieth century are now anachronistic. Therefore, if we conflate the advent of socialism with socialist

revolution, we (on the Left) are bound to be pessimistic.

Why do I say that socialist revolution is no longer on the historical agenda? Because I am an historical materialist. As all historical materialists know, technology matters. I am convinced that technological developments have rendered socialist revolutions of the classical form obsolete. I doubt that we will ever see another. If one such should occur, it will be in a poor, war-ravaged country on the periphery of the world economy, and will be of little historical significance. Unless much else in the world has changed by then, it will have little chance of realizing its goals or of even surviving.

Let me develop this argument further. As is always the case, technological causation is mediated by other factors.

In the final analysis, the socialist revolutions of the twentieth century all have their roots in the devastation of internecine great power warfare--warfare among powerful capitalist nations that spilled over into other parts of the world. (The Cuban Revolution stands as an exception to this rule, for reasons we need not pursue here.)

There will be no more such wars. Our technologies are now too powerful. A full scale war between major powers would be suicidally destructive and the ruling classes of all the major powers know that. There is no longer any plausible economic gain to be had from such warfare. It is also the case that the political and ideological superstructures of advanced capitalism no longer support such warfare. Ruling classes can garner support for short wars against weak opponents, but they are no longer able to mobilize popular sentiment for a large scale war that would involve large-scale casualties on the part of their own forces. (Humanity owes a great debt to the Vietnamese people--and to the anti-war movement that their heroic struggle inspired--for

this permanent restraint.)

It remains true that conditions in many poor countries breed insurrectionary sentiments and armed opposition, but there no longer exists a superpower willing to aid such insurrectionary movements in coming to power, and, if they succeed, to supply them with material and technical assistance, and protect them from counter-revolution. Without such assistance, the technologies of counter-revolution--which will be made available to groups that want them--will prevail.

We should not lament the fact that socialism can no longer come to power through force of arms. It cannot be denied that violence has sometimes been liberating--but it cannot be denied either that such violence has often taken a toll on the victors, hardening them, making them too ready to impose force on domestic critics who have raised legitimate objections to ill-conceived policies. It should be clear now that the educational and institutional infrastructure necessary to sustain a viable contemporary socialism must be constructed painstakingly over time, and under conditions of peace and trust, not war and suspicion. (I don't mean to suggest that these ideal conditions will ever be fully attained, but they need to be approximated.)

If socialist revolution (in the classical sense) is no longer on the historical agenda, it does not follow that all is well with capitalism. Quite the contrary. Capitalism, as a creative force, has pretty much exhausted itself. There have been numerous "experiments" in the twentieth century with forms of capitalism that deviated from the laissez-faire model that was dominant until the Great Depression. None has proved capable of resolving the basic problems identified so long ago by Marx. All exhibited some initial success, but all developed internal contradictions that have proven insuperable. The twentieth century has witnessed experiments with fascist capitalism, semi-fascist military-rule capitalism, social-democratic capitalism, and variations on

Japanese authoritarian-communitarian capitalism. None of these models looks promising today. The first two have been wholly discredited, and the latter two are in crisis. Today the gospel of neoliberalism is preached to all nations as the path to salvation, but that model, where it has gained political ascendancy, has delivered little of substance, and has usually made bad situations worse. (That this should be so is not surprising, since neoliberalism differs little from laissez-faire capitalism, the failure of which set off the search for alternative forms of capitalism in the first place.)

Capitalism's exhaustion has been little remarked in intellectual circles, yet it hard not to notice the dearth of bold, new ideas for social or economic reform coming from the advanced capitalist parts of the world these days. Our best social-democratic economists and political theorists are good at debunking the neoliberal theology, but they have no energizing alternative vision to put forth. Our economies continue to produce new toys, some of them quite impressive, but these have not made us happier or more secure. (I'm speaking now as a citizen of an advanced capitalist country.) In spite of our astonishing wealth, we are not embarking on new crusades to end poverty, not even at home, much less in the world at large. We are not dancing in the streets, exultant about our victory in the Cold War, or even (we Americans) about our overwhelming military preeminence. Instead we are hunkered down and fretting about "terrorism."

If the human species is indeed the creative species posited by historical materialism, this situation will not endure. The forces specified in Thesis Four will grow stronger. Demands for more workplace democracy and more social control of investment will begin to make themselves felt. In capitalist countries these demands, coupled with demands for a reform of the political

process itself, will be raised by progressive forces, operating within the constraints of liberal democracy. The transition to Economic Democracy from advanced capitalism, if it takes place, will be marked by reforms aimed at advancing this agenda. (The transition to full Economic Democracy--to a true socialism--may well require a major economic crisis as its spur. Such a crisis is quite imaginable, perhaps even likely, given the fragility of the current global financial architecture. To what extent progressive forces are prepared to act creatively in such an event remains to be seen, but the more reforms in place prior to the crisis, the better the chances for a positive outcome.)

The theory of Economic Democracy suggests that the transition to Economic Democracy would be easier if the country in question were already a socialist state, and did not have to contend with the deeply entrenched power of a longstanding capitalist class.

### Concluding Remarks

If the twentieth century was America=s century, the twenty-first may well be China=s. But not for the same reasons. Even if China=s GDP should overtake that of the United States--which is certainly possible--its per capita income will never approach what Americans currently enjoy. The ecology of our planet is not capable of supporting that level of consumption. This fact need not be regarded as a bitter fact. Human flourishing does not require the extravagant consumption to which the advanced capitalist countries have become addicted.

China will never surpass the United States in military might either. The gap is too large, and besides, it would be pointless to compete with the United States in this domain. As the

Soviet Union learned, an arms race can be draining, and, as America is learning, military supremacy counts for little in the modern world. The United States may be more arrogant now than ever before, but the quality of life for U.S. citizens is certainly no higher than it was prior to the events of 1989-91, nor are we happier.

The twenty-first century will be China's if its audacious experiment in market socialism with Chinese characteristics is successful. If China is able to perfect the mechanisms required for a genuinely democratic, worker-self-managed socialism, the example will be even more inspiring than was the example of the Soviet Union, which, for all its flaws, remained potent for half a century. The wretched of the earth are desperate for a viable developmental strategy. Workers in advanced capitalist countries, everywhere on the defensive, might well be energized to press for a rational and democratic economic order of their own--a market socialism with, say, German or French or Italian or Swedish or British or Japanese or American characteristics.

Such a future is possible, but it may not come to pass. A very different future is also imaginable. Market socialism with Chinese characteristics might evolve into capitalism with Chinese characteristics. Many observers think this has already happened. The theory of Economic Democracy inclines one to think otherwise--although it by no means precludes the possibility.

What would it mean for China to become a capitalist country? What criteria should we use to determine whether or not it had? Marxism suggests criteria of two types, both of which are plausible. The first focuses on the dominant class's relation to the means of production. According to this criterion,

- # China will be a capitalist society if its dominant political class succeeds in reorganizing the economy so that their positions are secure in virtue of their private ownership of the means of production.

The most effective means for making such a transition would likely involve privatizing state and township enterprises by transferring ownership shares to managers and workers, and then allowing these shares to be sold. Most workers will, in due course, sell their shares, thus allowing them to concentrate in the hands of a small class that has access to finance, i.e., to well-placed members of the politically dominant class or to successful entrepreneurs.

The second type of criteria focuses on the interests of the dominant class. According to this criterion,

- # China will be a capitalist society if the politically dominant class sees the general interests of society as congruent with the objective interests of the capitalist class, specifically, those interests that are at variance with the interests of workers and peasants.

If the Chinese ruling class should decide that wages need to be kept low so as to insure international competitiveness, that wide-spread unemployment must be tolerated so as to keep the workforce disciplined, and that entrepreneurs should be given maximal freedom to invest wherever opportunities for profit most promising, then China would be well on its way to becoming a capitalist society--whatever the technical relationship of its ruling class to the means of production might be. If these decisions become institutionalized, the transition to capitalism



will be complete.

What would be the results of a capitalist restoration in China? Given our theoretical understanding of the laws of capitalism, as confirmed by historical experience, we can safely predict:

- # Widening regional disparities--and heightened regional tensions.
- # Massive population migrations--and attendant social dislocation.
- # Significant sections of the population living in conditions of permanent destitution and despair.
- # Ever increasing consumption as the dominant goal of development.
- # Ever increasing ecological devastation.
- # A depoliticized citizenry, at once cynical, apathetic and easy prey to ethnic demagoguery.

Needless to say, such a development would be tragic for China. It would be tragic for humanity. It need not come to pass. There is class struggle going on in China right now--as there always is and always will be, at least until the stage of full communism is reached. At this historical juncture, it would appear to be a muted, covert struggle, mediated by a state--and a party--that has significant room to maneuver.

Since I am a philosopher, not a soothsayer, I will not attempt to predict the outcome of this struggle. I can only join you in hoping that the true, long-term interests of the working class--and of humanity--will prevail.

## Notes

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1. See Peter Gowen, "Western Economic Diplomacy and the New Eastern Europe," *New Left Review* (July-August, 1990): 63-84.
  2. United Nations Development Programme, 1999 (Oxford University Press, 1999), p. 3.
  3. World Development Report (World Bank, 1999), p. 25.
  4. *Against Capitalism* (Cambridge University Press, 1993) has just been translated in to Chinese, and will be published by Renmin University Press shortly. My new book, *After Capitalism* (Rowman and Littlefield, 2002) is scheduled to appear this month.
  5. Joseph Stiglitz, *Whither Socialism?* (MIT Press, 1994), p. 92ff.
  6. Karl Marx, *Capital*, Vol. 1 (International Publishers, 1967), p.17.
  7. For a particularly scathing attack on "market fundamentalism," see Joseph Stiglitz's most recent book, *Globalization and Its Discontents* (W.W. Norton, 2002). Stiglitz's critique has unique weight, since he is not only a Nobel Laureate in Economics, but also former Chief Economist of the World Bank and, prior to that position, the chairman of President Clinton's Council of Economic Advisors. Sen, also a Nobel Laureate, has been a long-time critic of unbridled faith in free markets. For a recent statement, see his *Development as Freedom* (Alfred A. Knopf, 1999), Chapter Five.
  8. This feature was highlighted in the first formal model of worker-self-management, Benjamin Ward's "Market Syndicalism," *American Economic Review* 48 (1958): 566-89. A large literature developed in response. For a contemporary technical discussion, see Bruno Jossa and Gaetano Cuomo, *The Economic Theory of Socialism and the Labour-managed Firm* (Edward Elgar, 1997), p. 164ff. For a less technical discussion, see *Against Capitalism*, pp. 88-98.
  9. Joseph Stiglitz, "Two Principles for the Next Round, Or, How to Bring Developing Countries in from the Cold." Address given in Geneva, September 21, 1999. Text at [www.worldbank.org/knowledge/chiefecon/articles/geneva.htm](http://www.worldbank.org/knowledge/chiefecon/articles/geneva.htm).
  10. Roy Morrison emphasized this dimension of the Mondragon experiment in his *We Build the Road as We Travel* (New Society Publishers, 1991.) For more recent information on this remarkable "cooperative corporation," now employing some 47,000 workers, with joint ventures in some twenty countries (including China), see George Cheney, *Values at Work: Employee Participation Meets Market Pressure at Mondragon* (Cornell University Press, 1999) or visit their

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website at [www.mondragon.mcc.es](http://www.mondragon.mcc.es).

11. See Michael Kranish, "In Cuba a Biotech Revolution," *Boston Globe*, May 17, 2002 for an overview. For more details, see Ernesto Mario Bravo, *Development within Underdevelopment? New Trends in Cuban Medicine* (Havana, 1998).

12. Stiglitz notes that "there is by now quite strong evidence that equity markets account for a relatively small fraction of new capital raised in almost all countries." *Whither Socialism?*, p. 95.

13. *Whither Socialism?*, p. 95.

14. For a discussion of the role of stockmarkets in the movement from capitalism to socialism, see Robin Blackburn, "The New Collectivism: Pension Reform, Grey Capitalism and Complex Socialism," *New Left Review* (January/February, 1999). See also David Schweickart, *After Capitalism* (Rowman and Littlefield, 2002), Chapter Six.

15. I discuss the matter of "Socialist Savings and Loan Associations" in *After Capitalism*, Chapter Three.

16. See Robert Shiller, *Irrational Exuberance* (Princeton University Press, 2000.)

17. See Samir Amin, *Unequal Development: An Essay on the Social Formations of Peripheral Capitalism* (Monthly Review Press, 1976), p. 133ff.

18. Karl Marx, *Capital*, Vol.1 (International Publishers, 1967), p. 432.