

# The economics of 'Feasible socialism'

## Introduction

In the last century, revolutions took place in various countries (e.g. the Soviet Union, China, Cuba) that resulted in an economic system based on central, directive planning and nationalization of the (industrial) means of production, in short in a (bureaucratic) planned economy. The idea that underpinned the planned economy has its origins in the thinking of Marx and Engels. They saw this as the means to overcome the 'anarchy of production and the market'.

For example, they both wrote in *Manifesto of the Communist Party* (1848, p. 48): 'The proletariat will use its political supremacy to wrest, by degree, all capital from the bourgeoisie, to centralise all instruments of production in the hands of the State, i.e., of the proletariat organised as the ruling class (...)'.<sup>1</sup> In *Socialism: Utopian and Scientific* (1880) Frederick Engels wrote: 'With this recognition, at last, of the real nature of the productive forces of today, the social anarchy of production gives place to a social regulation of production upon a definite plan, according to the needs of the community and of each individual' and 'With the seizing of the means of production by society, production of commodities is done away with, and, simultaneously, the mastery of the product over the producer. Anarchy in social production is replaced by systematic, definite organization'.<sup>2</sup>

Is there anything to be learned for (democratic) socialists who are seriously interested in a socialist alternative to the capitalist consumer society, from the experiences of central, directive planning in countries such as the Soviet Union? Alec Nove (1915-1994), economist and internationally renowned in the field of the economic history of the Soviet Union and its satellite states such as the GDR, Poland or Hungary, thinks so. Nove has extensively analysed the problems of the bureaucratic planned economies, especially those of the Soviet Union, and has used the results to provide an outline of a so-called 'feasible socialism'; in particular, of the political-economic institutions in a 'feasible socialism'.

A more or less detailed outline of a 'feasible socialism' is *hic et nunc* more than desirable. Anyone surveying the European and American political landscape today – late December 2023 – can only conclude that a significant part of the population has lost faith in the political centre (centre-right; centre-left) and is seeking refuge on the right flanks of the political spectrum. Paradoxical as it may sound, the circumstance that part of the population is pinning its hopes on the (radical) right wing of the political spectrum also provides opportunities for the radical-left part of the political spectrum. After all, there appears to be a need for a *radically different sound*. This is not the place to delve deeper into the question of what all is needed to increase confidence in a radical-left sound. But one ingredient is indispensable: a more or less detailed outline of a *realistic* socio-political alternative, in which political and economic empowerment is central.

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<sup>1</sup> Karl Marx, Frederick Engels. *Manifesto of the Communist Party and its genesis*. Available from: <https://www.marxists.org/admin/books/manifesto/Manifesto.pdf> [accessed 14 February 2024].

<sup>2</sup> See part III [Historical materialism] in Frederick Engels, *Socialism: Utopian and Scientific*. Available from: <https://www.marxists.org/nederlands/marx-engels/1880/utopie/5.htm> [accessed 31 December 2023].

Realistic here means, among other things:

- Acceptance of the premise that scarcity of resources is a permanent feature and therefore necessitates economic-political choices,
- Money continues to function as a means of circulation,
- A socialist alternative reflects *in relative detail* how economics and politics would function, and
- There is a reasonably good chance that this socialist alternative is acceptable to the majority of the population (60 to 70%).

A socialist alternative might appeal first to the more radical parts of the climate movement. More radical parts refer to those groups within the climate movement that advocate for systemic change, in particular those that want to link climate action with class struggle and less so those that focus on 'consumerism'.<sup>3</sup> But it is entirely possible that other parts of the climate movement may become radicalised if 'climate change' increasingly causes social and environmental problems, making them more receptive to a socialist alternative. Other social movements, such as the trade union movement, may also become more open to a socialist alternative when the more radical parts of the climate movement form coalitions with them, combining climate demands with social demands. An example of linking social demands with climate requirements could be on the one hand, heavily taxing millionaires and billionaires heavily because they contribute extremely to climate change and do not perform productive labour, and on the other hand, drastically reducing income differences, with the least-earning earner having no less than, for example, 16% of the highest-earning earner.<sup>4,5</sup>

This paper aims to outline the contours of a realistic, socialist alternative, at least of its *economic-political* aspects – mainly but not exclusively based on Nove's 'economics of feasible socialism' – and does not (for the time being) consider the question of how to get there – i.e. a transitional strategy. To devote a few sentences to it anyway, the following remarks can be made.

Part of a strategy will have to be an answer to the question of how to regain control over money creation and credit at the level of the state or states. Indeed, since the 1970s of the 20<sup>th</sup> century, money creation took place completely outside the sovereignty of states: 'the prerogative to issue

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<sup>3</sup> Huber (2021) distinguishes between three different types of groups in the climate movement: 'science communicators' whose political goal is to disseminate knowledge and science, 'policy technocrats' who want to implement climate policies and hope to win the support of the political right with smart policies and market incentives, and 'anti-system radicals' who want to change the system through small-scale alternatives and promoting less consumption. According to Huber, all three groups avoid material conflict and class struggle, emphasize the importance of knowledge and are therefore only attractive to a *minority* of the population, namely the part of the population that is highly educated (pp. 121-124).

<sup>4</sup> If the salary of the highest-earning person is equated with that of a Dutch minister, who in 2023 has an annual income of €180,984 gross (or: €15,082 per month), then the lowest-earning person has €30,164 gross per year (or: €2,514 per month). In 2023, 33% of workers have less than €30,000 per year (Source: <https://longreads.cbs.nl/nederland-in-cijfers-2023/wat-is-het-inkomen-van-werkenden/> [accessed 6 December 2023]).

<sup>5</sup> The largest production cooperative in the world (Mondragon from the Basque Country) uses a pay ratio of 6:1, i.e. the highest earning has 6x the salary of the lowest earner. Nick Romeo, 'How Mondragon Became the World's Largest Co-Op'. *The New Yorker*, August 27, 2022. Available from: <https://www.newyorker.com/business/currency/how-mondragon-became-the-worlds-largest-co-op> [Accessed 6 December 2023].

money has been granted entirely to private or independent forces. In addition, bank credit is no longer directed only at the real economy (households and businesses), but also, if not more, on the financial sector. This credit is then used to fuel recurring and speculative financial bubbles (of stocks or bonds) that, when burst, cause systemic crises of extreme severity' (Marin, 2020).<sup>6</sup> Well, state-level control over money creation and lending is a necessary condition for both macro-economic and micro-economic planning and market regulation. Regaining control at the level of one state, the Netherlands, for example, seems unrealistic. It is more obvious to tackle it at the European Union level. Or perhaps rather at the level of the - in terms of Gross Domestic Product - most important European economies: Germany, the United Kingdom, France and Italy. By extension, there is the question: is it necessary to leave the European Union, or is a reform path conceivable? These are questions that require a thorough economic and political analysis of the European Union and its relations with other major economies (US, China and India).

## An outline of the economic-political aspects of a realist, socialist alternative

### Introduction

Although the first version of Alec Nove's 'feasible socialism' was published forty years ago, its central ideas are still a good starting point for a discussion about 'feasible socialism'. *The essence of Nove's 'feasible socialism' is to combine plan and market.* With some good will, this can be seen as a variant of the new economic policy (NEP), of which Trotsky was a strong supporter, albeit temporarily, as evidenced by his criticism of Stalin's bureaucratic planning in the early 1930s.<sup>7</sup>

According to Nove, *directive central planning* – i.e. an economy without a market for production and consumer goods – leads to a multitude of significant problems:

- Planning in physical terms (e.g. numbers of shoes) neglects the qualitative aspect (how to operationalize that 'good' shoes should be produced). An exception to this rule is, for example, planning of electricity (100 kWh is unambiguous and clear).
- Implementing production plans requires massive coordination to ensure that production *and* input plans are coherent and consistent at the microeconomic operational level. The enormous complexity of this task ensures that it is **never** completed, and there will therefore be numerous instances where supply and production plans are inconsistent. Plans then require changes during their implementation, thus never achieving the desired goal of stable plans.
- Technical progress is blocked. And here's why. First and foremost, planners themselves base their instructions on past performance, and input-output tables (including material balances) are therefore inherently conservative and reflect past technical coefficients. Second, technical progress, whether in the form of a new type of product or in the form of a new manufacturing method, will usually require a change in the input or in the output plan, which goes beyond the competence of management and requires the approval of one or more planning agencies. Finally, all innovation involves risk, and risk is not rewarded. Risk aversion is (unintentionally) rewarded. In addition, there is the so-called

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<sup>6</sup> See Morin (2020). 'Pour une 'démocratisation économique radicale''. Translated from French by the author of this paper.

<sup>7</sup> See Nove (1991, p. 172).

1/n problem (n = number of people working collectively): there are insufficient incentives on a microeconomic scale for sufficient commitment and effort. For example, Hodgson (2019; p. 75) states: 'If everything is shared in a large collectivist system, then incentives for extra individual effort may be much less than the likely individual rewards. When thousands of people are brought together, and rewards are shared, then there is less incentive to make the extra effort, because the rewards from that additional work would be hugely diluted'.

- Those who choose to attribute the disruptions of the planning system to bureaucracy and lack of democracy have put the cart before the horse. In view of the aim of making planning take the place of the market, the allocation of administrative resources the place of trade, the visible hand instead of the invisible hand, central control becomes an objective necessity. Given the enormous complexity, a *complex bureaucratic structure* is needed to make a multitude of interrelated decisions which, by their very nature, are not a matter of democratic voting.
- The numerous gaps, inconsistencies and uncertainties in the plan, in particular the unreliability of material deliveries, lead not only to 'self-sufficiency' (i.e. wasteful duplication), but also to unofficial horizontal links between companies, a network of personal relationships, as well as corrupt practices.<sup>8</sup>

The absence of market mechanisms therefore creates considerable economic and political problems. Can a market for at least consumer goods rescue the idea of *directive central planning*? After previous fruitless attempts by Oskar Lange, for example, Cockshott and Cottrell (1993) have ventured into this.<sup>9</sup> Cockshott and Cottrell (1993) propose an economy in which money ceases to be a means of exchange and is replaced by non-transferable vouchers representing a certain amount of labour time. The prices of products and services are also expressed in units of labour time.<sup>10</sup> They also introduce prices of consumer goods to gather information on (changes in) consumer demand. Money replaced by labour vouchers, does that work? Some further reasoning reveals that these vouchers will function as money and can lead to curtailment of freedoms.<sup>11</sup> In addition, it is unclear how 'labour vouchers' take into account types

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<sup>8</sup> See Nove (1991, Chapter 2).

<sup>9</sup> Lange did not incorporate an *increase* in production and consumption into his model. In addition, the introduction of only a market for consumer goods led to the following problem. Given the presence of relative scarcity, consumer goods come at a price. If the price of a consumer product rises as a result of increasing demand, investment in new production capacity is necessary given insufficient production capacity. If such an investment is not made, the result is increasing profits. It is then one of two things: either the central planners allocate new production capacity or there will also be a market for means of production. In the first case, the planners are forced to make micro-economic decisions, which is precisely what Lange tried to prevent. See Nove (1991, Chapter 3).

<sup>10</sup> See Cottrell & Cockshott (1993).

<sup>11</sup> Nove (1991; p.53) writes about the idea of a cashless economy and 'labour vouchers': "Thus suppose at the 'price' of 3 tokens there is not enough (or there are too many) sausages. In the short run the alternative to queues or gluts is to alter the token-value. This would also be a signal to the planning organs: produce more of this, less of that. Just as money would be. (In fact these tokens would then become money in all but name.) What does it mean that the tokens 'do not circulate'? Does this mean that I, possessor of 100 non-circulating, non-transferable tokens, cannot pass any of them on to my neighbour as a reward for baby-minding, repairing my radio, or taking me to work in his car? Why not? Police would be needed to stop such transactions! And will the 'tokens' which are 'paid' to shops for sausages be used to 'purchase' sausages from the sausage-factory? And then by the sausage-factory to 'purchase' the meat from its suppliers? If not, why not? What alternative is there, which enables the requirements of the consumer to work their way

and levels of skills with which work is performed in addition to the number of hours worked.<sup>12</sup> As far as the introduction of market prices is concerned, it leads to the same type of problems as with Lange, namely that the central planning agency is not relieved of the burden of making microeconomic decisions.<sup>13</sup>

David Miller (1990) propagates worker cooperatives and is particularly opposed to directive planning and even seems to abandon any form of planning. His argument is that directive planning 1) inevitably leads to a bureaucratic machinery with a bureaucratic elite, and 2) significantly restricts the scope of self-management by workers. Indeed, self-management is only meaningful if workers can decide which goods and services to produce, which techniques to use to achieve this, and what scale they find attractive for their cooperative.<sup>14</sup> Market socialism, according to Miller (1991), offers the best opportunity for industrial democracy, which is valuable in its own right – it's just a good thing for people to have control over the environment in which they spend much of their lives – and is important as a 'training ground' and stimulus for democracy on a larger scale.

This last argument in particular should be a weighty argument for socialists: is it not true that directive planning reduces workers to 'automatons' who only have to carry out the business plan drawn up from above?!

Views such as those of Miller (1990) where all the cards are placed on worker cooperatives seem to throw out the baby out with the bathwater ('planning where necessary'). It can be argued therefore whether such a concept can be considered 'feasible socialism'.

What is 'feasible socialism'?

Alec Nove introduced the concept of 'feasible socialism' in 1982. This concept raises two questions. First, what meaning should we assign to the term 'feasible'? Second, what is socialism (not)? According to Brus (1985) it is unclear what 'feasible' means.<sup>15</sup> Synonyms are,

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into the system of production? *With a given distribution of income (as egalitarian as the given society chooses it to be), there is no better way of enabling citizens to register their preferences than to allow them freely to spend their 'money' (tokens) or their money"* (Italics author of this paper).

<sup>12</sup> See Hodgson (2019, chapter 4).

<sup>13</sup> Cottrell & Cockshott (1993; p. 172) write: "If planned supplies and consumer demands for the individual goods happen to coincide when the goods are priced in accordance with their labour values, the system is already in equilibrium. In a dynamic economy, however, this is unlikely. If supplies and demands are unequal, the 'marketing authority' for consumer goods is charged with adjusting prices, with the aim of achieving (approximate) short run balance, i.e. prices of goods in short supply are raised while prices are lowered in the case of surpluses. In the next step of the process, the planners examine the ratios of market-clearing price to labour value across the various consumer goods. (Note that both of these magnitudes are denominated in labour-hours; labour content in the one case, and labour tokens in the other). Following Strumilin's conception, these ratios should be equal (and equal to unity) in long-run equilibrium. The consumer goods plan for the *next period* (italics author of this paper) should therefore call for expanded output of those goods with an above-average price/value ratio, and reduced output for those with a below-average ratio". But what happens now – i.e. before production plans are made for the next planning period – to the previously planned production capacity, which has partly become redundant due to reduced consumer demand? Do the planners decide to use it for other purposes/consumer items for that long? And which consumer goods have their prices lowered or increased to ensure short-term equilibrium? Who decides and what arguments will be used?

<sup>14</sup> See Miller (1990; pp. 7-8).

<sup>15</sup> See Brus (1985; pp. 44-47).

according to Brus, something like ‘practicable’ or ‘possible’. But if so, Brus continues (1985; p. 44), ‘Socialism has proved its feasibility in the historical practice of the Soviet Union, Yugoslavia, the East European ‘people’s democracies’, China, Cuba, North Korea, Vietnam, and perhaps even several African countries’. According to Brus (1985) it is about a ‘viable socialism’. By this he means (p. 48): ‘a system capable of providing solutions to the challenges with which economies and societies are confronted in the contemporary world (...) If socialism is to be economically viable, it has to prove it under conditions of *scarcity*—that is to say, in a situation of conflict over resource allocation among competing ends, and hence of conflicting interests of individuals, groups and society as a whole’.<sup>16,17</sup> In all likelihood, Nove would agree wholeheartedly with this explanation.

The second question, namely what socialism is, Nove answers as follows (p. 12): ‘for a society to be regarded as socialist one requires the *dominance of social ownership* in the economy, together with political and economic democracy’. In such socialism, the market has an important place. It is therefore very important to establish the correct principles and proportions of the relationship between plan and market. Part of the role of macroeconomic planning is to combat the imperfections of the market mechanism. These imperfections include among other things:

- ‘Private and social cost-benefit calculation do not coincide because of different externalities (effects outside the direct transaction, such as water and air pollution during the production process).
- The full utilization of resources—particularly human resources, whose wastage through unemployment has profound economic, social and cultural consequences—is hampered by market fluctuations and by the persistent tendency of the profit-motivated private-enterprise economy to prevent distributional adjustments that would assure an adequate level of aggregate effective demand.
- The distribution of property, which to a considerable degree determines power in the market, bears no recognizable relationship to present or even past economic merit.
- The so-called ‘future markets’ cannot provide guidance about prospective technological and other structural change, and so cannot be relied upon as the source of information for rational investment decisions in the long run’. (Brus, 1985; p. 49).
- In addition to economic effects, psychological effects, such as promoting greed, are often cited as disadvantages of the market. However, most evidence points in the opposite direction. Trading relationships can promote sentiments of inclusiveness and reciprocity.<sup>18</sup>

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<sup>16</sup> Brus adds: “This is not the same as saying that individuals or groups cannot see beyond their immediate interests, or that they cannot—by experience, not by exhortation—learn to perceive better the links between their own and common interests. But it certainly does mean that the existence of conflicts of interests has to be recognized as normal, and not as a remnant of the past class structure or an effect of imperialist plots”.

<sup>17</sup> See also Hodgson, o.c., p. 7: “A central problem in any economic system is how the inevitably diverse plans of many varied individuals or organizations can be reconciled, without conflict or disorder. Human beings differ by both nature and nurture, and to some degree will always do so. Institutions differ in their histories and in their paths of development. If we accept the inevitability of this diversity, then this problem has to be faced. How can the varied plans of multiple agents be reconciled?”.

<sup>18</sup> Hodgson, o.c., p. 6.

As we saw before, 'viable socialism' implies political and economic democracy and the dominance of social property.

### Political democracy

What does Nove imagine by political democracy? At least a multi-party democracy.

The parliament could consist of a core of professional politicians supplemented by part-timers who work in a factory, office or on a farm (Nove, 1991; p. 190). Macroeconomic plans would be approved by the elected parliament or assembly (Nove, 1991; p. 231). Citizens could choose, for example:

- What kind of private initiatives they encourage or tolerate,
- The desirable forms of cooperatives,
- The degree of employee participation in management (Nove, 1991; p. 192),
- What should be available free of charge (e.g. public transport) (Nove, 1991; p. 203).

### Economic democracy

According to Nove (pp. 219-220), economic democracy implies that 'people can influence things in their *capacity as producers and consumers*. Influencing the pattern of production through their behaviour as buyers is certainly the most democratic way to give power to consumers'. In his view, there is no direct 'political' alternative: 'There are hundreds of thousands of different kinds of goods and services in infinite permutations and combinations, a political voting process is impracticable, a ballot with microeconomic consumer choices unthinkable. In any case, majority decisions are undesirable and inappropriate. What about the rights of minorities in terms of consumption? Is it appropriate for the citizens of a city or a country to vote by a 3-1 majority not to provide anything — from string quartets to rye bread — that happens to be a minority flavour? How can one measure the intensity of the desire for something other than by discovering how much of other things one is willing to give up in order to obtain it (i.e., what price is one willing to pay)? With an acceptable distribution of income, and in the absence of large unearned incomes, there is no known better method of arriving at consumer choice than to let the consumer choose, and (apart from far-fetched assumptions of 'abundance') this means choosing by using his or her purchasing power', Nove argues.

Economic democracy from the producer's perspective will be discussed after outlining the main principles and structures of a 'feasible' socialist society.<sup>19</sup>

1. State, social and cooperative ownership are dominant, while large-scale private ownership of the means of production is absent. This implies the following economic entities:
  - a) **state-owned enterprises, centrally controlled and managed.** The most obvious example is the *electricity grid*: wherever the power plants are located, it can only be the centre that knows how much power is needed and which plants should supply how many kilowatt hours of electricity to the national grid. A *railway network*, large integrated *steel mills*, oil and petrochemical *complexes also appear to be functionally large and hierarchical, i.e. containing mainly vertical integration of business units. Organizational economies of scale and economies of scale in terms of information*

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<sup>19</sup> See Nove (1991; chapter 5).

*provision* are of great importance in this respect, compensating for the additional costs of a large business bureaucracy.<sup>20</sup> The relative absence of competition opens up the possibility of ‘improving’ measured performance at the expense of the customer. *Tripartite monitoring*, by management accountable to the state, *users* and *staff*, can be a solution here.

- b) **Socialized enterprises** with full autonomy and management accountable to staff. If there is market competition and production decisions ‘belong’ to the level at which production takes place, there is room for *this type of enterprise or for cooperative enterprises*. Unlike in cooperative enterprises, the means of production are not owned by the workers, and the state or other public authority holds residual responsibility for their use or misuse, or for debts incurred. *Managers could be appointed by an elected committee and accountable to it*, or to a plenary meeting of staff if the number of employees is small enough. The division of tasks between the professional management, the committee and the plenary may be democratically determined by each unit on the basis of its own experience.
- c) **cooperative enterprises**. These enterprises, like socialized enterprises, operate in a competitive environment. Unlike socialized enterprises, cooperative enterprises can freely dispose of their property and are free to dissolve themselves. As in socialized enterprises, managers are elected and the division of tasks between the professional management, the committee and the plenary can be democratically determined by each unit on the basis of its own experience. It is by no means inconceivable that self-managing enterprises may form cartels. This should be resisted, except where economies of scale are significant, after which the sector should be added to the list of centrally controlled and governed sectors, in order to prevent abuse of monopoly power.
- d) **small-scale private enterprises**, subject to clearly defined limits. These limits could be set by the number of persons employed or by the value of capital goods and could be differentiated by sector. A possible rule could be that, above these limits, either a cooperative or a socialized enterprise must be chosen, with proper compensation for the original entrepreneur. ‘Is this a dangerous loophole for restoring capitalism’, Nove asks? Not if the limits are observed. Is it a means of unjust enrichment? Not if the market and the price mechanism work. Obviously, if the prices set by the state were too low and the shortages were endemic, the private sector could become excessively rewarding. Presumably, a sensible government would avoid this. It should be noted that there is no room for a class of capitalists: the private entrepreneur works himself, even if he employs others.
- e) **freelancers** such as journalists, writers, artists.

2. The planning authority has a number of vital functions:

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<sup>20</sup> Nove (1991; p. 193) adds: “As techniques and computational methods alter rapidly, we cannot be sure whether the sectors which are dominated by large corporations today will necessarily be so tomorrow. Also we must bear in mind that some corporations are large because of the power it gives them over the market and not because of efficiency considerations. They sometimes take over by their financial power smaller units which operate quite efficiently. None the less, it seems clear that in my model of ‘feasible socialism’ there will be some very large corporations of this sort”.



- “First, major investments would be its responsibility.
- Secondly, directly or through the banking system, the planners would endeavour to monitor decentralised investments, conscious of the need to avoid duplication and the financing of plainly unsound projects initiated locally.
- Thirdly, the centre would play a direct and major role in administering such ‘naturally’ central productive activities as electricity, oil, railways.
- Fourthly, there would be the vital task of setting the ground-rules for the autonomous and free sectors, with reserve powers of intervention when things got out of balance, or socially undesirable developments were seen to occur.
- There would plainly also be functions connected with foreign trade.
- There would be drafts of longer-term plans, incorporating changes and improvements in techniques, working practices, living standards, which would be submitted to the elected assembly”.<sup>21</sup>

So the above implies that directive planning in Nove's model is limited (Nove, 1985; p. 26): “In my model the centre directly plans the current output of only a few ‘centralisable’ sectors, such as energy, and, naturally, does so taking demand (expressed via the market and in other ways) into account”. And elsewhere (Nove, 1985; p. 34): “So under a realistically conceived socialism one can and should envisage major investment decisions (e.g. in the energy sector) to be taken at the centre, while central planners *should not* (italics author of this paper) be involved in decisions on the product mix in the textile or farm-machinery industries, let alone in the acquisition of sausages or saucepans by restaurants, or the allocation of sulphuric acid to a chemicals factory”.

3. A preference for *small-scale*, as a means to maximize participation and a sense of belonging. Outside of centralized or monopolized sectors, and the limited area of private companies, management must be accountable to the workforce.
4. The current production and distribution of goods and services should be determined as much as possible through negotiations between the parties involved. It must be explicitly recognised that this implies and requires competition, a prerequisite for choice.
5. Individuals would be free to change their jobs, to acquire a different specialisation, to switch from working for the state to working in a co-operative or on their own account, or for a private employer. The concept of producers’ preferences is a useful one to keep in mind, alongside that of consumers’ preferences.
6. Since an unlimited market mechanism would eventually destroy itself, and would create intolerable social inequality, the state has a vital function for income policy, taxation, for intervening to curb monopoly power, and generally to determine the rules and constraints of a competitive market. Some sectors (education, health, etc.) would of course be exempted from market criteria.
7. It is recognised that a certain degree of material inequality is a prerequisite for avoiding administrative control of labour, but moral incentives would be encouraged, and inequalities would be deliberately limited. The obligation to provide work would take precedence over micro-profitability considerations.

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<sup>21</sup> See Nove (1991; p. 199).

8. The distinction between administrators and governed cannot probably be abolished, but great care must be taken to design barriers against abuse of power and to ensure the widest possible democratic consultation.

Economic democracy from the perspective of the workers is thus expressed above all in socialized and cooperative enterprises. Together, in terms of the number of workers, they make up the lion's share of a socialist market economy, in which, moreover, some economic activities take the form of *directive* planning (energy, railways, petrochemicals) and a large part of economic activities are subject to indicative / macro-economic planning.

### Topics for reflection and discussion

- Nove (1991) sees opportunities for *private enterprises consisting of one entrepreneur – who is also employed – and employees*. Since state, social and cooperative ownership are dominant in a feasible socialism, the size of private enterprises should be limited. A relevant question is therefore how to establish and monitor these limits. Boundaries based on the number of people employed or on the size of capital goods. What are the corresponding numbers and size, respectively? And who monitors these limits, and in what way?
- Role of banks and capital markets. Setting up new (social) and cooperative enterprises requires credit. Should credit provided by one central bank – the state bank – or should multiple banks exist? Nove (1991; p. 216) sees disadvantages of a single state-owned bank and even talks about breaking up the state-owned banking monopoly. In his view, there should be some kind of capital market that not only provides a variety of sources of financing for investment, but also mobilizes corporate funds (i.e. retained profits not needed for investment in that company or cooperative) and personal savings, as well as providing opportunities for companies to invest in each other. Clearly, the central (state) bank and a finance ministry should maintain control over the overall volume of lending, even if specific decisions can be left to investment banks and other such decentralized and autonomous bodies. But a capital market poses risks of an inflationary credit boom based on deregulated lending by numerous competing financial institutions. There is also the risk of extensive financial speculation. How to prevent it? Miller (1991; p. 412) also sees advantages in multiple (investment) banks: “To protect cooperatives’ autonomy, it seems important that instead of one investment agency there are several competing sources of financing, so that a cooperative can move away from an investment agency that tries to dictate the terms of the loan in too limited a way. This could be achieved through a decentralized system in which regional and local banks would be accountable to lower administrative bodies in their area rather than to the central government”. The role of central government would be to determine the overall level of investment and to set general policies.
- What is the role of the *trade union movement* in ‘a feasible socialism’? After all, almost everyone works in a state-owned enterprise, socialized enterprise or cooperative enterprise? So what are the tasks for trade unions? The distribution of the gross national product between individual consumption and the various other purposes (investment, social services, etc.) is for the National Assembly to decide. At the same time: the freedom to organize, and ultimately to strike, are freedoms that matter. Moreover, trade

unions can be an indispensable link in measures against abuse of power and unlawful privileges.

- *Business cycle and unemployment.* In socialized enterprises, workers may be particularly interested in maximizing net income per worker. This is because the income of workers is based on the ratio of total net income of the company divided by the number of employees. So there is no material interest in hiring additional workers *if this has the effect of lowering this ratio*. In practice, however, self-managing companies are also reluctant to shed workers: workers do not vote for layoffs. How to deal with this? Introduce bonuses and maluses to encourage socialized enterprises to hire additional workers? Active role of the State or planning authorities in helping to set up cooperative enterprises? Another aspect of socialized enterprises is the employees' lack of long-term interest in 'their' enterprise, because it is not in fact theirs: they do not benefit from working for it once they leave the enterprise, as they have no shares to sell. The same problem of lack of long-term interest may play out in cooperative enterprises. Mondragon (Nove, 1991; p. 213) shows how this problem could be addressed. A contribution to the capital of the enterprise by the worker/member of the cooperative enterprise (in Mondragon a significant portion can be loaned to the worker by the co-operative enterprise itself, which can be repaid from the income) makes the worker/member has a material interest in a long-term healthy enterprise; the capital contribution paid can be returned to the worker/member when they leave the enterprise, with the amount varying according to the length of the working period.
- Role of *advertising*? Advertising is one of the attempts to find customers and is therefore part of a 'feasible socialism' in which a consumer market functions. On the other hand, mass-media advertising campaigns, especially for products that are almost indistinguishable from each other except for name and label, and where advertising costs make up a large part of the final selling price, should this be possible in 'a feasible socialism'? These campaigns also usually have little or nothing to do with informing the consumer but have everything to do with seducing, hypnotic suggestion through constant repetition of the same formula, and nipping in the bud their critical capacities. How to limit this kind of advertising in a market environment?
- *Foreign trade.* On this subject, Nove is extremely succinct. There is something to be said for this: it probably makes quite a difference whether we would assume, for example, a socialist European Union, a socialist Germany and the Netherlands, etc. Nove (1991; p. 218) writes the following about it: "There will, of course, be foreign trade. Either some of the world will not be socialist, or there will be separate socialist countries, though naturally a *union of several socialist countries would be both possible and desirable, and/or a socialist 'common market'* (italics author of this paper) with close co-operation and perhaps a common currency. The clumsy 'state monopoly of foreign trade' of the Soviet type would be unnecessary, and yet again, the only known alternative is a market, i.e., exchange, *and since multilateral trade has evident advantages over bilateral barter, this would seem to imply currency convertibility, and the right of economic units to buy and sell across borders. This in turn means realistic prices and exchange rates* (italics author of this paper). It means also that an individual citizen wishing to travel abroad, or a productive or wholesaling enterprise, will be able to acquire foreign currency without necessarily seeking permission from some government office. Internal and foreign trade

prices in tradeable goods would be mutually consistent. Prices would emerge partly as a result of bargaining over specific deals, partly as a result of international price agreements for specific important commodities”.

Miller (1991; p. 114) confines himself to the subject of foreign trade as far as the transition to a market socialism is concerned and writes about it: “A society that, for instance, implements a form of self-management or imposes strict environmental controls on manufacturing industry may find that its products cannot compete internationally with those of other countries where capitalist practices remain unmodified. It then faces a stark dilemma: either it restricts trade, with serious economic consequences, including inability to take full advantage of the international division of labour, or it reluctantly reverts to free-market capitalism”.

- Nove's ‘feasible socialism’ focuses heavily on the production side, but much less on the consumption side. For example, Elson (1988; pp.5-6) writes: “It (Nove’s socialist economy ) is concerned with the transformation of the relations of production in the workplace but fails to rethink the relations between production and consumption between workplace and households; and to consider the way in which consumption and the reproduction of labour power need to be reorganized”. Elson (1988; p.28) believes that “(...) the process of production and reproduction of labour power should be the independent variable to which the accumulation process accommodates. To achieve this, households need to have access to a basic income (to cover purchase of sufficient food, clothing, shelter and household goods for a very basic living standard) without being forced to sell labour power to outside enterprises even when these are publicly owned”. She adds: “the provision, free of charge of basic services, such as health and education, water and sanitation, urban transport, and free provision of access to information networks: print, telephones, photocopiers, fax machines, computers etc (as) a necessary condition for socializing the market is equal and easy access to information”. Her remarks might indicate that the socialization of 'the' market in a feasible socialism needs the necessary attention.

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