



3—The Nature and Reproduction of Vanguard Relations of Production

Beginnings are critical—especially when you are attempting to understand a complex combination of elements. When you start an examination of Real Socialism by focusing upon juridical property rights (state ownership of the means of production) and a coordinating mechanism (central planning), inevitably the centrality of the relations of production characteristic of Real Socialism is displaced. What are the social relations within which production, distribution, and consumption take place? Whose goals dominate production? Who rules within the workplace? What are the relations among producers? We always need to keep in mind that all production occurs within and through a particular set of social relations.

So, where to begin? Choice of a starting point in a logical construction cannot be arbitrary; rather, it should flow from an analysis of the specific concrete. Accordingly, after concluding our consideration of Real Socialism by stressing the importance of the particular social contract between “planners” and workers, we begin with what we designated in the last chapter as the vanguard relation of production. If we begin here, though, doesn’t this imply that the state ownership and



central planning we observe in Real Socialism should be understood as the *vanguard* form of state ownership and the *vanguard* form of central planning? Obviously. In a dialectical construction, all the later moments are implicit in the starting point.

However, we need to take care about such an inference: it presumes that vanguard relations of production coincide precisely with Real Socialism. Yet, by excluding the managers from the social contract, we already have indicated that Real Socialism is *not* composed only of vanguard relations of production. More than one relation existed. As we will see, there was a process of contested reproduction, and the phenomena from the 1950s through the 1980s described in the previous chapters in many respects result from this contestation. Further, we need to consider whether the social contract described there represents vanguard relations as such or whether it was one particular mode of regulation for their reproduction that existed in a given period.

THE VANGUARD PARTY

After years of experiencing and studying Real Socialism, Kornai chose to begin his ultimate work on it with the Communist Party. Indeed, he indicated at the outset of *The Socialist System* that “the sole criterion” he used for designating a country as socialist, was the undivided power of a communist party.¹ By definition for Kornai, socialism “comes into existence only when and where the Communist Party is in power.”² Accordingly, rule by the Communist Party is “necessary and sufficient for the system to emerge and consolidate.”³

The Communist Party must gain undivided possession of political power for the process to get under way. This historical configuration bears the “genetic program” that transmits the main characteristics of the system to every cell within it. This is the seed of the new society from which the whole organism grows.⁴



In short, for Kornai the organic system, Real Socialism, is latent in the Communist Party. "This 'genetic program' fashions society in its own image; it creates a coherent system whose various elements connect, and assume and reinforce each other."⁵ State ownership, the state-party relation, central planning—these are just some of the elements that for Kornai flow from this premise through a deductive train of thought. "The prime factor that brings the other system-specific phenomena about," he argued, "is the undivided power of the Communist Party imbued with its specific ideology."⁶

As indicated earlier, we part company very significantly with Kornai's analysis and conclusions. However, both his starting point and his attempt to deduce "system-specific phenomena" from this logical premise lead in the right direction. So, we begin with one side of vanguard relations, the vanguard party. In doing so, though, our initial focus is upon the *logic* of the vanguard—that is, the vanguard party in its "purity" rather than how it may have been infected in the course of its interaction with other elements (both contingent and inherent).

Let us begin, then, by proposing three tenets or doctrines of the vanguard party:

1. *The goal of system change:* an absolute commitment to replacing capitalism with socialism and to building a communist society (which has as its premise the appropriate development of productive forces).
2. *The need for a political instrument:* to achieve this goal requires a political party with the mission and responsibility of organizing, guiding, and orienting the working class, all working people, and social organizations.
3. *The necessary character of the vanguard party:* the struggle to defeat the enemies of the working class requires a disciplined, centralized, and united revolutionary party—our party.

Consider these three points. The goal of system change distinguishes the concept of the vanguard party from a body of self-interested bureaucrats or would-be capitalists. It begins from a clear rejection of capitalism



as a system and the belief in the necessity of socialism. Given that essential goal, the question is, what is to be done? Characteristic for the supporters of the vanguard party is the conviction that the achievement of this goal will not happen spontaneously and, accordingly, requires leadership. This orchestra, in short, needs a conductor: "The interconnection and unity of the process is necessarily represented in a governing will."⁷ And that governing will must be the party. As Stalin put it, "the Party must stand at the head of the working class."⁸

This self-conception of the party as the necessary conductor on the road to socialism and communism is one that brings with it responsibility and duties—the goal is "the only thing that counts, and no one is more convinced of this than the conductor himself."⁹ To fail to lead would be to betray the working class. Describing the self-conception of the role of the Communist party in Real Socialism, Kornai wrote: "The working class does not exercise power directly; it is represented by the party. The party is the vanguard of the working class and so ultimately of the whole of society. As such it is destined to lead society."¹⁰

The party, in short, takes on the role of educator to pupil, leader to the led, and conductor to the conducted. Delivering its "banked knowledge" in the form of "Marxism-Leninism," the party is the teacher, the ideological mentor of the people, and their compass. Of course, to avoid confusion in the working class and the whole of society, any differences internal to the party must be hidden—there can only be one accepted understanding of Marxism-Leninism, one teacher, one conductor to guide the process. Socialism in this perspective is a gift to those below by the only ones above who know how to create socialism.¹¹

But who accepts this responsibility of leading society? Those who combine the commitment to building socialism, the recognition of the need for party leadership, and the acceptance of the importance of unity are the logical members of the party. "Many members of the apparatus," Kornai acknowledged, "are people guided by noble purposes who work long, hard hours in the firm belief that in doing so they serve the cause of their party and of the people, the common good and the interests of mankind."¹² He returned to this point when describing the motivations of members of the state bureaucracy in Real Socialism: heading Kornai's



list of the complex combination of motives (which include an interest in power, prestige, and material benefit) is "political and moral conviction" based upon "belief in the party's ideas, agreement with the official ideology, and enthusiasm for the plan's objectives."¹³

This political and moral conviction that leads party members to work "long, hard hours" to build socialism does not drop from the sky. The first principle of vanguard party recruitment is to attract those people who have demonstrated, through their (honest or simulated) behavior in their workplaces and communities, that they are good candidates and will accept the party's responsibilities and its norms.

Once in the party, these recruits logically should be exemplary and positive examples for all others within society. Thus they are expected to be self-sacrificing, to set an example of the communist attitude toward work, to respect, protect, and care for socialist property and to struggle to implement the party's positions even after having argued and voted against them.¹⁴ Further duties stress the importance of placing social interests above personal interests, setting an example of sensitivity and human solidarity, strengthening and broadening the relations between the party and the masses, trying to win the best workers and other citizens over to revolutionary activism and holding high the principles of internationalist unity and cooperation. *How could this not attract the best, the most idealistic young people within the society?*

However, not everyone committed to the goal of building the socialist society and prepared to be self-sacrificing would qualify as a good party member. The member was expected to study deeply the party ideology, work to implement party decisions, accept the process of criticism and self-criticism, and be willing to subject oneself to party discipline. Not everyone is prepared to do that. Further, even if you are, the decision is not yours alone. To be accepted as a party member, a candidate has to be accepted not only by a local unit but also by the next higher body of the party. The principle that those who are above decide, in short, is embodied within the very structure of the vanguard party. And it is the continual presence of that hierarchical principle that characterizes the party and shapes individual behavior from the time of initial entry.



There is a particular logic to this. Since the struggle to build socialism requires unity and discipline within the party, the internal structures must reflect those obligations. For this purpose, the party relies upon “democratic centralism”—which may be defined as the greatest possible democracy in arriving at decisions and the greatest possible centralism and discipline in executing those decisions. Described as such, democratic centralism is only common sense.

That democracy, however, is episodic—limited in general to party congresses and other collective decision-making occasions. Discipline and centralism, in contrast, are part of daily life and responsibilities for party members. Illustrating the primacy of the latter, consider the very first point in “the basic principle of democratic centralism” of the Communist Party of China:

(1) The individual Party member is subordinate to a Party organization, the minority is subordinate to the majority, the lower level organization is subordinate to the higher level, each organization and all members of the whole Party are subordinate to the Party’s National Congress and the Central Committee.¹⁵

Thus, a top-down process that, Kornai commented, in practice *inverts* the underlying concept of democratic centralism. Rather than a process of organization from below, in practice what exists is a “bureaucratic hierarchy that encompasses the whole of the party: instructions passed down from above must be carried out by the subordinates.”¹⁶ Structure and ideology interpenetrate because “the code of moral imperatives” for party members in the official ideology emphasizes discipline: “The prevailing political line must be followed, the decisions endorsed, and the commands of superiors obeyed without hesitation.”¹⁷

There is, however, another very important aspect of this inversion of a bottom-up process. And that is the tendency for the top to select the bottom—that is, the tendency for those at the top of the hierarchy to appoint as subordinates those people they feel can be trusted to carry out their policies. We have here the concept of the *nomenklatura*, the list of those who can be trusted. The inverted circuit is complete when those



who have been appointed from above (and therefore owe their loyalty upward rather than to those below them) proceed to choose the leaders of the party and vote upon policies.

While such a structure can be efficient in achieving specified party objectives, how could it not affect the nature of party members produced as joint products of these processes? Recall the principle of the “key link” of human development and practice—that simultaneous changing of circumstances and human activity or self-change that Marx called “revolutionary practice.” What kinds of people are produced within these hierarchical relations? They are people who do not want to be viewed as deviating from party norms and decisions, as engaging in individualistic behavior and thereby placing themselves “above the party”; they are people who discipline themselves accordingly.

Describing the long-term effect upon members of the bureaucratic structure of such patterns, Kornai wrote:

It is unwise to criticize upward, come out with unusual ideas, or take initiatives. It does not pay to think for oneself or take risks on one's own. . . . The character-forming and training effect, and the selection criteria of bureaucratic control, reinforce each other: servility and a heads-down mentality prevail.¹⁸

Similarly, the Polish economists Brus and Laski described the paralysis of initiative, boldness, and innovativeness within the bureaucracy: “A major factor strengthening these attitudes is the Nomenklatura system of selection to positions of responsibility, which promotes the obedient followers of the party line in preference to the independent, daring, and imaginative.”¹⁹ While both references relate to the character of behavior within the state bureaucracy, it is essential to understand that the “genetic program” is already present in the vanguard party.

Indeed, the reproduction of the vanguard party is ensured by the fact that the best and most idealistic within the society are recruited and that their formation leads them to accept the principle that the party must direct from above and is always right. There is an interesting parallel described by Marx in volume 3 of *Capital* in which he noted that the



ability of an individual man without wealth to rise to become a capitalist “actually reinforces the rule of capital itself.” He continued:

The way that the Catholic Church of the Middle Ages built its hierarchy out of the best brains in the nation, without regard to status, birth or wealth, was likewise a major means of reinforcing the rule of the priests and suppressing the laity. The more a dominant class is able to absorb the best people from the dominated classes, the more solid and dangerous is its rule.²⁰

Of course, describing the logic of the vanguard does not at all mean that we are ignoring the existence of privilege or self-interest on the part of individual members of the vanguard—any more than Marx ignored “the desire for enjoyment” on the part of capitalists. One could certainly look at individual capitalists and stress their luxury consumption and make that the focus. That, however, was not central to Marx’s analysis. He stressed the capitalist as the bearer of the logic of capital rather than the capitalist as private consumer: “Insofar as he is capital personified, his motivating force is not the acquisition and enjoyment of use-value” but the growth of capital. While “two souls” dwelt within the breast of the capitalist, it was “only as a personification of capital” that he drove “the human race to produce for production’s sake” and spurred on “the development of society’s productive forces.”²¹ In the same way, individual members of the vanguard are stressed here only as a personification of the vanguard—that is, as the bearers of the logic of the vanguard. In short, our discussion focuses upon the logic of the vanguard as it attempts to spur on “the development of society’s productive forces.”²²

THE WORKING CLASS UNDER VANGUARD RULE

Of course, we have been considering only one side of the vanguard relation. Clearly, a premise of the relation described at this point is that the working class accepts the leadership of the vanguard party as well as its own subordinated role within the social contract. The lack of power to



make decisions within the workplace, the atomization and inability to organize collectively within the workplace or within society in general—all this reflects the vanguard's belief that the march to socialism requires a directing authority that is the vanguard party itself. Thus an essential part of that social contract is that workers are contained in official trade unions, official sport societies, official women's and peace movements, etc., and that any efforts to create independent forms of organization are viewed as heresies and threats to the entire relation.

As discussed in the last chapter, the working class accepts all this insofar as it is able to achieve its *own* goals in the social contract. An essential part of that contract is protection and security from unemployment and the maintenance of their job rights (which keeps the length and intensity of the workday low). Added to job rights, too, was the expectation of rising income over time, subsidized necessities, and relative egalitarianism. Thus, as we have seen, the working class yields control over its labor power in return for a package that is far better than that it could expect to receive within capitalism.

Yet that acceptance is conditional—it is conditional upon the vanguard delivering on its side of the contract. Central decision makers, we saw, *worried* about this—for example, worried about not achieving the norms for the growth of consumption. They worried about “serious political and social consequences,” about the emergence of dissatisfaction and at what point dissatisfaction “starts to endanger the stability of the system.”²³ To paraphrase Lenin (in his comments about the peasants and the need for NEP in the Soviet Union in the 1920s), they worried that within the social contract the working class allows the vanguard party credit but there may come a point when the working class “will demand cash.”

Of course, when discontent emerges, the party can use “the whole arsenal of education and modern political propaganda” to attempt to elicit support for its policies. “But to augment the arsenal and give special emphasis to the words of enlightenment there is repression.”²⁴ If repression rather than accommodation, however, is a general response to the reaction to its own failure to meet its side of the contract, this suggests a unilateral abandonment of that social contract by the vanguard. That is



certainly a possibility. Let us, however, explore what logically flows from the attempt to *satisfy* the terms of this contract.

THE STATE AND STATE OWNERSHIP

Dialectical reasoning requires us always to ask—what is *implicit* in the categories we have considered? What flows from the concept of the vanguard party? What must the vanguard party do to build socialism? Firstly, since the party has the responsibility to lead society, it must have the *power* to do so. It must control the state—and there is no logical basis for sharing this power with other parties or for relinquishing it voluntarily. Further, given its opposition to capitalist exploitation, the party must use that power “as soon as politically practicable, to organize society on a basis of public instead of private ownership.”²⁵ So Kornai argued, state ownership of the means of production in the socialist system flows from this political structure:

The primary attribute of the socialist system is that a Marxist-Leninist party exercises undivided power. Now, a further characteristic can be added: the party is committed to eliminating private property, and with its undivided power and interpenetration with the state, it manages sooner or later to put that program into practice, or at least come near to doing so.²⁶

But this involves more than a transfer of juridical ownership to the state. *Also* transmitted to the state by this particular genetic program is the hierarchical pattern characteristic of the party. State ownership here occurs within a particular kind of state, one that reflects the “hierarchy that encompasses the whole of the party: instructions passed down from above must be carried out by the subordinates.” So, to be effective, those at the top of this state must ensure that the right people are there to receive instructions; accordingly, “superior individuals . . . are appointed over the subordinates’ heads instead of being elected by them.”²⁷ We see here the logical necessity for the *nomenklatura*, that list of those who have demonstrated their competence and loyalty.



Logically, too, the vanguard party must monitor the process by which its decisions are executed. Noting the extent to which major personnel decisions and decisions on critical questions were made by party bodies, Kornai commented that the "Communist Party considers itself responsible for everything and does not allow the organizations of state and those working in the state apparatus any autonomy at all. In fact, the existence of the 'party-state' and the blending of the political and administrative functions is one of the main characteristics of the system."²⁸

By selecting the vanguard party as his starting point, Kornai made a significant conscious break with arguments that view state ownership of the means of production as the core of Real Socialism. Specifically, he insisted that "it is not the property form—state ownership—that erects the political structure of classical socialism over itself. Quite the reverse: the given political structure brings about the property form it deems desirable."²⁹ The pattern of property rights is thus logically a result rather than a premise. Whereas it is possible to deduce state ownership from the power and ideology of the vanguard party, we could not do the reverse. State ownership in itself, in short, is not a sufficient condition for Real Socialism; it does not imply the particular ideology, internal structure, and dominance of the vanguard party.

We immediately understand, then, Real Socialism as permeated by the character of the vanguard party. Within vanguard relations, state ownership of the means of production exists within a hierarchical structure. Thus it is not state ownership *in general*; rather, there is state ownership in its vanguard form. Won't this, then, be true of *every* characteristic we can observe in Real Socialism? Yes, according to Kornai: "The chief regularities of the system can be deduced" from the power structure dominated by the party; it "forms the deepest layer in the causal chain explaining the system."³⁰

GROWTH AND BUREAUCRATIC COORDINATION

What comes next in that causal chain? Consider the goals of the vanguard within the social contract. Within the constraint of job rights,



not only must sufficient consumption goods be produced to meet the current requirements for workers but productive capacity must expand enough to build the basis for the further development of socialism as well as satisfy the norm for future growth of consumption. The party thus must use its state power and state ownership of the means of production to expand productive forces. "The top leaders," Kornai argues, "want to impose with an iron hand a policy of the fastest possible growth," and "medium- and lower-level members of the bureaucracy are imbued by the same political conviction as the leaders."³¹

How is this to be done? Through "as large a scale of investment as possible." Though the level of present consumption is important, this is at most "a curb on the top leadership's inner impulse to maximize the proportion of investment."³² Given its view that the development of productive forces is in the interest of satisfying future needs of the working class, the vanguard looks upon a surplus of use-values over and above current consumption requirements as purely *technical*, as a division between the present and future needs of workers. Accordingly, it extracts as much surplus as possible in the interest of the working class; the *raison d'être* of the vanguard, after all, is to lead the working class. Thus, Kornai argues, "The central leadership's decision in favor of a high investment proportion expresses the desire and purpose of the whole power elite."³³

Naturally, the means by which its "inner impulse" are pursued are not selected randomly by the vanguard: "A specific political structure and ideology have gained sway, as a result of which specific property forms have developed, which has led to the preponderance of bureaucratic coordination and the typical behavior patterns of the participants."³⁴

This "bureaucratic coordination," "a collection of specific social relations" characteristic of the sphere of production in Real Socialism, mirrors the pattern of party hierarchy.³⁵ Within the economy, Kornai noted, "relations of superiority-subordination between the individual or organization coordinating and the individual or organizations being coordinated" prevail; and the most typical flow of information is the "command, the order from the superior that the subordinate is required to obey."³⁶



But what is to be coordinated? Everything. Recall the orchestra conductor: his success depends upon his ability to see the whole picture, to know what each player should be doing and to intervene to correct individual failures. In the same way, the bureaucracy is always prepared to intervene in the economy in order to achieve its goals. Faced with "spontaneous actions that the bureaucracy does not consider desirable," the natural response of the vanguard is to attempt to improve bureaucratic coordination, to increase regulations, etc. "The tendency to be complete, comprehensive, and watertight reappears constantly under the social conditions of bureaucratic coordination."³⁷

Indeed, this is a spontaneous tendency of the bureaucracy, one that requires no central command; when things go wrong, every member of the bureaucracy understands what is to be done. If anything appears outside control, it must be controlled:

If there is something amiss in these areas, each thinks: there must be fuller intervention to restore order. Each in his or her own field constantly reinforces the tendency described earlier as the completion of bureaucratic control, that is, preventing phenomena undesired by the bureaucracy from slipping through the net of rules, prescriptions, and bans.³⁸

Thus the natural tendency of the vanguard is to "perfect" the methods of bureaucratic coordination. "The inevitable consequence," Kornai notes, "is proliferation of the bureaucracy. The expanded reproduction of the bureaucracy continues."³⁹ Indeed, he proposes, it was ever thus; citing Lenin's own complaints in 1921, Kornai calls attention to the "spontaneous self-generation, self-propagation, and excessive expansion of bureaucratic mechanisms that went beyond the expectations even of those who initiated and directed the epoch-making changes."⁴⁰

THE SPECIFICALLY VANGUARD MODE OF PRODUCTION

Given, then, that "the system's internal logic propels bureaucratic power toward 'perfectionism,'" the ultimate form of organization latent in the



vanguard is the “direct, instruction-based bureaucratic control of a command-economy nature.” At the heart of the directive central plan—“a monumental piece of bureaucratic coordination aimed at prior reconciliation of the processes of the economy”—is the attempt to coordinate and control the entire economy as “a single, nationwide ‘factory’” directed from a single center. Of course, to implement the plan, “the chief method used by the higher authority to control the lower in all the decision-making and management spheres . . . is the command.”⁴¹

Rather than central planning as such, once again this is central planning in its vanguard form. Its characteristic reliance upon centralized organization, control, and intervention flows directly from the vanguard relation—that relation in which the top/center asserts the correctness of direction from above and commands compliance. Here again, Kornai’s logical construction yields a significant inference. He rejects the simplistic view that the problems of Real Socialism flowed from planning as such: “The features of the system cannot be derived from the fact that it is not a market economy, or still less from the fact that prices are irrational, and so on.”⁴²

On the contrary, command-planning of the economy as a single factory is derived from the genetic program of hierarchical control we have seen in the vanguard party:

Direct bureaucratic control of the economy . . . embraces the elaboration of plans with the force of commands and the administrative compulsion to implement them, the management based on the commands, and the practice of the superior organization intervening regularly in every detail of the production and allocation processes and day-to-day running of the subordinate organization.⁴³

The command-planning mechanism represents the development of a “specifically vanguard mode of production.” However, at the outset its character is necessarily inadequate. As in the case of the development of manufacturing and the initial development of the factory within capitalism, this new mode of production is initially dependent upon characteristics it inherits. Just as capital needed to free itself from the



skilled craftsman and to build machines with machines, so must the vanguard free itself from skilled intermediaries for this mode of production to grow by leaps and bounds.

For the vanguard to be able to direct the economy as a single nationwide "factory," it must be certain that all the information it requires for planning is transmitted accurately from below and consolidated and that all its decisions on production (sectoral distribution and growth) are transmitted accurately downward to each unit of production. And all of this must be done in a timely manner without the individual players being able to deviate from the score. But this requires the *perfection* of the specifically vanguard mode of production—a computerized, cybernetic economy, "computopia"!

In short, the development of a single automated system of control is the condition for the perfection of direction from above of the national factory. In the fully developed vanguard mode of production, other than individual consumers whose atomistic decisions are reflected in inventory movements, only the vanguard has the power to use its discretion. Only the vanguard can make decisions with respect to the plan (and that includes a political decision not to follow the effect of consumer preferences—that is, politics are in command). In short, the ultimate decisions are made at the top. Once made, the mechanical orchestra will carry them out—the conductor will have the perfect orchestra.

THE ORGANIC SYSTEM OF VANGUARD RELATIONS

With the perfection of this vanguard mode of production, what could prevent the expanded reproduction of the system? Not only can computers produce other computers but, rather than the worker stepping to the side of the production process to watch the machine, computers can watch computers. Ever-growing productivity would be the result, and the vanguard would deliver not only the use-values necessary to satisfy its present and future obligations under the social contract but also the conditions necessary to approach the vanguard's promised society.



With the perfection of the vanguard mode of production, Real Socialism would be able to produce its own premises. Workers would be able to consume more and more and work less and less because implicit in this vanguard relation is the promise of limitless consumption and the concept of work as a burden. A world of abundance, “the realm of freedom”—all delivered by the vanguard. Workers would accept the rule of the vanguard party because it delivers what they want in this relationship.

In this organic system, every economic relation presupposes every other in its vanguard form, and everything posited is also a presupposition. Thus we see here a system whose elements are “organically connected and reinforce each other”: a party of the vanguard-type, state ownership in its vanguard-form, state coordination in its vanguard-form, central planning of a vanguard-type, social and civic organizations of a vanguard-type, and, of course, an underlying population that *accepts* all this.

Though the vanguard party is the starting point for this logical construction, we understand that an organic system is not a linear sequence; rather, each part of the system acts upon every other—“the case with every organic whole.”⁴⁴ Thus the vanguard party in this whole is not independent of the other parts. The party itself is acted upon; it is affected by the development of its undivided rule within the state, the nature of state ownership, and the responsibilities it takes on for coordination and central planning. With the completion of the organic system of vanguard relations of production, all of the hierarchical tendencies of the vanguard party are reinforced.⁴⁵

The nature of that organic system, though, points to its inadequacies from a *socialist* perspective. Certainly, from its outset, this is a system of exploitation. Despite the vanguard’s view that the existence and extent of extracted surplus is simply a technical division on behalf of the working class between meeting their present and future needs, the workers *themselves* have no power to make this choice. Rather, it is made for them by “those who know better.” Thus this surplus product is the result of what Mészáros called the “political extraction of surplus labour.”⁴⁶ And the ultimate destination of that surplus cannot change what it is. Even if workers were to be the sole recipients of this surplus product (that is,



consume everything that was first extracted), the surplus would still be the result of the particular exploitation inherent in this vanguard relation.

To the extent that workers are the ultimate beneficiaries of the extractions, exploitation is reduced as a burden. Indeed, we may suggest that, within the organic system of vanguard relations (the system as “completed”), it would be secondary to the inherent *deformation* of people within such a society. The development of the vanguard mode of production “develops a working class which by education, tradition and habit looks upon the requirements of that mode of production as self-evident natural laws.”⁴⁷

What kinds of people are developed in the society of the conductor and the conducted? That is a society with a profound difference between thinking and doing, one where workers do not develop their potential because they do not engage in protagonistic activity. It is an alienated society in which workers do not view work as fulfilling, are alienated from the means of production, wish to consume and consume, and look upon work as a disutility—a burden that must be reduced. It is a society that cannot produce socialist human beings.

Is a system that produces such people sustainable—even with the full development of the specifically vanguard mode of production? This question, though, is abstract and speculative. More relevant here is the question of how vanguard relations of production are reproduced in the *absence* of computopia—that is, where the system is still dependent upon inherited premises.

TENDENCIES WITHIN THE VANGUARD MODE OF REGULATION

In the chronological interim before the perfection of the specifically vanguard mode of production, those at the top rely upon a human chain of command rather than electronic signals. Through “bureaucratic coordination,” those “relations of superiority-subordination” between individuals and institutions, functionaries in both enterprises and state coordinating agencies carry out decisions of those above them in the



hierarchy. For successful execution of those decisions, the conductor must be inside the head of every player; and, the willingness of the members of this structure "to obey him makes it possible for the conductor to transform them into a unit, which he then embodies."

In practice, of course, the conductor *cannot* know what each player is doing at any moment and cannot respond to every situation his subordinates face. So the answer is rules for all subordinates. Rules, norms, and designated procedures must be established to cover all contingencies so the players know what to do. As long as they follow those rules, the members of this structure can be secure in the knowledge that they are doing the right thing. Any condition that falls outside those rules, however, produces a potential dilemma. The first response is denial—"No, it is not possible." If that does not dispose of the problem, the next resort is evasion—to pass the problem upward to the next person in the hierarchy. As Kornai described the behavior of those functioning within the structure, "It does not pay to think for oneself or take risks on one's own."

Despite a tendency toward paralysis for conditions outside the rules (and the predictable frustration this causes), the social contract ensures the continued acceptance of the power of the vanguard party so long as workers receive rising income, stability, and are assured of their job rights (that is, their near-absolute assurance of job security). In this respect, the social contract is a successful mode of regulation of vanguard relations. However, it compels the vanguard to expand both present and future consumption and investment in order to satisfy the social contract and to develop the productive forces that are the condition for building the new society.

What are the possibilities for success? If these relations with their inherent tendency for expanded reproduction exist alongside forms of production characterized by earlier productive relations (for example, small peasant agriculture), then there is enormous potential for expansion by detaching labor and material resources from those earlier forms and incorporating them within production under vanguard relations. The expanded reproduction of vanguard relations here has as its counterpart the contracted reproduction of those other relations. Although he ignores the latter side, Kornai is correct in his comment that "in



mobilizing labour as the most important resource of society, in systematically bringing labour into the production process the socialist economy proves to be highly efficient." This, he admitted, is "one of its most important historical achievements."⁴⁸

Recall, though, Kornai's original argument about the shortage economy—that the reproduction of shortages "is ultimately related to impatient chasing of economic growth, the forcing of the acceleration of the growth rate."⁴⁹ With the system's high production targets and high demand for labor and resources, he argued that there was an inherent tendency to generate shortages. However, the source of this tendency within the social contract is not only the result of the demand side. When trying to develop the productive forces rapidly, the vanguard comes up against supply constraints inherent in the nature of that contract.

For one, "the virtually complete job security" of workers—the package of job rights that gave them security of their particular employment and a relatively leisurely pace of work—necessarily affects the supply side.⁵⁰ Further, to the extent that workers could neither be dismissed nor compelled "to work at trades other than those for which they were employed when hired," it affected the pattern of investment. Planners, according to Granick, were "reluctant to engage in substantial labour saving investments in existing plants, because it is never clear ahead of time whether such investments could actually be put into use."⁵¹

But those planners can make the decision to build new factories and infrastructure and can feel secure that their subordinates will mobilize resources to carry out those decisions. Precisely because workers actively defend their job rights, expansion of production tends to occur by combining new means of production with workers in new workplaces rather than through introduction of labor-saving technology in existing workplaces.⁵² Characteristic of the law of motion within this social contract, in short, is the *tendency for extensive rather than intensive growth*.

Naturally, expanded reproduction benefits greatly from the ability to siphon resources and labor from preexisting productive relations. However, though an extensive growth path clearly benefits from such labor reserves, it is not entirely dependent upon them: the new, superior



workplaces can attract workers by providing better working conditions, wages, and benefits. After all, this social contract includes the right of individual workers to follow their material interest and to change jobs. Job rights only ensure that they are not *compelled* to change either their jobs or their place of employment. In sum, there is a labor market—but it is a “*sellers’ market*” which, as Lewin commented, allows workers to “defend their interests by changing jobs.”⁵³

Consider the “law of motion” characteristic of this process. Given its production of atomistic, alienated consumer-workers who want to minimize work and maximize consumption, the system requires continuing quantitative expansion. Following an extensive growth model, however, implies that *sooner or later* the system will approach limits in resources and labor supplies. The point at which this would tend to occur, of course, differs—depending, for example, on the extent to which previous development in a particular country had absorbed those labor and resource reserves.

Under the above conditions, all other things equal, a lower rate of growth is likely. As Kornai concluded from his macroeconomic model of the shortage economy, “The exhaustion of labour reserves is sufficient in itself to force the economic system to leave its old growth path for a newer and much slower one.”⁵⁴ All the norms associated with the social contract are now threatened: “*All norms have to adjust to accommodate the new situation*, but this will not take place without resistance.”⁵⁵ After all, as cited in chapter 2, “holding back increases in living standards or their absolute reduction . . . sooner or later entails serious political and social consequences.”⁵⁶ At what point does dissatisfaction begin? “And, if there is dissatisfaction, at what point it starts to endanger the stability of the system. It is a historical fact that unrest may be so great that it induces leaders to change economic policy.”⁵⁷

UNEXPLAINED VARIATIONS

We should not be too quick to conclude that the social contract was the source of all the phenomena associated with the shortage economy



of Real Socialism or that it alone generated growing shortages and the threats to the continuation of this social contract.

After all, what in this description of the social contract (and, indeed, of vanguard relations of production) would explain the production of heavy chandeliers and “gold-plated” coats? What does a tendency of “management of enterprises to loosen plans, to hide production potentials, and to hold back outstanding production achievements” have to do with vanguard relations as such? As Kornai indicated in the 1950s, “This is highly dangerous and harmful.” So why would the vanguard want this and allow it to continue? Given the dependence of the vanguard mode of production upon accurate information, how is the tendency to send false information not dysfunctional?

As soon as we pose such questions, we are necessarily brought back with a jolt to recall the existence and behavior of the enterprise managers who are *outside* this particular social contract between the vanguard and the working class. In the absence of the fully developed vanguard mode of production, the complete information required for central planning of the economy as a single factory is not available. So, what mechanism was chosen in Real Socialism to encourage enterprise managers to carry out the goals of the vanguard? Material incentives—bonuses. We have already seen an unintended consequence of this mechanism—the fostering of a *different* relation and of a different logic that interacts with the logic of vanguard relations.





4—Contested Reproduction in Real Socialism

As we have seen, Kornai argued that Real Socialism was an organic system—a system whose “combination of main features forms an organic whole,” a “coherent system,” “a coherent whole” whose elements are “organically connected and reinforce each other.”¹ Precisely because its elements “all belong together and strengthen each other,” he insisted that the system could not be partially reformed but had to be replaced.²

But Kornai was not the only one who argued that Real Socialism was an organic system. That was official ideology, as demonstrated by Richard Kosolapov, a Soviet supporter of Real Socialism. Drawing specifically upon Marx’s discussion of organic systems, he argued that socialism becomes a totality by subordinating all elements of society to itself and by creating the new organs it needs—that is, by producing its own premises and preconditions. It becomes an organic social system, Kosolapov explained, through its development of the productive forces that ensure a socialized economy “in fact” and thus a “natural mutual correspondence” between the elements of the system. And that stage indeed had now occurred: “The stage when the system becomes a totality is the stage of developed socialism.” Thus we see here the argument



for Real Socialism as a completed and stable social system—resulting, in Brezhnev's words, in "the organic integrity and dynamic force of the social system, its political stability, its indestructible inner unity."³

Both the critic and the advocate of Real Socialism, though, were wrong. Our description of the struggle between vanguard and managers reveals that it was *not* a single, coherent system, "a structure in which all the elements coexist simultaneously and support one another." Rather than an "inner coherence," there was contested reproduction in Real Socialism—the result of the logic of different systems it contained and which interacted to generate dysfunction.

Certainly, there's nothing unique about pointing out the "distinction between the enterprise and the center" and emphasizing how "decisions of enterprise managers will lead to results which are dysfunctional from the viewpoint of the central authorities."⁴ Indeed, the picture of the enterprise managers presented in chapter 1 was so familiar to analysts of Real Socialism that Granick could describe it in his 1975 book as "the orthodox model."⁵ In that model, the managers are treated as "independent and maximizing decision makers" who "suboptimize with regard to society's goals as these are perceived by central authorities." Further, that model stressed the "suboptimizing behavior by individual enterprises which lead to macroeconomic malfunctioning."⁶

Although that "orthodox model" acknowledged a parallel between the income-maximizing behavior of managers in Real Socialism and the profit-maximization assumption for firms within capitalism, it did not proceed from there to call the managers capitalists. And, on its face, it *should not*. After all, these managers didn't own the means of production, didn't have the power to compel workers to perform surplus labor, and didn't own commodities (as a result of the labor process) that could be exchanged to realize surplus value which can be the basis for the accumulation of capital. Further, under the social contract they lacked the ability to drive down real wages, intensify the labor process, and introduce labor-saving technology. In short, we do not find here capitalist relations of production.

However, these managers do contain within them the *logic of capital*—just as merchant and moneylending capitalists did before capital



was successful in seizing possession of production. Whereas the existing constraints upon the managers do not permit us to classify them as capitalists, the drive, impulse, the *logic* of these managers is a different matter. If these income-maximizing managers struggle to remove the constraints placed upon them—for example, specific output targets, designated suppliers and customers, the appropriation of enterprise profits, the inability to discipline or fire workers, or to introduce freely new methods of production, what is this drive if *not* the logic of capital? Expressing that logic is the mantra—*Free capital!*

THE INTERACTION OF THE TWO LOGICS

What happens when two differing logics coexist? In the 1920s, Evgeny Preobrazhensky argued that the state economy in the USSR was in “an uninterrupted economic war with the tendencies of capitalist development, with the tendencies of capitalist restoration.” This, he proposed, was a “struggle between two mutually hostile systems,” a war between two regulating principles—one the result of the spontaneous effects of commodity-capitalist relations (“the law of value”) and the other based upon the conscious decisions of the regulatory organs of the state (which he called “the law of primitive socialist accumulation”).⁸

Preobrazhensky argued that each of these regulating principles was “fighting for the type of regulation which is organically characteristic of the particular system of production-relations, taken in its pure form.” However, the result of their interaction, he proposed, was that the Soviet economy in the 1920s was regulated by *neither* in its pure form. There was no simple combination or addition of the productive relations and their associated regulating principles; rather, Preobrazhensky insisted, they *interpenetrated*—coexisting, limiting, and (significantly) deforming each other.⁹

In short, two systems and two logics do not simply exist side-by-side. They *interact*. They interpenetrate. And they deform each other. Rather than the combination permitting the best of both worlds, the effect can be the worst of the two worlds. Precisely because there is contested



reproduction between differing sets of productive relations, the interaction of the systems can generate crises, inefficiencies, and irrationality that wouldn't be found in either system in its purity.

This is the unarticulated story of Real Socialism—that its particular characteristics were the result of neither the logic of the vanguard nor the logic of capital. Rather, it was the particular combination of the two which yielded the dysfunction and deformation identified with Real Socialism.

THE LAW OF VALUE AND THE LAW OF COMMAND

To understand the interaction of the two logics, we need to consider not only each logic but also how it is executed by individual actors. Recall the logic of capital in capitalism once it is fully developed. Given capital's drive for self-expansion, its inherent tendency is to increase the rate of exploitation by driving up the workday in length and intensity, driving down the real wage, increasing productivity (specifically, relative to the real wage), and by separating and dividing workers in order to weaken them. Further, capital constantly attempts to expand its ability to realize surplus value contained in commodities by expanding its sphere of circulation and creating new needs. The self-expansion of capital also means the attempt to reduce its requirements in both the sphere of production (thus substitution of machinery for labor) and the sphere of circulation (thus efforts to reduce the time of circulation) as well as choosing those sectors for accumulation that maximize the growth of capital.

By grasping the nature of capital, we see its inherent tendency for an increase in the technical composition of capital (and intensive development), expansion of needs and the market (for example, the world market), for accumulation of capital (and, indeed, for overaccumulation because the expansion of capital occurs without regard for the conditions for realization). However, this understanding comes from the logical development of the concept of capital. In the real world, there is no single actor, capital in general, that pursues these goals directly. Rather, it appears that individual capitals are driven by competition and



generate these results. The inner laws of capital necessarily appear to individual capitalists as external coercive laws.¹⁰

To compete with other capitalists who are equally driven by the desire for profits, the individual capitalist must lower his costs. He must reduce his labor costs; thus he tries to get a greater quantity of labor for a given expenditure on wages by increasing the workday and driving down wages (perhaps by moving to where labor will be cheaper). Further, relative to his competitors, he tries to reduce his costs of production in general (by substituting machinery for labor) and his costs of circulation (by innovating to reduce inventory requirements and speeding up sales). To make profits, of course, these individual capitalists must produce the things that will generate profits. Thus they will expand production in those areas for which demand is rising because, all other things equal, this will tend to generate rising prices and profits. Individual capitalists, accordingly, in their search for profits are driven by demand and by competition with other sellers—that is, *by the market*.

That demand, of course, is not the demand of abstract individual consumers. It reflects the nature of capitalist relations of production, and its pattern is affected by class struggle (for example, the distribution of income). Further, the market that drives individual capitalists is simply the logic of capital as it must appear to individual capitalists (that is, the necessary form of appearance of the inner law of capital). The essential character of capital, its drive for self-expansion (which includes the drive to economize upon capital and allocate the labor of society in such a way as to maximize self-expansion) takes the necessary form of market compulsion—in short, as the compulsion of “the law of value.”

Consider, on the other hand, the logic of the vanguard. As we have seen, in its orientation toward building socialism, the vanguard seeks the most rapid possible development of productive forces. Kornai, accordingly, refers to “the top leadership’s inner impulse to maximize the proportion of investment.”¹¹ Following logically from this “inner impulse,” the vanguard would want to minimize waste, inefficiency, and duplication of effort as well as slack and underemployment of people and resources. Further, to achieve that growth and meet the expectations of the underlying population, the vanguard needs to allocate labor between and within



Departments I (means of production) and II (articles of consumption). Finally, to make these decisions real, the logic of the vanguard calls for an economic plan that requires instruction and command from above.

Though there is a real actor that embodies the logic of the vanguard (that is, the vanguard party), there is also, as in the case of the logic of capital, a difference between inner laws and the interaction of real individual actors who execute those immanent laws. Consider the perspective of those individuals at the top of the state-party structure—in ministries, planning bodies, and other institutions contributing to the creation of the plan. In the pure form of the vanguard relation, each internalizes the perspective of the vanguard in general. Each seeks to build socialism through the development of productive forces and sees the necessity for discipline, centralization, and unity in order to achieve this. For those individual actors, the inner logic of the vanguard appears as a compulsion—as *responsibility and duty*, as the sense that everything depends upon them; and the result is that they “work long, hard hours in the firm belief that in doing so they serve the cause of their party and of the people, the common good and the interests of mankind.”¹²

To best contribute to the goal of building socialism, each of those at the top wants to regulate closely all subordinates and wants more resources. Thus the creation and execution of the plan in practice reflects the interaction of those individual perspectives—through their demands for both greater resources and greater power over their subordinates. As the result of this combination, those who lead express the “inner impulse” of the vanguard to maximize investment and expand hierarchical control—“each thinks: there must be fuller intervention.” Add managers of individual units of production who similarly internalize the perspective of the vanguard, and we can see the unfolding of the logic of the vanguard in its “pure” form.

There is, of course, a major difference between the way the logic of capital and the logic of the vanguard are executed. In contrast to the unconscious, spontaneous result that flows from the atomistic behavior of individual capitals, in the case of the vanguard there is a conscious collective commitment. Democratic centralism is the underlying mechanism, and though competing interests may enter into the formulation



of the plan, once that plan is adopted, it is meant to be carried out and "instructions passed down from above must be carried out by the subordinates."¹³ The logic of the vanguard takes the form of the administrative-directive plan, the "law" of command.

DYSFUNCTION IN REAL SOCIALISM

What happens when the logic of the vanguard and the logic of capital interact? When commands are issued by those at the top, they are received by managers who embody not the logic of the vanguard but the logic of capital. Those managers do not proceed from their recognition of the interdependence between their production targets and the predetermined plan as a whole. On the contrary, income-maximizing managers act in their own individual interests. However, they are not free to pursue their own interests under conditions of their own choosing. Those managers are constrained by vanguard relations, and the logic of capital requires them to remove those constraints. In the struggle between these two logics, we can see the basis for the phenomena of the shortage economy.

Consider, for example, how the logic of capital is affected as the result of the law of command. In attempting to maximize the income they can obtain through their access to the means of production, the managers are constrained by instructions from the vanguard, by the law of command. But this is a *myopic* command, and accordingly, their entrepreneurial activity involves taking advantage of that myopia.

The combination of self-interested managerial behavior and myopia at the top allows, as we have seen, the managers to take advantage of plan ambiguities to earn bonuses while directing the production of perverse outputs (for example, those heavy chandeliers and "gold-plated" coats). And the same combination infects the plan itself. Since managerial income is not based simply upon compliance with an externally imposed enterprise plan, negotiation of the production target is an object of entrepreneurial activity. Thus the managers lie and distort information sent upward. As part of this same pattern, the "wise director" underproduces



relative to his potential. Here is where, as Šik indicated, “people’s initiative could really develop to the full.” How can you plan accurately on the basis of such information?

This is not, however, a matter of the inherent inefficiency of central planning or of the technical incapacity to obtain and utilize the information essential for planning. *Bad information in this case reflects class struggle.* Kornai aptly described the result in the 1950s: “In a word, present planning and incentive systems have evoked a spontaneous tendency, the effect of which is to induce managements of enterprises to loosen plans, to hide production potentials, and to hold back outstanding production achievements. This is highly dangerous and harmful.”¹⁴ But why was this occurring? Very simply, those dangerous and harmful outcomes to which Kornai referred were explicitly the product of a particular combination of *two different logics*—in a word, the “present planning” system (the logic of the vanguard) and the “incentive” system (the logic of capital).

These systemic dysfunctions were not the only harmful outcomes. Certainly the waste from “storming” and the shortages produced by the stockpiling of resources and workers were inherent in the logic of capital when subject to the law of myopic command. But it also was entirely rational for managers to do whatever was necessary to have more workers and resources on hand to meet targets (for example, “every manager tries to wring higher wages for his shop, section, etc., from his superior.”). Rather than driven to lower their labor and material costs by the law of value, the managers create conditions by which they instead can maximize both resource and labor supplies within their own units, even though this is not rational for the society as a whole.

All this flows from what Kornai called “the joint effects of plan instructions and incentives.” By itself, the orientation of the planners was characteristic of “a coherent, unified mechanism, which has its own inner logic and several tendencies and regularities peculiar to itself.”¹⁵ We see, though, that that logic did not exist by itself. There was also the logic characteristic of the managers; and in the conflict between the managers’ sense of responsibility to the total economy and their own economic interest, Kornai proposed that “it is only human, if individual



economic interest proves to be stronger.”¹⁶ Precisely because the logic of capital is “only human,” Kornai concluded that it was *only rational* to free that logic from the constraints of the vanguard.

Consider the other side—how the logic of the vanguard is affected by the behavior of the managers. Those at the top of the state-party structure know that they cannot depend upon obedience, upon loyalty to the vanguard, and upon a sense of responsibility on the part of existing managers to the social interest. Indeed, they know that the interests of those managers differ and that the managers have knowledge the vanguard does not have (the differing interests and the myopia that are, of course, the premise for the principal-agent problem discussed in chapter 2). To achieve the goal, then, of maximizing production by mobilizing resources and labor to that end, the vanguard must factor in the behavior of individual managers.

Accordingly, the vanguard at every level must stress “taut” plans (which increase on the basis of “achieved results”) and reduced input norms—precisely because of the high probability of the hidden reserves and the “bogus difficulties” claimed by the managers. But by how much? *As much as possible.* Given their lack of accurate information and the real shortages reflecting managerial behavior, there is a tendency for assigned plans to go beyond what is feasible. Further, because of the perverse production patterns generated by bonus-maximizing managerial activity, more regulations and norms (covering, for example, product variety, product quality, productivity, wage bills, etc.) are logical.¹⁷ Thus more information that an overburdened center needs to digest.

All these responses from above (accompanied by the multiplication of a bureaucracy to attempt to monitor and enforce targets and regulations), of course, only intensify a tendency to generate plan failures and shortages. And that fosters *further* initiative on the part of the managers. Faced with the prospect of not getting planned delivery of necessary inputs and thus not securing their bonuses, the logical answer for these managers is to go *outside* the plan. Accordingly, it becomes individually rational for enterprises to produce their own essential inputs and to engage in barter transactions with other enterprises to trade excess inventory of some inputs in exchange for their own requirements. Not only is this a



resort to an undeveloped form of commodity exchange (which gives rise to specialists in supplies, the *tolkachi*) but production for the purpose of exchange (and thus an additional diversion of resources) can soon follow. As Kagarlitsky commented with respect to the Soviet Union: "Informal barter, far from solving the fundamental problems of production, complicated them by encouraging the formation of additional reserves. This in turn led to an exacerbation of shortages."¹⁸

How can one talk about a central plan in this context? The concept of the central plan is an attempt to coordinate all aspects of the economy by considering in advance the interdependencies of all subunits and linking consumer goods production and income in order to ensure macroeconomic balances. However, when the managers go outside the plan to stockpile resources and labor (thereby contributing to shortages), produce their own input requirements (contributing to economic irrationality), and waste physical, human, and monetary resources by directing their enterprises to engage in "storming" (thereby producing low quality or useless products), we can see the dysfunctional character of Real Socialism. In Flaherty's words, it is a "structure in which a central command is given and spontaneous administrative processes then take over."¹⁹

Describing the disintegration of coherent planning in Poland, Maziarski pointed to the inability of those at the top to "conduct any sort of coordinated policy because departments with greater access to the policy-making process lobbied for their investments, destroyed the logic of the plan, and ruined any chance of escape from the crisis."²⁰ The attempt to coordinate the entire economy as a single, nationwide factory fails when there is self-oriented behavior by those who possess the individual means of production; it fails just as an attempt to coordinate from above within a single vertically integrated factory would fail if there were commodity exchange by independent, autonomous producers at every stage of production in that factory.

Plan failures, though, are not random. All industries are not equal; some do have a higher priority than others even in a well-coordinated plan. Accordingly, some are more likely to face a soft budget constraint than others. In a situation of sporadic and growing shortages,



the vanguard needs to be certain that scarce inputs are allocated to the most critical sectors, those whose linkages to the rest of the economy are greatest (and thus whose plan failures would have the greatest impact). The high-priority sectors, accordingly, will tend not to be those producing consumer goods; therefore, plan failures (and revised plans) tend to cluster in these sectors—even though the social contract may require increased output of consumer goods.²¹

In short, chronic shortage for consumers—“every member of the household is recommended to carry a shopping bag.” We are back at our concrete starting point—and this time we understand it as a rich totality of many relations. This time, we understand it as the result of a “struggle between two mutually hostile systems,” where each of the two logics is “fighting for the type of regulation which is organically characteristic of the particular system of production-relations, taken in its pure form.”²²

DEFORMATION IN REAL SOCIALISM

The problem, though, is not simply that this struggle between two opposite logics generates dysfunction. There is also the question of the effect of this interaction upon each side. In the combination and interaction between two logics, neither the managers nor the vanguard exist in a vacuum; in that interaction, each is deformed.

Bihari, considering the perspective of factory managers in Hungarian market reform debates, described the deformation of the logic of capital well: “In principle, the factory managers sympathize with the radical market solution, since *in the long term it would result in the enhancement of their economic and political power*. They would be the principal winners in ‘marketization.’” However, “in practice there are few of them who actually prefer economic independence” because of the fear that they would not be able to compete on the market. “These fears make a number of factory managers supporters of the status quo.”²³ For individual managers, in short, this distinction between “in principle” (the logic of capital) and “in practice” with respect to the full development of market reforms reflects the deforming effect of interaction of the logic of



capital with the logic of the vanguard. The law of value here gives way to a law of *lobbying*—a competition for access to resources.

A similar development can be seen on the side of the vanguard. What are those individuals at the top of the state-party structure (in ministries, planning bodies, etc.) to do when faced with the prospect of shortages producing plan failures? Their commitment to the project as a whole leads them first of all to attempt to insulate their own institutions from failures—that is, to control what is in their immediate power to control. One manifestation of this tendency is the pattern of “departmentalism” described by Kagarlitsky:

Bureaucratic institutions operate according to the principle of “every-one for themselves.” In distributing their products, all are governed by the principle of “your own first.” This leads to the famous “counter-transportation” where a factory sends its production not to its immediate neighbour but to the other end of the country—because that is where there is an enterprise from the same department, while the neighbour belongs to another one. Different ministries create production of the same type within their own system just so they do not have to depend on each other.²⁴

With growing shortages, the response of ministries and production associations becomes one of “anticipatory competition,” a struggle to ensure that their sub-units secure the resources they needed. Thus a gulf emerges here between the needs of the system as seen by those at the center and the needs for self-sufficiency as perceived by those lower down in the production chain: “The central authorities are primarily concerned with maximizing long-term growth while subordinate agencies concentrate their energies on short-term objectives and advantages.”²⁵

If the autonomous activity of enterprise managers chronically infects the plan, how can those who have the responsibility of overseeing the portion of the plan entrusted to them minimize the effect of the infection? Not only departmentalism but also finding ways to enable enterprises under their authority to produce as much as possible follows. Thus, in contrast to demanding the highest possible targets in the conception and



creation of the annual plans, those at the top of the vanguard at this point see the necessity to induce the managers to meet plan targets. To prevent managers from “losing all hope” at securing their bonuses, plan targets are adjusted downward within the plan period itself in order to be more realistic. Further, those at the top look the other way when it comes to the various questionable and illegal measures pursued by managers to facilitate plan-fulfillment—that is, they *acquiesce* in the waste, stockpiling of labor and resources, and duplication of effort that is contrary to the inner impulse of the vanguard. With growing shortages and plan failures, the law of command is increasingly transformed into a law of *enablement*—another aspect of the deformation of the logic of the vanguard.

Thus, in contrast to the hierarchy inherent in vanguard relations, when it comes to realization of the plan the relationship between vanguard and managers is inverted. Those at the top are dependent (and recognize that dependence) upon the enterprises to deliver their portion of the central plan. On the other hand, the enterprise managers chafe under the constraints of the vanguard but also develop a growing sense of their independence and power to the extent that they are able to achieve their goals despite the controls over them. This (Hegelian) inversion is precisely why we could consider the managers as the “principals” in their relation with the planners, and it is the context in which the sectoral coalitions and the pattern of sectoral dominance flourished, as described in chapter 3.²⁶

Thus we see here a definite tendency for the line between the two opposites to become blurred in practice—that is, a tendency for an identity of opposites to emerge. On the one hand, there are managers hesitant to pursue the logic of capital fully; on the other, we see planners who support the actions of self-oriented managers. Though the coming together of these opposites can provide mutual security for a time and can generate an apparent stabilization within Real Socialism, that unity is only apparent. What prevails is the now hidden, now open *struggle* between the two logics—a struggle in particular over property, that is, the ownership of the means of production.



PROPERTY, PLAN, AND MARKET

The struggle takes the form of a struggle between plan and market. It is a struggle not over juridical ownership but over *real* ownership of the means of production: what does it mean to own?

Though a popular conception tends to think of ownership as undivided, it is generally accepted by those who study property that ownership involves a bundle of different property rights that are often not held by a single party.²⁷ Drawing upon property rights literature, for example, Kornai identified as key elements: (1) the right to the residual income (and to decide how to use it); (2) the right of alienation or transferability (to rent, sell, bequeath, etc.); and (3) the right to control (including the right to delegate that control). Considering Real Socialism, he noted that “the power elite, hierarchically structured and sharing power with no other group, has the exclusive right of disposal over the state-owned means of production.”²⁸

But one part of that bundle did not appear to be present. According to Andras Hegedus (former prime minister of Hungary), the state bureaucracy exercised the power to direct people, to dispose of the means of production, and the almost unlimited power to use and distribute the surplus product through its hierarchically arranged decision-making system—that is, it had all those attributes of ownership. However, it *lacked* the power to sell, bequeath, or alienate the means of production. This led Hegedus to describe the state bureaucracy in Real Socialism as the *possessor* rather than the proprietor.²⁹

As a general principle, Hegedus stressed that “we must always ask whether there exists some kind of real control over those who dispose of power and exercise possession in the name of the proprietor.”³⁰ Since in Real Socialism society as a whole was the juridical owner (that is, the proprietor), then the question in this case was whether there was control over the state bureaucracy. Indeed, Hegedus argued, “the core of the problem of property” was the struggle for “the replacement of possession by the state administration with ownership-exercise by society as a whole.” Accordingly, Hegedus stressed the necessity of a struggle for democracy—that is, for real control over the possessor by strengthening democratic forms of administration.³¹



Yet Hegedus was well aware that there was a different and immediate challenge to the existing possession of the means of production. There was a “rapidly advancing form”—a *different* distribution of property rights that was emerging: “possession by the managerial administration of the enterprise.” The managers of enterprises, he noted, exercise their “possession in the field of property with a relatively high degree of independence.”³² And, this possession by the managers, he proposed, advances at the expense of possession by the state administration. That encroachment was, “of course, a process that is accompanied by sharp conflicts. Those organs of state administration which have exercised possession up to that point do everything in their power to maintain their old policies.”³³

Like Hegedus, Charles Bettelheim also identified the struggle between the managers and state administration as a struggle over property rights. Though he also stressed the essential distinction between “possession” and ownership, Bettelheim defined possession differently—as “the *ability to put the means of production into operation*.”³⁴ Thus possession for him involved the technical capacity in a specific site to carry out and direct a labor process. “Every unit of production,” Bettelheim argued, “forms a *center* for the appropriation of nature. Within such a center, different labor processes are closely articulated; thus every unit of production actually has the capacity to utilize its means of production, which it consequently *possesses*.”³⁵

Property and ownership, accordingly, must be distinguished from possession in Bettelheim’s sense. Property involves “the *power to appropriate* the objects on which it acts for uses that are given, particularly the *means of production*, and the power to dispose of the products obtained with the help of those means of production.” And, for that power of property (those property rights) to be effective, the agents of property must rule: either they must possess the means of production themselves or the agents of possession must be “subordinated to the agents of property.”³⁶ The critical struggle over property for Bettelheim, accordingly, was between the owners (the agents of property) and *would-be* owners (those who possess units of production).

So who owns the means of production within Real Socialism? *It depends*. It depends upon the relative strength of the contending



parties. The state, Bettelheim argued, is able to act as proprietor of the means of production when "these means are directly brought under control and put into operation," and this occurs through the "plan and the planned relations that are derived from this plan."³⁷ The more the state coordinates *a priori* the different units of production, the more those who possess the means of production are subordinated to the state as proprietor.³⁸

In short, the plan is the way that enterprises are prevented from transforming their possession into property. The state acts as owner "on the one hand when state property effectively enables the governmental authorities to 'reappropriate' all or part of what each enterprise possesses; on the other hand, when the state effectively *dominates* the use that the enterprises make of their means of production and products." The state thus dominates through the central plan: "The state's power to dispose of products and appropriate the means of production" is "the effect of specific relations of production, of property relations."³⁹

Conversely, replacing the plan with the market is, as Hegedus formulated it, "the replacement of possession by state management with possession by enterprise management." As market prices are introduced "in place of the previous bureaucratic price," as management is enabled "to make the decisions concerning all the important questions of enterprise development (changes in the product structure, technical development, investment, etc.)," possession by the managers is strengthened.⁴⁰ From Bettelheim's perspective, indeed, such ability of enterprises to make their own decisions about the use of the means of production that they possess is "an effect of specific relations of production, that is, capitalist relations of production."⁴¹

This conflict between plan and market should not be identified as a struggle between socialist and capitalist relations of production. Domination via the central plan, Bettelheim noted, "can be *socialist relations* to the extent that they really ensure the *domination of workers* over the conditions of production and reproduction, and, therefore, over the means and results of their labor."⁴² The state's powers over the means of production (that is, its property rights), he argued, "only constitutes an effect of socialist relations of production *insofar* as these powers really



ensure the domination of the workers over the conditions of production and reproduction.⁷⁴³ *As we have seen in our discussion, however, domination by workers over the conditions of production and reproduction is precisely what is precluded by vanguard relations of production.*

To the extent that the enterprise managers are prevented from turning their possession of the means of production into property, the vanguard is the collective owner of the means of production in Real Socialism. Its powers are the powers of owners: it determines the goal of production and directs people and means of production in order to achieve that goal, decides how and by whom the products of this activity will be enjoyed, and allocates the surplus over and above what is necessary to reproduce the conditions of production.⁴⁴

Demonstrating its ownership, further, the vanguard is able to assign particular property rights to others. That is precisely what occurred within the social contract through the granting of job rights to workers. The protection from being fired or being forced to change their jobs against their will meant in practice that workers were linked to specific means of production. *In short, workers under the social contract possess particular property rights*—they have the right to continue to use those means of production or to shift jobs and establish a similar link to other means of production.⁴⁵

Consider vanguard relations of production. In the absence of the specifically vanguard mode of production, their reproduction requires a mode of regulation that can ensure production of the premises of the system. Control of managers through the administrative-directive plan and the existence of the social contract constitute a specifically vanguard mode of regulation that allowed both the reproduction of the vanguard as the owner of the means of production and the reproduction of workers in their existing relation to the means of production. But a successful mode of regulation is not automatic—it is the terrain where contested reproduction occurs.

In the “struggle between two mutually hostile systems” that characterized Real Socialism, managers wanted to be “free.” Free from all control, free from the “petty tutelage” of the vanguard, free from the constraints of the social contract (in particular, free from the ultimate constraint of



job rights). Embodying the logic of capital, the managers emerged as a class oriented toward the transfer of all property rights over the means of production from both vanguard and the working class. Not surprisingly, their particular class interest was presented as the general interest—that is, as an end to irrationality.





5—The Conductor and the Battle of Ideas in the Soviet Union

Recall Canetti's description of the orchestra conductor:

His eyes hold the whole orchestra. Every player feels that the conductor sees him personally, and still more, hears him. The voices of the instruments are opinions and convictions on which he keeps a close watch. He is omniscient, for, while the players have only their own parts in front of them, he has the whole score in his head, or on his desk. At any given moment he knows precisely what each player should be doing. His attention is everywhere at once, and it is to this that he owes a large part of his authority. He is inside the mind of every player. He knows not only what each *should* be doing, but also what he *is* doing. He is the living embodiment of law, both positive and negative. His hands decree and prohibit. His ears search out profanation.¹

What happens, though, when the conductor is forced to admit that something has gone terribly wrong? When the conductor concludes that there is a problem with the music—"the only thing that counts"—what is to be done?



THE CONTEXT

Because of its importance for the understanding of the fate of Real Socialism, we will consider here the specific case of the Soviet Union. When two hostile systems interact, the result may be crises, inefficiencies, and an irrationality that wouldn't be found in either system in its purity. Rather than a "coherent whole" composed of elements that "mutually complement and attract each other," the interaction of the logic of the vanguard and the logic of capital produces something quite different. Indeed, what may emerge is the worst of both worlds.

Was this the situation in the Soviet Union? There can be little doubt about how dysfunctional its economy was—the waste, the stockpiling of labor and resources, the poor quality products, the extreme alienation and low productivity of workers, the lack of correct information to engage in planning, the departmentalism, the plan evasions, and the inability to control enterprise managers. And there is no absence of evidence pointing to a growing crisis—significantly falling growth rates from the 1950s through the 1980s, a declining efficiency of investment (that is, falling output-capital ratios), growing shortages of resources and labor, and falling productivity growth.²

It is tempting to explain the crisis simply by reference to labor shortages and to attribute these to the continuation of the extensive growth model. Certainly, there were obvious signs of labor shortages. In addition to evidence of growing job vacancies, there was an inability to utilize additions to industrial capacity in the 1960s and 1970s because of the lack of sufficient labor: "In the 1970s, a Gosplan research director reported that 10–12% of the increment in real fixed capital was unutilized due to a shortage of labour." Allen sums up the situation by commenting that "the capital stock rose without a corresponding rise in GDP because there was no labour to operate the new capacity."³

In general, sources of additional labor for Soviet industry were increasingly exhausted. By 1965, for example, it was already apparent to Gosplan investigators that the demand for labor was far outrunning the growth in labor supplies—"in other words, the requisite workers had been obtained mainly by drawing upon those working at home or on their private plots. . . .



But the number of those working at home was continuing to fall and this source would soon dry up."⁷⁴ Considering only demographic patterns, how long could the Soviet Union follow an extensive development model that depended upon continuing increments of labor to be combined with resources in new productive units without generating a crisis?

Yet the explanation of the crisis is not quite that simple. First of all, labor shortages have to be considered in the context of the managerial tendency to stockpile labor. Myasnikov, for example, argued in 1979 that "at most Soviet machinery plants, the number of employees is 30% to 50% higher than similar enterprises abroad."⁷⁵ Similarly, while Grancelli estimated in 1988 that "as a result of the hoarding of labour, the hidden labour reserves in industrial enterprises ranged from 10 to 20 per cent of total personnel," other sources suggested much larger stockpiling of workers in the USSR. Thus, Kuznetsov gave an example from the ammonium industry: "Several producers of ammonia, using the same technology and plant, were surveyed in Russia in 1983. According to a normative, the production needed manpower of 83. The actual employment ranged from the normative figure to as many as 230, 294 and even 490 in some enterprises."⁷⁶ As Filzer noted, there was a "seeming paradox of a severe and reproducible labour shortage alongside overstaffing within each individual production unit."⁷⁷

Further, labor shortages were by no means universal. While they were marked in western and developed parts of the Soviet Union (especially in the Baltics) and Siberia, this was not the case in the Central Asian republics where population growth rates were twice the Soviet average. Yet despite the geographical disparities in labor shortages and surpluses, it appears that "labour availability was not taken into consideration" when planning the location of industrial plants. "Major labour-intensive industries had been located in regions where labour was scarce," and "regions with surplus labour had experienced reduced investment." The 1965 Gosplan report concluded that the deteriorating situation was "due in part to miscalculations by planning and economic agencies, and in part to errors in economic policy."⁷⁸ Very simply, the report indicated that "the employment factor is still not genuinely integrated into the formation of the national economic plan."⁷⁹



It appears that such warnings were not sufficient to reverse the situation. Reflecting in part the employment of women in industry, inadequate housing, and insufficient childcare facilities, population growth in areas of labor scarcity continued to be low.¹⁰ Meanwhile, the combination of continuing rapid population increase and relatively low economic expansion in non-European parts of the Soviet Union meant that by the mid-1980s, there was substantial long-term unemployment. In this situation, given the reluctance of Muslims from those republics to relocate permanently to areas distant from their cultural communities, western urban areas with an unsatisfied demand for labor recruited temporary labor from Central Asia and used contract workers from Vietnam.¹¹

Thus more than a conflict between extensive development and purely demographic factors was producing the crisis. In areas of labor shortage, relief could have been forthcoming by reducing excess demand for labor in existing operations. Yet that exaggerated demand was inherent in the managerial effort to ensure bonus achievement and thus could not be easily reduced without significant restructuring. Further, economic planning that directed resources to such "unproductive" sectors like housing and childcare could have directly influenced low birth rates (as well as reducing the return of migrants from new investment areas like Siberia because of the absence of complementary investment in housing).

Recall, though, our discussion of departmentalism and the gap between planning at the top and concrete decisions below. This suggests that the problem may have been *more* than a failure to integrate "the employment factor" into the formation of the central plan. For example, commenting upon a 1968 report done for the Russian Federation's Gosplan, Lewin wrote:

In the country's twenty-eight largest towns, construction of new factories was banned. Yet in the current five-year plan, ministries, whether by obtaining exemptions or simply disregarding regulations, had set up enterprises there in order to take advantage of superior infrastructure, causing a serious shortage in those towns.¹²



Four years later, another report on the problem of labor imbalances (including gender imbalances) indicated that the measures taken to rectify the situation had been unsuccessful and attributed the obstacles to "poor planning, a lack of incentives for ministries to locate industries in small towns, instabilities in their plans, and the weakness of their construction capacities."¹³

Was the inability to break with the extensive growth model related to this pattern of the self-orientation of ministries? In his discussion of the sectoral coalitions involving ministries and the enterprises within their spheres, Flaherty concluded that the pattern of investment became "almost entirely a function of sectoral dominance or the heavily skewed correlation of forces existing between the contenders in plan-bargaining." That power was centered in particular in the sectors that had been the beneficiaries of the previous path of extensive development—that is, "an extensive growth coalition." Flaherty proposed that "the evolutionary logic of an extensive accumulation regime" tended toward its own reproduction.¹⁴ In short, changing course to follow a more rational path came up against a problem of "path-dependency"—the existence of existing interests, investments and agendas.¹⁵

Recall, though, that it was not only the sectoral coalitions that reinforced a pattern of extensive growth. As explained in chapter 3, the social contract itself generated this tendency. Precisely because job rights were an essential aspect of the social contract, expansion of production tended to occur by combining new means of production with workers in new workplaces rather than through introduction of labor-saving technology in existing workplaces. In short, inherent in that social contract that traded security for protagonism on the part of workers was the tendency for extensive rather than intensive growth. This, then, was another potential obstacle to shifting paths.

Accordingly, though in principle there was general agreement that a shift to intensive growth (where increased output and consumption could be supported by increased productivity) was essential, getting there in practice was another matter. There were continual warnings that the Soviet Union could not continue on its existing path. Kosygin was warned by the Academy of Sciences in 1967 in a commissioned report



that the economy was lagging behind the United States in all key indicators and that the picture was stark. Subsequently, in 1970, Gosplan's research institute warned that, despite the party's recognition that economic success depended upon intensive growth, all the data pointed in the wrong direction: "Extensive factors are becoming stronger in the development of the Soviet economy, primarily because growth in basic capital assets is outstripping growth in output." This was followed by Gosplan's own 1970 conclusion that "all basic indicators will decelerate, deteriorate or stagnate." Gosplan pointed to a "dual imbalance" on the one hand, between the state's resources and the needs of the national economy; on the other, between the population's monetary income and the output of consumer goods and services.¹⁶

Despite those warnings, the situation continued to decelerate, deteriorate, and stagnate in the 1970s and 1980s, and the imbalances grew. The situation was summarized in the Report of the CPSU Central Central Committee to the 27th Party Congress delivered by Gorbachev in February 1986, which noted that "difficulties began to build up in the economy in the 1970s, when the rates of growth declined markedly." Even the lower targets of the 9th and 10th five-year plans were not attained; nor was the social program for the period fully carried out despite some important advances. And the reason was that "we had failed to realize the acute and urgent need for converting the economy to intensive methods of development."

Of course, the Central Committee Report continued, "there were many exhortations and a lot of talk on this score, but practically no headway was made." In short, there was stagnation, years of stagnation:

By inertia, the economy continued to develop largely on an extensive basis, with sights set on drawing additional labour and material resources into production. As a result, the rate of growth of labour productivity and certain other efficiency indicators dropped substantially. The attempts to rectify matters by building new plant affected the problem of balance. The economy, which has enormous resources at its disposal, ran into shortages. A gap appeared between the needs of society and the attained level of production, between the effective demand and the supply of goods.¹⁷



We need, though, to add something important to this picture of inertia and growing crisis. The report indicated that the last quarter-century had been one in which there had been considerable improvement in the standard of living. This was also the observation of Lewin, who wrote that “despite the bad news announced by the planning authorities and clear signs of a system in decline, living standards actually rose during the years of stagnation.”¹⁸ Studies indicated that “housing conditions had improved,” that “the purchase of consumer durables had increased appreciably,” and that the least-well-off had benefited and that there was a reduction of inequality.¹⁹ Further, Flaherty added, the educational levels of the working class rose significantly in this period and “most of the progress made by consumers came during the Brezhnev era.”²⁰

Those advances for workers reflect, of course, the social contract. Indeed, it was precisely those gains that explained, according to Lewin, “the paradox of nostalgia among the population of post-communist Russia for the Brezhnevite ‘good old days.’”²¹ That social contract, though, was precisely what was threatened by the developing crisis.

WHAT IS TO BE DONE?

Recall the concept of the vanguard presented in chapter 3. Characteristic of the vanguard party is the conviction that the achievement of socialism will not happen spontaneously and, accordingly, requires leadership. The orchestra needs its conductor: “the interconnection and unity of the process is necessarily represented in a governing will.”²² And the governing will must be the party. As Stalin put it, “The party must stand at the head of the working class.”²³

This self-conception of the party as the necessary conductor on the road to socialism and communism is one that brings with it responsibility and duties. The goal is “the only thing that counts, and no one is more convinced of this than the conductor himself.”²⁴ To *fail* to lead, from this perspective, is to betray its assigned historic role. But what happens when the conductor concludes that the score he has relied upon is flawed—that is, it is not achieving the desired results?



To understand the response of the vanguard party to the signs of emerging crisis, we need to consider both the options and the context. Acceptance of the necessity to turn away from the extensive development model does not point to a single solution. In principle, one way to expand output through productivity gains is by increasing means of production per worker (for example, the substitution of machines for workers). Another is by increasing the efficiency of means of production (that is, expanding output for a given level of means of production). Among methods of doing this would be an increased efficiency of investment, reduction of waste and duplication, and stimulating workers and reducing their alienation. These examples are not mutually exclusive—a combination of these may be particularly effective in increasing productivity.

But remember the context in which the necessity for shifting away from the extensive growth model presents itself. We are not considering a solution in the context of a society where vanguard relations of production alone prevail. Were that the case, the choice of options for the vanguard would be purely technical in nature—that is, identifying the most efficient and immediate method of increasing productivity. However, the crisis in Real Socialism occurred in the context of “contested reproduction”—a struggle between the logic of the vanguard and the logic of capital—and at the center of this struggle was the strengthening or weakening of the vanguard mode of regulation.

Accordingly, the options before the vanguard were political-economic rather than purely technical. They could stress (a) increasing the efficiency of investment through an improved information system and greater investment in machine-building and computerization. This would allow for more coherent planning and greater surveillance of ministries and enterprises and for better plan enforcement. In the short run, this could strengthen the vanguard mode of regulation while moving in the direction of “computopia,” the specifically vanguard mode of production.

Alternatively, the vanguard could (b) end particular job rights (the “micro-economic full employment constraint”), encourage enterprise managers to introduce new labor-saving technology, and remove



constraints upon managerial initiative in market transactions. In this case, the vanguard would effectively end the social contract by adopting the general perspective of the managers—without, however, relinquishing its own role as conductor of the working class. Finally, the vanguard could (c) focus upon increasing the capacities of workers by breaking down the division between thinking and doing. In this case, it would be moving to end the specific vanguard relation itself by creating the conditions for worker and community democratic management from below.

ARMING THE VANGUARD TECHNICALLY

After the death of Stalin and the drama of the 20th Party Congress in 1956, the political “thaw” associated with Khrushchev created the terrain for new ideas to be advanced for organizing the economy. Among the most important were the proposals to make full use of the potential of computers for economic planning and coordination. Here was the opportunity to work toward the creation of a specifically vanguard mode of production based upon vanguard relations of productions. Writing in 1959 about existing Soviet planning mechanisms, J. M. Montias predicted that if the planners could use successfully the mathematical techniques now available, “they will be tapping a new potential for increased power and growth.”²⁵

In December 1957, a confidential report from the Soviet Academy of Sciences stressed the gain in efficiency that would result from the use of computers for statistics and planning: “In most cases, such use would make it possible to increase the speed of decision making by hundreds of times and to avoid errors that are currently produced by the unwieldy bureaucratic apparatus involved in these activities.” Accordingly, the academy proposed creating a computer center in every region to aid planning, statistics, engineering, and scientific research.²⁶

Many steps were taken in this direction. In 1958, the Institute of Electronic Control Machines was established, headed by Isaak Bruk, who two years earlier had proposed creating a hierarchical network of “control machines” to collect, transmit, and process economic data



and to facilitate decision making by computer simulation. (In 1961 this institute was placed under the control of the State Economic Research Council, and later the State Planning Committee.) Similarly, in January 1959, engineer Colonel Anatolii Kitov, author of the first Soviet book on digital computers, sent his book to Khrushchev, attaching a letter that advocated “radical change and improvement of methods and means of management by making a transition from the manual and personal forms of management to automated systems, based on the use of electronic computing machines.” Computerization of economic management, Kitov argued, would “make it possible to use to the full extent the main economic advantages of the socialist system: planned economy and centralized control. The creation of an automated management system would mean a revolutionary leap in the development of our country and would ensure a complete victory of socialism over capitalism.”

Cybernetics in Service of Communism, a volume published in October 1961 on the eve of the 22nd Party Congress by the Council on Cybernetics of the Academy of Science (and annually thereafter) followed the first national conference on mathematical models in economics and planning. In that work, the Soviet economy was interpreted as “a complex cybernetic system, which incorporates an enormous number of various interconnected control loops,” and the authors proposed connecting regional computer centers into a nationwide network to create “a single automated system of control of the national economy.” And that was precisely the direction contained in the new Party Program adopted at the 22nd Congress, which argued that cybernetics, electronic computers, and control systems “will be widely applied in production processes in manufacturing, the construction industry and transport, in scientific research, in planning and designing, and in accounting and management.” Computers, it was declared in the Soviet press, were “machines of communism.”²⁷

These ideas of “radical change and improvement of methods and means of management” were consistent with the general thrust of Khrushchev’s economic measures at the time. Not only did these include enhancing the role of the party relative to state officials (thereby stressing politics in command) and driving down managerial bonuses, but



they involved, in particular, replacing ministries with regional economic bodies (*sovnarkhoz*) with the aim of replacing “the massive pyramid of economic ministries (mostly linked to industry), which were overcentralized and oblivious to local interests, and local economic administrative bodies.”²⁸ Indeed, according to Gerovitch, Khrushchev came to look upon cybernetic control as a model of communism: “In our time, the time of the atom, electronics, cybernetics, automation, and assembly lines, what is needed is clarity, ideal coordination and organization of all links in the social system both in material production and in spiritual life.” Speaking to intellectuals in 1963, he argued, “Communism is an orderly, organized society. In that society, production will be organized on the basis of automation, cybernetics, and assembly lines.”²⁹

The possibilities for significant improvement in the quality and execution of central decisions were also apparent to mathematical economists who benefited from the growing interest in economic control. Now, after many years of criticism of mathematical techniques as bourgeois, mathematical economists had an audience. Especially important was the publication in 1959 of Kantorovich’s *The Best Use of Economic Resources* (written in 1942 and drawing upon his earlier development of linear programming in 1939). This work pointed to the problem of making decisions based upon a price structure that did not take into account the real cost of bringing new resources into use, and it was the basis for an argument that the existing prices assigned to particular activities distorted rational economic decision making, generating waste and excess costs.

Although critical of the existing methods of calculation, that argument was not a challenge to the process of planning or vanguard relations itself. On the contrary, general objectives were to be given from above, and the point was to find the most efficient means of achieving those goals. Mathematical methods, Kantorovitch argued, were especially useful for finding concrete solutions for a socialist economy and for discovering “the advantages of this highly perfected social structure.” Socialist society, he stressed, was “by its nature, capable of securing a more complete and rational use of productive resources.” Accordingly, “for each sector of socialist production and for socialist society as a whole, an optimal plan has a concrete reality.”³⁰



There can be little doubt those at the top hoped that "improved flows of information and better communications could be achieved with the help of computers and systems analysis so as to enable them to maintain the prevailing highly centralized management without basic alterations in the position of the lower echelons."³¹ Thus, in 1962, they supported the proposal of Viktor Glushkov, director of the Institute of Cybernetics, to build "an automated system for economic planning and management on the basis of a nationwide computer network." Working closely with Nikolai Federenko, head of the Central Economic Mathematical Institute, the two published a joint article calling for a unified system of optimal planning and management in 1964, proposing that this would provide support for "optimal decision-making on a national scale." It called for a major network of computer centers, with all economic data collected and stored in data centers and available to all relevant agencies. Consistent with Khrushchev's overhaul of the ministries at this time, Glushkov's proposal called for significant oversight over bureaucrats within the economic sphere, creating "detailed lists of their duties, to determine clearly the order of document processing, the chain of responsibility, the timetable, and so on."³²

Not surprisingly, Glushkov's proposal for computerization worried managers and bureaucrats because it "ultimately threatened to make them redundant." But it also was opposed by economists who viewed it "as a conservative attempt to further centralize the control of the economy and to suppress the autonomy of small economic units." For them, "Glushkov's project merely conserved obsolete forms of centralized economic management." His proposal was presented formally to the government in June 1964; in October, however, Khrushchev was ousted. Accordingly, when Glushkov's project came up for consideration in November before the new government headed by Brezhnev and Kosygin, the balance of forces was no longer as favorable and the opposition succeeded in stalling any development of a national network.³³

The thrust now (in addition to the dismantling of Khrushchev's regional economic councils and restoration of the power of the ministries) was to expand the economic independence of enterprises by reducing the number of their success indicators and allowing them to



retain more resources for individual investments. Kosygin stressed increasing material incentive for the managers and for the workers: "It is necessary to introduce a system under which the enterprise's opportunities for improving the remuneration of its workers would be determined, above all, by the growth of production, improved quality, increased profits and greater profitability of production."³⁴

Without question, this emphasis upon increasing the power of the enterprises introduced a different theme. Though it didn't mean an end to the focus upon computerization and optimal planning, it did raise questions about priorities. Concerned about this question, Novozhilov, a leading mathematical economist, wrote in 1966: "It is easy to extend the rights of the enterprise. It is difficult, however, as a result of this extension to reconcile the interests of the enterprise employees with those of the economy." *First*, you had to develop a rational set of prices and planning. Accordingly, the expansion of enterprise powers should be "the last link in the tendency to develop a system of managing a socialist economy," and it should be developed on the basis of the optimization of planning and price setting. Novozhilov insisted that "the optimization of planning is the leading link in the chain." Thus the implementation of "the profound transformation of industrial management" envisioned could only be "gradual." "At the present moment," he argued, "the planning of prices is the main bottleneck in the organization of the socialist economy."³⁵

In the late 1960s and 1970s, there was continued stress upon the importance of cybernetics and computerization for the economy. Linear programming techniques were increasingly utilized for examining particular projects, resolutions were passed (including support for Glushkov's subsequent watered-down proposals for a national information system), and Federenko's institute received substantial support. But in the balancing act between reforms at the level of enterprise management and measures strengthening the vanguard mode of regulation, the advantages of neither could be realized. Indeed, the interaction between the two logics produced impasse.

Despite the steps begun in 1966 toward enterprise independence, within a short time it was clear to supporters like Nove that "the old system, whether of ideas or organizational-economic substance, has survived



without fundamental change.”³⁶ Those opposed to market reforms were looking to “computerized management, and improved information flow” in order to “improve economic performance without endangering the *status quo*.”³⁷ And they were successful at this point in checking the reform measures. As Nove complained, “The power to allocate resources and to take production decisions remains with the central authorities.”³⁸

And yet the momentum for the creation of a national network that could help to plan the economy as a single factory was lost. Indeed, the idea of creating a network of computer centers was attacked as far too costly—with one reform economist (Popov) describing it as a plan to construct pyramids across the country. In the absence of a political commitment to create that unified network, the vacuum was filled as individual ministries and institutions built their own computer systems and developed their own information systems. And those systems were incompatible. Gerovitch pointed out that “by accelerating the development of branch-based incompatible systems, the ministries effectively blocked the idea of a national computer network.”³⁹

The initial hopes for computerization as a solution faded. One report from 1985 indicated that the results from the introduction of computers were “only a quarter or a fifth as effective as had been hoped.”⁴⁰ The effect was that by the 1980s there was “widespread skepticism” about the usefulness of management information and control systems. According to economist Michael Ellman, “This largely resulted from the failure to fulfil the earlier exaggerated hopes about the returns to be obtained from their introduction in the economy.”⁴¹ The problems for which this was to be a solution, though, were not disappearing; indeed, they were increasing. So where could the conductor turn?

THE CLASS PERSPECTIVE OF THE ECONOMISTS

Ideas can be a material force when they seize the minds of the vanguard. And, in the Battle of Ideas, the constrained capitalists had strong weapons. They had economists as their ideological representatives. Those economists were not themselves would-be capitalists or



necessarily conscious representatives of capital. However, as Marx commented about the spokespersons of the petit bourgeoisie:

What makes them representatives of the petty bourgeoisie is the fact that in their minds they do not get beyond the limits which the latter do not get beyond in life, that they are consequently driven, theoretically, to the same problems and solutions to which material interest and social position drive the latter practically.⁴²

In this case, too, the economists tended to be stuck within class limits. In particular, their blind spot was the working class. The alternative they offered to the hierarchical rule of the vanguard did not challenge the domination of workers within the workplace and society. Instead, the economists stressed the constraints upon the managers. They did not talk about dynamic inefficiency as the effect of the separation of thinking and doing upon the capacities of workers. Instead, the economists began and ended with the inefficiencies that managers confronted on a daily basis as the result of their domination from above.

"Free the manager" was their solution. Of course, they did not openly identify the interests of the managers as the goal. Rather, Lewin sympathetically noted that "economists discovered the forgotten person, the consumer" and insisted that production and economic activity should "serve consumers." Responding to the consumer, they asserted, was "the very necessity of progress."⁴³ In advocating an end to everything that constrained the manager, the economists argued that "the *special* conditions of its emancipation are the *general* conditions within the frame of which alone modern society can be saved."⁴⁴

But saved from what? Saved on the one hand from the exercise of property rights by the vanguard. Saved on the other hand from the social contract that prevented the managers from exercising power over workers. Saved *in general* from the dysfunctions of the Soviet economy for which the only solution was to free the managers. In contrast to the managers themselves (affected in their everyday activity by their relations with the logic of the vanguard), the economists represent the logic of capital in its purity.



In their search for the general conditions for saving Soviet society, the economists began with a focus upon abstract efficiency: *the firm is too large*. By insisting upon treating the economy as “one factory” run from one center, they argued, the central planners have created extensive inefficiency. All problems, indeed, could be traced back to overcentralization. Central planning “had to bear the brunt as mainspring of all the dysfunctions.” Considering “every side of the planners’ work—the techniques involved in doing the job, fixing the targets, and getting results from subordinates,” economists concluded that “the existing degree of centralization was in itself dysfunctional and untenable.”⁴⁵

Accordingly, the answer was to reduce the size of the firm—to move away from the “heavy concentration of decisions at the hungry and power-greedy center, which was flooded with information that it could not properly digest and so tended to lose touch with reality.”⁴⁶ The answer was to move away from “hierarchically vertical command lines” and to recognize that “horizontal contacts are indispensable for an optimally functioning economy.”⁴⁷ “Horizontal,” though, did not mean local planning and conscious coordination from below. Horizontal meant markets. There was “widespread acceptance” among the economists, Lewin argued, that “market categories are not alien to socialism but inherent to it.”⁴⁸

But why *inherent*? Because, it was claimed, the enterprises were separate and had separate interests. “Writers pointed out that the economy was composed of thousands of producing units, enterprises and factories that were relatively independent, quite distinctly separated from others.” And since the “producers could not appropriate products without selling their own in exchange,” they were producing “commodities” rather than “products.” So according to Lewin, “The majority of Soviet economists yielded to evidence and accepted that, in all its sectors, the Soviet economy was and is a commodity producer.” There was, he declared, “enough proof” that “on the whole the products were exchanged and not just directly appropriated and distributed.” In short, rather than being replaced by planning, the market was there and had “proved to be a vitally important mechanism of the socialist economy.”⁴⁹

Preventing these economically independent enterprises from functioning in the market by imposing vertical command lines, from this



perspective, was to substitute voluntarism for real economic relations—a voluntarism, too, that could not possibly be successful because the state had neither the knowledge nor capability for administrative-command planning. Imposing this, Nemchinov argued, was “contrary to the contemporary conditions of the complex and deep division of social labor that characterizes all the spheres of the socialist national economy.”⁵⁰ The result, he wrote in 1965, was an economic system “fettered from top to bottom”; what existed was “an ossified, mechanical system in which all the directing parameters were given in advance and the whole system was fettered from top to bottom, in any given moment, and at any given point.”⁵¹

So, what was to be done? The answer was not to end planning as such. Medium- and long-term plans and forecasts remained essential, but the annual plan, the *operational plan* with its detailed targets and directions from above, had to be replaced by “economic levers,” incentives that would guide individual enterprises to act in society’s interest by following their own interest. “The consensus among reformers,” Lewin commented, “seemed to be that central planning should concentrate on long-term macroeconomic objectives” while at the microeconomic level the enterprise “in its everyday activity . . . would be left free to work for the consumer rather than for the plan.”⁵²

Indeed, as noted above, shifting initiative to the enterprises was the stated goal of the economic reform introduced after the removal of Khrushchev. The first clause of the Statute of the Socialist Industrial Enterprise approved in October 1965 read: “The socialist industrial enterprise shall be the basic unit of the national economy in the U.S.S.R. Its operation shall be based on centralized direction combined with economic independence and initiative on the part of the enterprise.”⁵³ Of course, a shift from considering the economy as a whole to making individual enterprises the basic units of the economy involved more than just a focus upon efficiency. Although the argument against central planning took the form of a critique of inefficiency, it must not be considered abstractly—that is, outside the concrete class struggle that was occurring.

Rather, we need to understand these arguments in the context of the struggle between the logic of the vanguard and the logic of capital.



Recall Bettelheim's question. Is the state able to subordinate those who possess the means of production, the enterprise managers? The state, he proposed, acts as proprietor of the means of production possessed by the enterprises when "these means are directly brought under control and put into operation," and this occurs through the "*plan* and the planned relations that are derived from this plan." To yield to the enterprises the power to make decisions about their use of the means of production they possess, from this perspective, was to transfer property rights to those enterprises.⁵⁴

The economic reformers argued, however, that the state in fact did not have the power to direct the economy; it only had the power to *interfere with enterprises*; that is, there were objective limits to the state's ability to exercise its property rights. Shkredov wrote in 1967 that "the scope of planning was excessive because the juridical socialization of the means and products did not coincide with economic socialization."⁵⁵ Accordingly, "inept interference in the economy by the state and its arbitrariness had to be eliminated."⁵⁶

It was a familiar Marxist argument: the productive forces have come into conflict with the relations of production that have changed from forms of development of the productive forces into their fetters; that is, the Soviet economy was the victim of its own success. In the past, the economists conceded, administrative-command methods had industrialized and developed the productive forces of the Soviet Union. Centralized control of the economy can be successful, Maurice Dobb proposed, when the situation makes "policy objectives relatively simple" and when the structure of the economy is "relatively simple rather than complex."⁵⁷ But those methods were no longer appropriate: the very success of the model had created a complex economy in which administrative-command was positively harmful to the economy.

The failure to adjust the pattern of property rights to the real productive relations in the economy meant for Shkredov that "the economy was torn asunder by a basic contradiction between the regulatory function of the proprietor-state and the laws of the market economy."⁵⁸ The general conclusion of reformers was that "The inadequate 'production relations' hampering economic development must be adapted to the



'productive forces,' otherwise crises developed." However, the existing system itself "did not have the capacity to 'readapt' [*perestroika*] to reorganize planning and management institutions so that they would match the new conditions."⁵⁹ Therefore, it was essential to change the relations of production so they could be forms of development of productive forces once again. Insofar as producing units were economically separate, property rights should be exercised by the real possessors—the enterprises.⁶⁰

That was precisely what supporters of the existing system of central planning rejected. They rejected the idea of abandoning the annual plan with its specific directives for enterprises and rejected the proposal to move toward markets. In 1968, for example, the head of the Prices Committee opposed "the abandonment of compulsory quantitative indicators" and argued that market prices are "alien to our economy and contradict the task of centralized planning." The balance between demand and supply, Sitnin insisted, "is the task of the planning organs."⁶¹

Further, it was a distortion, a substitution of a wish for reality, to say (as Lewin did) that "the majority of Soviet economists yielded to evidence and accepted that, in all its sectors, the Soviet economy was and is a commodity producer." How could it be said that the enterprises had separate interests and that they produced "commodities" rather than "products" when those enterprises were subordinated to the plan that assigned them input sources and output channels and where they did not demand a quid pro quo for distributing their output? Lopatkin (predictably described by Lewin as "dogmatic") stressed that the enterprise was subordinate to the state: "The socialist enterprise does not and cannot have any distinct interests of its own, analogous to the interests of a private entrepreneur." Society had created the enterprise and it was "free to liquidate it, not to speak about preempting resources from it."⁶²

Precisely because of strong opposition, the reformers were not successful at this point in advancing the program announced in 1965, and those reforms themselves were scaled back within a few years. Thus impasse (another one!) marked by that "basic contradiction between the regulatory function of the proprietor-state and the laws of the market economy;" that is, that contested reproduction in which the law of



command and the law of value interacted. It was not until the early 1980s (and the death of Brezhnev) that those advocating managerial independence were emboldened to resume the offensive.

Again, the effect of lagging relations of production upon the productive forces was posed explicitly. "Every important step in the development of the productive forces of socialism requires the correction in the improvement of this whole real system of socialist productive production relations," Butenko wrote in 1982. Similarly, Tatiana Zalavskaja argued in the "Novosibirsk Report" in 1983 that productive relations had fallen considerably behind the level of development of productive forces. You could not reform those relations, however, through a *piecemeal* approach because a set of relations of production constitutes an integrated system, a whole. Therefore, only a "profound restructuring [*perestroika*]" can succeed, one that substitutes for the old a "new economic mechanism"—in short, a new set of productive relations, a new whole.⁶³

This call for "*perestroika*" was increasingly answered. For example, in 1983, on the hundredth anniversary of Marx's death, Andropov (the new general secretary of the party) wrote that "our work directed at the improvement and restructuring [*perestroika*] of the economic mechanism, of forms and methods of management has lagged behind the demands posed by the achieved level of material-technical, social, and intellectual development of Soviet society," and he called explicitly for change in the "forms of the organization of economic life" in order to "accelerate the progress of the productive forces." That, too, was the theme of the new program adopted at the 27th Party Congress under Gorbachev in 1986: it referred to the "mistakes of the seventies and early eighties" and stressed the necessity for "the constant improvement of production relations" to correspond with "dynamically developing productive forces."⁶⁴

This, of course, was the theme of Gorbachev's own report to the 27th Congress. "We cannot limit ourselves to partial improvements. A radical reform is needed." This involved a significant theoretical shift: "Life prompts us to take a new look at some theoretical ideas and concepts." In particular, Gorbachev continued, "practice has revealed the insolvency of the ideas that under the conditions of socialism *the conformity*



of production relations to the nature of the productive forces is ensured automatically.” The relations of production had to be improved and “outdated economic management methods” had to be replaced by new ones. One important aspect called for “resolutely enlarging the framework of the autonomy of associations and enterprises.” Indeed, Gorbachev underlined its importance by stressing that “everything we are doing to improve management and planning and to readjust organizational structures is aimed at creating the conditions for *effective functioning of the basic link of the economic system: the association or enterprise*.”⁶⁵

The program of perestroika thus meant that the managers would be successful in wresting clear property rights over the enterprises from the vanguard. But acceptance of the enterprises as the “basic unit” of the economy was only one part of the struggle to free the managers. As long as workers continued to be protected through the social contract, part of the old system would still be present. How successful would market reforms be under this constraint? The other aspect of the Battle of Ideas for the managers and their ideological representatives was the necessity to attack the social contract. In short, the second side of the Battle of Ideas for the economists was the assault on the working class.

Although Gavril Popov proposed in 1980 to “limit the right to work” in order to allow greater managerial flexibility, few were prepared to take this step initially.⁶⁶ The assault on this front, however, increased as the crisis of the economy deepened and the push to transfer all property rights to the enterprise managers intensified. Now the problem facing the economy was identified as what G. Lisichkin called in 1987 an “archaic leveling consciousness” that predominated among the bulk of a working class “enfeebled by a long-term dependence” on a collectivist social welfare state. The economic reformers concluded that it was necessary to dismantle a system of “*enervating Garantirovannost*” [literally Guaranteedness or the guarantee of a wide range of socioeconomic entitlements]. Excessive welfare entitlements, argued Zaslavskaja, led to the “slackening of administrative and economic compulsion for energetic labor in social production,” and it was time to reduce significantly the social wage and to restore a “personal interest in hard efficient labor.”⁶⁷



As part of this attack on the social contract, the reformers proposed commodification of social services—for example, establishment of a two-tier public and private health care system.⁶⁸ Also, they called for ending all food subsidies and allowing prices to be determined by the market.⁶⁹ Driving down the real wages of what reformers viewed as “a privileged social constituency of the Brezhnevian social contract” was all part of this Soviet version of neoliberalism. And then there was the attack on the property rights of workers—their job rights.

“Socialism is not philanthropy automatically guaranteeing everyone employment irrespective of his or her ability to do the job,” argued Stanislav Shatalin in 1986. Subsequently chosen by Gorbachev to prepare his 500-Day Plan for reforming the Soviet economy, he certainly was not alone in the attack on job rights. Sounding like a champion of Thatcher and Reagan, Nikolai Shmeliov complained about the “economic damage caused by a parasitic confidence in guaranteed jobs,” and he urged the government to consider the advantages that a “comparatively small reserve army of labor” could bring to a socialist political economy. “Excessive full employment” produced “a host of social ills,” and “the real danger of losing a job . . . is a good cure for laziness, drunkenness and irresponsibility.”⁷⁰

Given the sensitivity of this question, an explicit attack on job rights was not introduced as part of the perestroika project; however, the shift that stressed the independence and initiative of the enterprises, calling upon them to generate their funds internally through “cost-accounting” (*khozraschet*), effectively meant that the managers were given the green light to lay off redundant workers. Thus, even though all the goals of the economic reformers were not achieved immediately (especially because of continuing resistance among supporters of vanguard relations), the trajectory was clear—the end to the mode of regulation characterized by the social contract.

But why? Given that the position advanced by the economists was a class perspective that challenged vanguard relations and attacked the working class (which the vanguard had supported with the social contract), why did the vanguard accept the position of the constrained capitalists, the enterprise managers?



THE VANGUARD PARTY IN THE CONTEXT OF CONTESTED REPRODUCTION

In part, the decision of the vanguard reflected the Battle of Ideas. The economists, after all, had “science” behind them—the science of mainstream Western (that is, neoclassical) economics.⁷¹ But this was not a decision made in abstraction. The choice was not made by a vanguard party in its “purity,” (as discussed in chapter 3) but rather by one “infected in the course of its interaction with other elements (both contingent and inherent).” In short, rather than the abstract concept of the vanguard, here we must deal with the concrete vanguard—the vanguard that emerged in the context of contested reproduction.

This was not, after all, a society consisting only of vanguard relations of production but one that contained as well the logic of capital as manifested in the behavior of the managers. Thus the vanguard party was predictably deformed, more or less, by its interaction with that other logic. For one, the self-oriented managers, who had been permitted to possess the state-owned means of production, tended to be individual members of the vanguard party. In short, the conflict between the logic of the vanguard and the logic of capital was not something outside the vanguard party but was internalized.

Yet the effect of the logic of capital upon the vanguard party went well beyond the actual number of managers who were party members. The social contract always included material self-interest for the working class; however, the substitution of managers actively engaged in maximizing their own income in place of managers “guided by noble purposes who work long, hard hours in the firm belief that in doing so they serve the cause of their party and of the people, the common good and the interests of mankind” has a predictable influence.⁷²

Existing members who retain their “belief in the party’s ideas, agreement with the official ideology, and enthusiasm for the plan’s objectives” cannot help but be affected.⁷³ Seeing the acceptability of income-maximizing behavior and the ability of managers to advance within the state and party increases the ability of party members to rationalize their own access to special advantages like higher incomes, access to scarce goods, better



medical and recreational facilities. Further, bureaucrats charged with direct supervision of enterprise managers, in addition to becoming reliant upon the latter for plan fulfillment, can become beneficiaries of their monetary support. In this way, lobbies and sectoral coalitions form and increasingly usurp the authority of the “nominally sovereign central agencies.”⁷⁴

These are conditions in which members of the vanguard act less as the vanguard “personified” and come to focus increasingly upon privileges associated with positions in the hierarchy. The “second soul” dwelling within the breast of the member of the vanguard, with its focus upon the accumulation of pleasures, is less and less subordinated (or repressed) by the logic of the vanguard. In this situation, while the vanguard party may continue to attract the best in the society, it may also get the worst. The tendency to seek party membership (and to simulate the appropriate behavior) may be increasingly based upon the potential for career advancement and securing special advantages. As one specialist in the USSR told Alena Ledeneva, “It was common knowledge that unless one was a party member, he or she could not be appointed for a leading position. Party membership was like an extra diploma to qualify for further career opportunities.”⁷⁵ The disease spreads throughout the party—affecting both existing members and new recruits.

This party (and not the “pure” one), a party that contains within it that “contradiction between the regulatory function of the proprietor-state and the laws of the market economy,” is the one that chooses what is to be done in the face of economic crisis. Contested reproduction within the vanguard party itself produces an impasse in which the adherents of vanguard relations increasingly lose confidence in the previous path and those who support capitalist relations are increasingly emboldened.

Capital ultimately won the Battle of Ideas in the Soviet Union because it successfully invaded the vanguard party. But capital could not win the struggle of contested reproduction by itself. To advance in Real Socialism, “the rising bourgeoisie needs the power of the state”—the *vanguard* state. Subordination of the logic of the vanguard and the expanded reproduction of capitalist relations of production was made possible by the vanguard’s own mode of regulation.



6—From Moral Economy to Political Economy

But what about the ideas of the working class in this Battle of Ideas? Who articulated those ideas within Real Socialism? The answer is predictable. Characteristic of the vanguard relation is that the *vanguard* speaks on behalf of the working class. Any attempts by workers to organize independently of the official channels appointed by the vanguard to represent them were repressed. Without space for autonomous organization or, indeed, effective communication among themselves, workers in the Soviet Union were disarmed in the ideological struggle.

The working class was disarmed in another way: rather than a Marxism that places at its center the “key link” of human development and practice, on offer was Vanguard Marxism, a deformation similar to vanguard state ownership and vanguard planning. Rather than stressing the worker and community decision making that builds the capacities of workers, Vanguard Marxism was the ideological counterpart of the various vanguard transmission belts (like official trade unions) from the conductor to the working class which were, in practice, weapons against the working class.

Nevertheless, despite the extent to which Vanguard Marxism disarmed the working class in the ideological struggle, this does not mean



workers had no ideas. However, it is important not to project the goals of an Abstract Proletariat upon the real working class produced within Real Socialism. Substituting wishes for concrete circumstances is a very familiar problem.

THE NORMS OF THE WORKING CLASS IN REAL SOCIALISM

In the period under consideration, workers in Real Socialism expected the social contract to be honored. In return for acquiescing to their absence of power within the workplace and society, they considered themselves entitled to security and improving conditions of life. Part of that was obtained through their job rights and the absence of a reserve army of labor as well as the full employment economy that allowed them to both minimize the length and intensity of their workday and to increase their income by changing jobs. But also important was the existence of fixed prices for necessities that allowed rising income to be transformed into rising consumption.

What if the vanguard failed to deliver on its side? In chapter 2 we saw that the vanguard was worried that violation of existing norms "sooner or later entails serious political and social consequences, tensions and even shocks."¹ Precisely for this reason, planners attempted during this period to satisfy the expectations and sense of entitlement of the working class. In the relation between vanguard and working class as embodied in the social contract, "there was a system of mutual obligations."²

As well as the social norms concerning the obligation of the vanguard to workers, the conceptions of right and wrong characteristic of relations among workers in Real Socialism were also essential to understand. These relations were not independent of the specific relation of workers to the means of production—in particular, their property rights as embodied in the real existence of job rights (and reinforced ideologically by the concept of a workers' state). Given the chronic shortages of necessities, that perception of property rights (however ill-defined) provided rationalization for informal ways of obtaining goods and services—in particular, theft.³



Insofar as one's workplace provides access to scarce material resources, it was viewed as acceptable behavior for individuals (as individuals) to draw upon those resources and to make them available to friends, neighbors, members of one's social network, and for the purpose of exchange for desired goods (that is, within a second economy). Ledeneva comments, "In a state-controlled economy of the Soviet type, state property was omnipresent, and every working citizen was in direct contact with it at her/his place of work. Most reliable sources agree that theft of socialist (state) property was almost as widespread as state property itself."⁴

Some theft served as a means for workers to supplement their official incomes through diverted materials for the purpose of exchange or for second jobs (which often involved the private use of means of production from their workplace). However, more was involved in theft than simply increasing one's income. Under conditions of shortages, providing scarce supplies to friends and acquaintances gave one great satisfaction: "To bring something from the workplace became a norm and even a matter of pride if something was given to a friend in trouble or in need."⁵ This, indeed, was one of the meanings of the Russian term *blat*, which distinguished it in the minds of people from theft as such: "To obtain something by *blat*—in modest volume, with discretion, normally in situations of urgent need and within a closed personal circle—is a norm; to exceed limits is theft, corruption, etc."⁶

Indeed, Ledeneva comments about these relations among people that they "felt very comfortable about smuggling things or fiddling (it was collective, i.e. partly their property after all!) for their friends but hated the idea of tradespeople or cadres doing the same."⁷ In these relations, "sharing access with friends and acquaintances became so routine that the difference between *blat* and friendly relations became blurred: one almost became consequent upon the other."⁸ Similar to gift exchange, she proposed that *blat* "underwrites social relations and is concerned with social reproduction." Indeed, it builds upon social relations that already exist, and the reciprocity in those relations is "created and preserved by a mutual sense of 'fairness' and trust."⁹

But *blat* relations and their counterparts elsewhere in Real Socialism were not isolated phenomena. Consider the difficulties in getting workers



fired even for blatant alcoholism and the social acceptability of theft from the workplace. There was a popular consensus that everyone should be able to satisfy their basic needs (reflected in *blat*), a conception of an egalitarian society and a belief in the importance of the reduction of insecurity (and thus in employment and income).

THE MORAL ECONOMY OF THE WORKING CLASS

All this was part of a set of social norms and beliefs as to right and wrong, which, taken together, we may designate as the “moral economy” of the working class in Real Socialism. This concept (and, indeed, the wording itself) comes from what E. P. Thompson called “the moral economy of the poor” in his classic article, “The Moral Economy of the English Crowd in the Eighteenth Century.”¹⁰ The food riots of this period, he argued, reflected a broad and passionate consensus on what was right, leading to a sharp reaction to egregious violations of that conception of justice. Commenting on Thompson’s account, Li Jun observed, “Rioters were legitimized by the belief that they were defending traditional rights or customs that were supported by the wider consensus of the community.”¹¹

Similarly, in his work on “the moral economy of the peasant,” James Scott focused upon the notion of economic justice among peasants and pointed to the revolts and rebellions that could erupt when those notions were violated. For Scott, these conceptions of justice had their roots in the need for maintaining subsistence. Indeed, an overriding focus upon subsistence characterized relations both among peasants and between peasants and those who exploited them.¹² “The test for the peasant,” Scott proposed, “is more likely to be ‘What is left?’ than ‘How much is taken?’”¹³

From this perspective, exploitation as such is not sufficient to generate riots, revolts, and rebellions. “Moral economists,” Kopstein commented in his study of worker resistance in East Germany, “posit the existence of a tacit social contract in almost every long-standing social formation in which subaltern groups tolerate their own exploitation.” They tolerate that exploitation as long as they are left enough for themselves—that



is, are able to secure their expected subsistence. When the prevailing norm is violated, however, Kopstein proposed that it generates “resistance ranging from shirking, grumbling, foot dragging, false compliance, dissimulation, and other ‘weapons of the weak,’ to open strikes and other forms of collective action.” But only to *negate* that violation. According to moral economists, Kopstein reported, “exploited groups simply want to restore their previous standards before the downturn. Rarely do they try to overturn the existing order altogether.”¹⁴

The underlying concept here is one of an *equilibrium*—a concept that Thompson employed explicitly in talking about “a particular set of social relations, a particular equilibrium between paternalist authority and the crowd.”¹⁵ When that equilibrium is disturbed, there is a feedback mechanism: masses (peasants, crowd, workers) react to restore the conditions corresponding to the social norms supported by the consensus of the community. Thus, all other things equal, a tendency toward stability. The begged question, though, is what was the *source* of those norms?

For Thompson, Scott, and other developers of the concept of moral economy, the reference point revolved around the need for subsistence in traditional peasant society—both before the advance of the political economy of capital and in defensive struggle against it. Was peasant society, then, the source of the moral economy in Real Socialism? Were the social norms of workers inherited from the moral economy of peasants—and thus a characteristic that must be overcome in a process of modernization?

Certainly, for the economic reformers who supported the removal of constraints upon managers, the elements of the moral economy (and, in particular, the notion of egalitarian relations) all looked *backward*—to traditional peasant society. Lisichkin, for example, described what we have called the moral economy of the working class in Real Socialism as the continuation of an “archaic leveling consciousness” and a “feudal” egalitarian normative matrix.¹⁶ Similarly, the Yugoslav sociologist Josip Zupanov proposed that the “egalitarian syndrome” was a “relic of traditional societies”—indeed, their “vicious legacy.”¹⁷

Traditional social norms and beliefs that valued equality—this was the enemy to be combated! Those retained elements of traditional peasant



culture, according to neoliberal advisors of Gorbachev, were at the root of the resistance to change: they had produced a "society contaminated by an egalitarian psychology" that rejected "all manifestations of individualism, independence, personal initiative, and the successes which are bound up with this."¹⁸ Zupanov made the same point: the egalitarian syndrome, with its "fear of private [individual] initiative, anti-professionalism, intellectual levelling-down and anti-intellectualism," was a critical obstacle toward the development of a modern industrial society.¹⁹

Indeed, if these legacies of traditional peasant culture were acting as fetters upon the development of productive forces, then it followed that they must be recognized as distinctly "non-proletarian." "Marxism-Leninism decisively sweeps away the petty-bourgeois theory of levelling distribution and consumption," declared Efim Manevich, a Soviet labor economist in 1985. "Levelling," he argued, "is incompatible with the interests of the development of socialist production." Indeed, such ideas about universal equality, he explained, are "alien to the proletariat."²⁰

There is a problem in such assertions. Given their incorporation within the social contract, how alien to the existing (as opposed to the theoretical) proletariat could such ideas be? In fact, the social contract in Real Socialism reinforced and *validated* the moral economy of the working class. It ensured that the concept of justice of workers received support. Though that social contract did not exclude exploitation, it did yield something workers wanted. Kopstein argued, for example, that "along with job security, East German workers had the power to demand a rough-and-ready sort of wage egalitarianism and consumer prices that remained low relative to wages."²¹

And the same argument for a moral economy of the working class and the support that the social contract provided is explicit in Li Jun's examination of strikes in China: "Simply put, in the Chinese socialist setting, workers view themselves as having a relationship with the state, a relationship which operates according to the norm of reciprocity: the state is expected to have committed itself to ensuring that the workers have a decent living by providing job security and a prodigious welfare package, while workers, in return, advocate the party ruling by giving their political support and loyalty to the state." To support what Li Jun



calls "the workers' moral economy," it was expected that the state authority would fulfill "its responsibility to protect and benefit its working class in the form of the 'iron rice bowl.'"²²

In short, the moral economy of the working class in Real Socialism was *not* simply the inheritance of traditional peasant society. Essential to its existence was a combination, a combination in which the role of the vanguard was critical. Acknowledging this central point, Zupanov described the egalitarian syndrome as a "fusion." It was, he argued, "basically composed of two sets of complementary value orientations and attitudes—of egalitarian and authoritative ones." In this combination, the orientation toward egalitarianism was "inextricably linked to the support for an authoritative state which was supposed to take care of egalitarian expectations."²³ Thus the egalitarian syndrome legitimized the position of the vanguard: "It provided a basis for a stable interaction between the socialist political elite and the strategic parts of the population, especially manual workers."²⁴

According to Zupanov, this particular fusion provided a mass basis for "statism." The point was made as well by Alex Pravda in 1981:

What anchors most Soviet and East European workers' attachment to "real existing socialism" is full employment, a welfare wage, low income differentials and stable food prices. In a sense workers' acceptance of strong state control is conditioned by that state's delivery of the above package of security-welfare benefits. The situation may be seen as a tacit social compact which underpins the relationship between workers and regime in all industrialised Communist states.²⁵

For the reformers, though, the "equilibrium" supported by this compact was, rather, one of *stagnation*. That fusion prevented the development of what the Polish sociologist P. Sztompka called "civilisational competence . . . a complex set of rules, norms and values, habits and reflexes, codes and matrixes, blueprints and formats" whose components are "enterprise, civic, discursive and everyday culture." Sztompka argued that "the decades of Real Socialism not only blocked the appearance of civilisational competence, but in many ways helped to shape [a]



contrary cultural syndrome—civilisational incompetence.”²²⁶ This cultural incompetence, he proposed, was mostly a result of the “socialist elite’s indoctrination of and control over [the] population.”

In short, the ideological claim of the existence of a workers’ state and the real support for the aspirations of workers provided through the social contract were important sources for the moral economy of the working class. In the case of the major strike movement (triggered by price increases) in Novocherkassk in the Soviet Union in 1962, Mandel reported that the working-class consciousness “came from the workers’ schooling, from books and films and, of course, from their shared situation.”²²⁷ That leaders constantly stressed their commitment to socialism, too, had clear consequences. “From the official ideology of Marxism-Leninism, to which they are generally indifferent,” *Pravda* commented, “workers have ‘salvaged’ notions of security, welfare and equality, and see full employment, a welfare wage, low income differentials and stable prices as basic socialist rights.”²²⁸

Thus, although elements from traditional peasant societies were present, parts do not exist outside particular wholes. We need to consider the ideas of workers as they were reproduced within this new whole. Rather than being challenged by what Thompson called a new political economy “disinfested of intrusive moral imperatives,” the norms associated with the moral economy were strengthened and deepened within “Real Socialism.” Tendencies toward equality and low income differences, for example, were reinforced in the Soviet Union through what Gorbachev subsequently called “serious infractions of the socialist principle of distribution according to work.” The result, the Soviet leader argued, was that “a mentality of dependence has developed. In people’s consciousness, the psychology of levelling has taken root.”²²⁹ Such ideas were more than an inheritance from traditional society—they were produced and reproduced within the new context.

However, as in the case of Thompson’s consideration of the moral economy of the eighteenth-century crowd, the ideas of workers not only incorporated but also transcended vanguard relations as embodied in the social contract. Although “the crowd derived its sense of legitimation, in fact, from the paternalist model”—and re-echoed such notions



“so loudly in their turn that the authorities were, in some measure, the prisoners of the people”—in its support for direct action by the crowd “the moral economy of the crowd broke decisively with that of the paternalists.”³⁰ Similarly, the moral economy of the working class in Real Socialism broke decisively with the perspective of the vanguard with respect to the popular consensus about theft by individuals. Workers “felt very comfortable,” as noted above, at smuggling things from work for their friends, given that this state property “was collective, i.e. partly their property after all!”³¹

There was, however, a *general* gap between the proclamations of those at the top and the ideas of workers. “Compelled to participate in rituals that proclaimed socialism to be just, efficient and egalitarian,” Burawoy observed with respect to workers, “they were only too keenly aware of the injustices, inefficiencies and inequalities that pervaded their lives.” In this respect, the system was vulnerable to an “immanent critique, demanding that the system live up to its promises.”³²

In the absence of their specific articulation and development, could the ideas of workers be other than the basis for defensive responses—much like peasant responses to violations of their social norms? “The typical moral economy rebellion or strike,” Kopstein indicated, “is spontaneous, leaderless and defensive.”³³ Where workers do not proceed beyond moral economy on the basis of a conscious alternative, Burawoy proposed a possible result: “Immanent critique, calling attention to the failed promises of socialism, can lead to cynicism and retreat if it is not attached to social movements inspired by alternatives struggling to free themselves from within the girders of the existent. That is what happened.”³⁴

As we have seen, though, more than this happened as the result of the disarming of workers in Real Socialism. The moral economy of the working class itself was assaulted as the political economy of capital advanced. Now, in Thompson’s words, “the ‘nature of things’ which had once made imperative, in times of dearth, at least some symbolic solidarity between the rulers and the poor, now dictated solidarity between the rulers and ‘the Employment of Capital.’”³⁵ In Real Socialism, the apparent social contract came to an end.



BEYOND MORAL ECONOMY

If workers struggle over the ideas and norms associated with moral economy, then clearly those ideas are a material force. By considering those social norms and beliefs as to what is right and what is wrong, we can root our analysis in the concrete and avoid the tendency to begin with a preconceived theory and then search for concrete support to serve as footnotes to the theory.³⁶ Further, we also may be able to point to elements in the moral economy that can point beyond toward a new society. However, by their very nature, the attitudes and notions of moral economy exist at the level of appearances; rather than revealing the actual relations, they reflect how things appear (and may necessarily appear) to the real actors.

To illustrate this point, consider the spontaneous concepts of fairness characteristic of workers in capitalism—what we may call the moral economy of workers within capitalism. In the mid-nineteenth century, Marx observed that 99 percent of the wage struggles followed changes that had led wages to fall. “In one word,” he noted, they were “reactions of labour against the previous action of capital.”³⁷ In short, those wage struggles were an attempt to restore the *traditional standard of life* which was under attack.³⁸

The spontaneous impulse of workers under these conditions was to struggle for “fairness” against the violations of existing norms—indeed, to fight a guerrilla war against effects initiated by capital. Their explicit goal was to struggle for “a fair day’s wage for a fair day’s work.” In doing so, they were not attempting to change the system nor, indeed, struggling against exploitation (except insofar as exploitation was understood as unfairness). Accordingly, Marx described the demands of workers as “conservative” and argued that, instead of those demands for fairness, “they ought to inscribe on their banner the *revolutionary* watchword, ‘Abolition of the wages system!’”³⁹

Yet Marx understood quite well why the workers’ slogan focused upon fair wages and a fair workday: it flows from the necessary appearance of a transaction in which the worker yields the property right to use her capacity to work (that is, her labor power) for a given period. “On



the surface of bourgeois society," Marx pointed out, "the worker's wage appears as the price of labour, as a certain quantity of money that is paid for a certain quantity of labour."⁴⁰ Thus the conscious struggle of workers is over the fairness of "the certain quantity of money" and the fairness of the "certain quantity of labour." What is perceived as just and fair is that they receive an equivalent for their labor—that they are not "cheated." From the form of the wage as the payment for a given workday comes "all the notions of justice held by both the worker and the capitalist."⁴¹

"Nothing is easier," Marx commented, "to understand than the necessity, the *raison d'être*, of this form of appearance" that underlies the moral economy of the working class in capitalism.⁴² On the surface, the worker sells her labor to the capitalist. However, this form of appearance "makes the actual relation invisible, and indeed presents to the eye the precise opposite of that relation."⁴³ Specifically, there appears to be no exploitation, no division of the workday into necessary and surplus labor; rather, all labor appears as paid labor. Precisely because exploitation is hidden on the surface, it is necessary to delve below the surface: "The forms of appearance are reproduced directly and spontaneously, as current and usual modes of thought; the essential relation must first be discovered by science."⁴⁴

At the level of appearances, Marx argued, we cannot understand capitalism—"the interconnection of the reproduction process is not understood." After all, what in this case ensures the reproduction of the working class? As I argue in "The Fallacy of Everyday Notions":

Only "when viewed as a connected whole," when we view capitalist and worker not as individuals but "in their totality, as the capitalist class and the working class confronting each other"—i.e., when we turn away from the way things necessarily appear to individual actors, can we understand the essential structural requirement for the existence of capitalism as a system—the necessity for the reproduction of wage-laborers.⁴⁵

This is what Marx did in *Capital*. Considering workers as a whole, he assumed that in return for yielding to the capitalist the use of their capacities they receive their "traditional standard of life," what is



necessary to reproduce themselves as wage laborers in a given time and place. This concept of a given level of necessity (the basis for the value of labor-power) allowed him to demonstrate how the workday was divided into necessary labor and surplus labor and how exploitation of workers was the necessary condition for the reproduction of capitalists.

For this critical deduction, Marx did not have to explain the source of this existing standard of necessity. Indeed, he simply assumed it as a given—an assumption he intended to remove in his projected book on wage labor.⁴⁶ With this approach, Marx was able to reveal the nature of capital and its inherent tendencies—something that a focus upon appearances (the sale of a specific quantity of labor by workers) could never reveal. Thus the case was made for the necessity to end capitalist relations of production rather than to struggle for “fair wages.”

How else could we understand what capital is without the critique of those forms of appearance that underlie the moral economy of the working class in capitalism (and the political economy of capital)? Indeed, the apparent relation of exchange between capitalist and worker strengthens the rule of capital: it “mystifies” the actual relation and “ensures the perpetuation of the specific relationship of dependency, endowing it with the deceptive *illusion* of a transaction.”⁴⁷ To enable workers to go beyond that conservative motto to the “*revolutionary* watchword,” Marx offered the weapon of critique—a critique based upon an alternative political economy, the political economy of the working class.⁴⁸

THE POLITICAL ECONOMY OF THE WORKING CLASS

What is the political economy of the working class? In *Beyond CAPITAL: Marx's Political Economy of the Working Class*, I recalled Marx's comments in the “Inaugural Address” of the First International about the victory of the political economy of the working class over the political economy of capital as the result of the restriction of the workday through the Ten Hours' Bill and the “still greater victory of the political economy of labour” with the development of cooperative factories. What, I asked, was this political economy which Marx introduced that encompassed both victories?⁴⁹



One part of my answer focused upon the importance of the combination of workers and the struggle against those who separate them.⁵⁰ But this is only part of the political economy of the working class. To set out that political economy more fully than in *Beyond CAPITAL*, let us contrast it with the political economy of capital, the political economy that Marx critiqued in *Capital*.

First, whereas the political economy of capital focuses upon surface phenomena (prices, wages, rent, profits, and the way things appear to the individual actors), the political economy of the working class goes beneath the surface to examine the underlying structure and the necessary conditions for the reproduction of that structure. For example, it focuses upon the labor that underlies the output of particular use-values and sees in commodity prices (and their movements) the manner in which a commodity-money economy does what every economy must do—allocate society's labor to satisfy society's demands.

Second, we have seen that the political economy of capital accepts the appearance that the worker receives an equivalent for the given quantity of labor she provides to the capitalist. Accordingly, it concludes that the worker is not exploited and that profits are the result of the capitalist's own contribution. In contrast, Marx's political economy of the working class considers the relations of production under capitalism and demonstrates that the reproduction of those relations requires the exploitation of the worker.

Third, for the political economy of capital, the growth of output and productivity is the result of investment, that is, the accumulation of capital; and this occurs because the capitalist makes a sacrifice by not consuming all of the profits he has obtained as the result of his contribution. In contrast, for the political economy of the working class, the growth of output and productivity is in essence the product of the combination of workers—both the combination of current labor and the combination of current labor with the products of past social labor. From this perspective, the allocation of money (the representative of social labor) by the capitalist to investment is the form by which a capitalist society allocates labor to the means of production for expansion of future output.⁵¹



Finally, for the political economy of capital, the supreme goal is the growth of capital—that is, the accumulation of capital; and, to this end, anything that acts as a barrier to the growth of capital must be removed. In contrast, for the political economy of the working class, the supreme goal is the full development of human capacities; and, anything that acts as a barrier to full human development must be removed. Marx understood that “all means for the development of production” under capitalism “distort the worker into a fragment of a man,” degrade him and “alienate him from the intellectual potentialities of the labour process.”⁵² Very simply, production under capitalist relations not only leads to exploitation (thereby producing capital) but also to the *deformation* of workers, thereby producing “poor human beings.”⁵³ Thus, capitalism must be removed.

For the political economy of the working class, both exploitation and deformation of workers flow from capitalist relations of production. They are not separate and distinct—they interact. Consider the buying and selling of labor-power. What the capitalist purchases is the right to use the existing capacity of the worker as he wishes in a given time period. That, as Marx demonstrated, allows the capitalist to compel the worker to perform surplus labor and thereby produce the surplus value that, if realized, is the basis of capital. We see, then, that capital is the worker's own product and that our own product is turned against us.

When we consider this process explicitly from the side of the worker, though, we recognize that what workers yield to the capitalist for that given time period in this contract, however, is more than their existing capacity. They also surrender to the capitalist what is potentially “time for the full development of the individual, which in turn reacts back upon the productive power of labour as itself the greatest productive power.”⁵⁴ Within the process of capitalist production, that time for development of her capacities is lost for the worker, and “it cannot be otherwise in a mode of production in which the worker exists to satisfy the need of the existing values for valorization.”⁵⁵ Within these relations, rather than satisfying “the worker's own need for development,” the worker's time is “devoted to the self-valorization of capital.”⁵⁶



Accordingly, that need for self-development necessarily appears as a need to *negate* labor-time. "Time for education, for intellectual development, for the fulfillment of social functions, for social intercourse, for the free play of the vital forces of his body and mind"—all these appear as the need for "*free time*" rather than as the need to transform the relations of production.⁵⁷ This focus upon reducing the workday quantitatively is clearly deficient, however, because it does not grasp the key link of human development and practice (the simultaneous changing of circumstances and self-change). Once we understand that every process of activity generates a human being who is formed by that activity as a joint product, it is obvious that labor under capitalist relations does not merely *divert* workers from the opportunity to satisfy their own need for development; it also *deforms* them, distorting "the worker into a fragment of a man."

Thus when the capitalist purchases the worker's capacity and utilizes it for his goal of expanding capital, he degrades not only her present but also her *future*. Production under capitalist relations, Marx proposed, has as its result "ignorance, brutalization and moral degradation."⁵⁸ *How could this not affect the worker as she enters into "free time"?* For the political economy of the working class, the reproduction of capitalism as a system is the reproduction of workers who will struggle for "fair wages" and a "fair workday," workers who look upon capitalist investment as in their interest, "a working class which by education, tradition and habit looks upon the requirements of this mode of production as self-evident natural laws."⁵⁹ In short, we understand that capitalism produces workers who tolerate their exploitation (because it is not apparent) but who are prepared to struggle against any violations of their concepts of fairness and justice—that is, violations of their moral economy.

But what determines the standards underlying those concepts—that is, the equilibrium that is the basis of consensus? This is not a question Marx explicitly considered theoretically. As indicated above, Marx began with the assumption that the traditional standard of life, the standard of necessity, was *given*. That assumption was sufficient for his immediate purpose to demonstrate that capital is the result of the exploitation of



workers. *Beyond CAPITAL*, though, demonstrates that with the removal of this assumption of a fixed standard of life, it is no longer possible to argue that the automatic effect of productivity increases is the growth of exploitation (relative surplus value).⁶⁰ As Marx himself knew, as long as all other things are equal, the fall in the values of commodities with increasing productivity means that real wages rise.⁶¹ The condition, then, for the reproduction of the traditional standard of life is that all other things cannot be equal. To go beyond the level of appearances in order to understand the standard of necessity (and any movements in it), the state of class struggle is essential to consider.

For this purpose, I introduced as a variable the concept of "the degree of separation among workers," which implies that insofar as capitalists can increase the degree of separation among workers (as occurs with the displacement of workers by machinery), they can capture the fruits of productivity gains; and insofar as workers are successful in uniting (as when they "organize planned cooperation between the employed and the unemployed"), they can increase real wages and reduce the length and intensity of the workday.⁶²

Consider, then, how such an underlying concept necessarily appears. A given degree of separation among workers implies the reproduction of a given standard of necessity—an equilibrium in which any deviations produce feedback tendencies to restore the norms. Insofar as those deviations are temporary, it strengthens the belief in the permanency of those particular norms.⁶³ On the other hand, if capital is successful in increasing the degree of separation of workers (that is, if workers are unable to counteract capital's assault), then the tendency will be the development of a new, lower set of norms, a new equilibrium.

To understand the moral economy of the working class in capitalism, it is necessary to look for underlying factors that produce an apparent equilibrium. To attempt to go beneath the surface is essential. Similarly, to understand the moral economy of the working class in Real Socialism, we need to investigate its inner basis.



BEYOND THE MORAL ECONOMY OF REAL SOCIALISM

The right of everyone to subsistence and growing living standards, the importance of stable prices and full employment, the orientation toward egalitarianism (and thus low income differentials)—all these were part of the norms that formed the moral economy of the working class in Real Socialism. This popular consensus of justice and fairness was regularly reproduced and thus strengthened as the result of feedback when deviations from an apparent equilibrium occurred.

Feedback and a tendency toward equilibrium is precisely what Kornai identified when he noted that “where developments in the real sphere generate results which deviate from existing norms (the result of ‘habit, convention, tacit or legally supported social acceptance, or conformity’), the system generates signals that are fed back into the system via the control sphere.”⁶⁴ Kornai argued that central decision makers in Hungary had as a target a normal rate of growth of real consumption per head of 3 to 4 percent with the result that “if the growth of consumption remains below its normal rate, the scale of investment will be reduced so as to leave more of the national income for consumption.”⁶⁵

It was very clear to Kornai why the vanguard acted in this way. Those at the top, he argued, were limited by what “the population is content to accept, and where dissatisfaction begins.” There was a potential cost to violating the norms. “Holding back increases in living standards, or their absolute reduction, and infringing the lower limit . . . sooner or later entails serious political and social consequences, tension and even shocks, which after a shorter or longer lag force a correction.”⁶⁶ In short, behind the attempt of the vanguard to avoid deviations from the norm was the anticipation of the responses of workers (for example, to increased prices). People, he recognized, wanted price stability, “and after a time they even expect the government to guarantee it. Any important price increase gives rise to unrest.”⁶⁷ Accordingly, the question before the vanguard was—at what point would dissatisfaction start “to endanger the stability of the system”?

But why did workers react this way to perceived violations of existing norms? It wasn't because workers in Real Socialism felt that they were



not getting a fair wage for a fair day's work. Behind the workers' view of fairness was not the appearance (as in the case of capitalism) that they were selling a certain quantity of labor in exchange for a certain quantity of money. In short, they were not moved by their failure to receive "in accordance with their contribution." Indeed, this was the very criticism made by the reformers—that the existing norms in Real Socialism were *not* based upon what they called "the socialist principle." As Gorbachev put it, there were "serious infractions of the socialist principle of distribution according to work."

On the contrary, the sense of entitlement of workers was based upon the concept of the common ownership of the means of production. Workers had this in common—they were all owners. The means of production were the property of the whole; and, since workers were part of the whole, this was the source of their entitlement. If they are common owners of means of production, though, the producers are in a relation of *equality*. They all must have access to the means of production and must have the opportunity to engage in labor and to secure the fruits of that ownership. Further, the tendency will be toward equal incomes—precisely because all are equal as owners of means of production.⁶⁸ Here, too, was the basis for latent outrage over evidence of individual wealth and privilege—to the extent workers knew about these (which is why it was characteristic of the vanguard to hide such "abuses" of common ownership).

These aspects of the moral economy of the working class did not drop from the sky. Rather, these concepts of fairness and justice were regularly reinforced by the statements of the vanguard itself. Workers were entitled because the state owned the means of production, and this was a workers' state. Naturally, it was understood that workers could not receive all of the current output. Since the moral economy involved the expectation that future consumption would be higher, a portion of their entitlement as owners necessarily was set aside for investment in the expansion of means of production. They understood, too, that this was a decision made by the vanguard (rather than one over which they had control). However, they could react to what was grasped as a political decision. This is why deviations from accepted norms tended to generate a political feedback from all those affected.



In short, the combination of worker responses to violations of fairness and vanguard anticipations of these generated what Thompson called "a particular equilibrium between paternalist authority and the crowd." That equilibrium in Real Socialism appeared as the result of an implicit agreement in which the workers yield the power to decide in return for the vanguard's guarantees. However, "nothing is easier to understand than the necessity, the *raison d'être*, of this form of appearance."⁶⁹ To reveal the underlying relations that produce these forms of appearance in Real Socialism, we must turn to the political economy of the working class.

Recall our discussion of vanguard relations and their reproduction in chapters 3 and 4. We saw that characteristic of these relations is that (except insofar as the managers have succeeded in making inroads) the vanguard exercises all the attributes of ownership of the means of production. While the vanguard assigns particular property rights (for example, job rights) to workers within the social contract, the entire bundle of property rights belongs to the vanguard as a collective owner.

And the productive relations reproduce those relations of distribution. Under the direction and command of the vanguard, the producers are subordinated to a plan drawn up by the vanguard, and their activity is subjected to its authority and purpose. Within this relation, workers are exploited (and would be even if they were to be the ultimate recipients of the fruits of their surplus labor). They furthermore are deformed within this relation. While the vanguard attempts to develop productive forces to achieve its preconceived goal, "all means for the development of production" under vanguard relations "distort the worker into a fragment of a man," degrade him and "alienate him from the intellectual potentialities of the labour process." This result must be entered as negative in any accounting system that values human development.⁷⁰

Production under vanguard relations produces a working class consistent with the maintenance of vanguard relations. And, on its side, the vanguard retains its ability to command and to decide upon the allocation of the output. It determines what workers will receive as their current rations and how and where surpluses over and above this are invested. Within vanguard relations, both vanguard and workers are reproduced.



As long as the vanguard is able to satisfy what workers view as just and workers continue to accept this situation, the apparent reciprocity between vanguard and working class “mystifies” the actual relation and “ensures the perpetuation of the specific relationship of dependency, endowing it with the deceptive *illusion* of a transaction.”⁷¹ To go beyond mystification and the illusion of a transaction requires us to go beyond moral economy to the political economy of the working class.

As in the case of the underlying basis of the traditional standard of life of workers within capitalism, the degree of separation of workers is central in determining the terms of the social contract between vanguard and workers. Insofar as there is an apparent equilibrium, one that reinforces the sense of justice and fairness characteristic of the moral economy of the working class, it reflects a constant degree of separation among workers. Real Socialism in this case produces workers who tolerate their exploitation (because it is not apparent) but who are prepared to struggle against any violations of their concepts of fairness and justice—that is, violations of their moral economy.

That social contract, however, is not fixed in stone. If workers were able to reduce the atomism generated by vanguard relations and thereby increase their unity, they could rewrite the social contract in their favor. Conversely, for the vanguard to rewrite the social contract in its favor (or end it entirely), it must act against the existing institutions in order to increase the degree of separation of workers. One way by which the patterns associated with the moral economy of the working class can be assaulted by the vanguard is repression. With the advance of the logic of capital within Real Socialism, however, a more prevalent way (although not exclusive of repression) occurs when the vanguard initiates a move toward *khozraschet*—that is, economic accounting based upon economic and organizational separation of economic units.

In stressing that the income of workers should be linked to the profitability of individual enterprises, the vanguard attempts to dislodge the concept of the common ownership of the means of production upon which the moral economy of the working class rests. It moves to put an end to those “serious infractions of the socialist principle of distribution according to work.” Indeed, the exhortations about “the socialist



principle" are the clearest sign of the Battle of Ideas against the working class in Real Socialism.

Thus, in place of the equality of workers as common owners of the means of production, the push now is to separate workers into their own worlds. Rather than receiving an entitlement based upon being members of the whole, they become dependent upon the management of their individual enterprises—a profound increase in the degree of separation among workers. Further, to the extent that this focus upon individual enterprise accounting brings with it the removal of restrictions with respect to the release of workers, a division grows between the employed and the unemployed. *Khozraschet* represents not only the capture of property rights from the vanguard by incipient capitalists; it also brings with it the loss of job rights, the displacement of workers, the creation of a reserve army of the unemployed, and the attack on egalitarianism.

This development is not only the end to the apparent social contract, that is, of this particular mode of regulation; it also assembles all the elements of capitalist victory. In the absence of a workers' alternative (indeed, a socialist alternative) in the Battle of Ideas—one that identifies the source of exploitation and deformation in Real Socialism—this result is inevitable.

