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Economic Planning and Democracy

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The 1980s have caused a great deal of heart-searching especially by radicals, concerning the efficiency and, indeed, the viability of socialist economies. The political appeal of 'Thatcherism' with some Western publics and the problems of the 'existing real socialisms' (together with China's recent warm embrace of the market, now come completely to the boil) have led to a serious loss of support for socialist policies.

Two recent books[1] conveniently raise a host of issues touching on the issues of the future of planning and markets, the possibility of reconciling planning and democracy, and critiques of the unacceptable faces of capitalism.

Jerzy Osiatynski has written a most interesting account of Kalecki's work in Poland and his views on planning and socialist economies (chiefly in relation to Eastern Europe). In his selection of topics and comments on them, Osiatynski raises a number of issues at the centre of this review article: what is the plan-market dialectic really about? What is the relative importance (from the point of view of growth rates and living standards) of general economic reforms, as against Kalecki's suggestions for cleaning up the mess of investment planning (in the context of the USSR, China and Eastern Europe)? How can the older ideas of planning with welfare be retained in a new package deal which might overcome shortages and disincentives?

The author begins with a review of Kalecki's views on the theory of economic growth in a socialist context which, he later reminds us (p.179), Kalecki considered to be the most important part of any political economy of socialism. The familiar Kaleckian equation links changes in the rate of growth to four main variables: the rate of investment, the marginal output to capital ratio, the depreciation of the capital stock and the increased growth of output from people responding to 'moral' and revolutionary incentives (working back in the factory without extra pay, etc.). The equation is superimposed on an analysis linking growth to expanded employment and a rise in labour productivity. It was Kalecki's 'basic growth-equation' that was the centrepiece of a bizarre series of attacks on him during the anti-revisionist, anti-semitic campaigns conducted against Warsaw intellectuals in 1967–8.

W. Iskra, J. Pajestka and 'Comrade' Gorski accused Kalecki of having hidden the origins of his equation (notably its derivation in the work of Westerners, Harrod and Domar) and of failing to distinguish between the different 'laws of motion' of capitalism and socialism (Osiatynski, 110–113). In his reply Kalecki noted that his model was part of the general family of Marxian growth models of expanded reproduction; that Harrod's model was a supply *and* demand determined model while the Kaleckian approach concerns planning of the supply side only. As for refutations of accusations of lack of originality, he concluded that 'I would not need to cite them for the reasons put forward by Professor Austin Robinson in an article in the *Economic Journal* in March 1947'.

The last forensic flourish reveals a lot about the atmosphere in which the 'trial' of Kalecki was conducted inside the Central Party School, and about Kalecki the man.

A close perusal of Austin Robinson's article reveals two paragraphs to which Kalecki *could* have been referring. The first refers to Kalecki's own originality, which *predates* the work on dynamics *of* Harrod and Domar. Robinson said (p.42): 'I do not think it is necessary if one would advance Keynes' claim to greatness, to argue that we might not have reached the same destination by other routes at a later date. To name only one other, Michal Kalecki was

1 The books reviewed in this article are Jerzy Osiatynski, *Michal Kalecki on a Socialist Economy*, Macmillan London 1988; and Pat Devine, *Democracy and Economic Planning*, Westview and Polity Press, Oxford Press.

independently approaching the same goal'. The second, however, is of perhaps deeper meaning in this context: 'the charge of inconsistency has been levelled against Keynes at frequent intervals ... a careful study will, I believe, show him to have been remarkably consistent in his strategic objectives but extraordinarily fertile in tactical proposals for achieving them' (p.45). Presumably both sentiments were lost on the baying hounds seeking blood in their intellectual attack on Kalecki in 1967.

That Kalecki's 'trial' was over his alleged links to Harrod-Domar is of some technical interest as well as of lugubrious ideological interest. Clearly Kalecki was original. No-one could have written the sort of review of *The General Theory* that he did unless they had already established for themselves a system of thought from which the principal propositions of *The General Theory* could be derived. Elements of the Harrod-Domar model may be found in earlier arguments of Kalecki. The irony of all this is that the Harrod-Domar model has never been popular with Western economists—its welcome has been warmest in Eastern Europe and India.

One reason for this was pointed out by Svennilson (1960:1007) in his original review of Domar's *Essays*. This was that Domar's modelling 'appeals to the technocrat and the accountant whether capitalist or Soviet'. Also, the models, the basic equation, have limitations. As Kalecki used to say it was only a scaffolding by which to clarify thought. The basic Harrod-Domar-Kalecki equation does not set out to explain why growth takes place. It is an account of the balance of growth, i.e. the growth in overall capacity to produce. The essence is to establish the conditions for dynamic equilibrium which, on the given assumptions, have a wide applicability to various types of social system. The basic Kalecki equation, *as such*, does not give socialist planners or capitalist accountants understanding of the nature of growth. Thus as applied to capitalist growth there is no incorporation of the relevant parameters of action such as the specific institutional integument; risk, stock cycles and the theory portrayed so admirably in Richard Goodwin and Lionello Punzo's *The Dynamics of a Capitalist Economy*. Similarly with socialist growth: the great issue of shortages, 'soft' budget constraints, investment cycles, feedback mechanisms between the plan and style of economic management are absent (this, Osiatynski reminds us on p.117, is what concerned his colleague, W. Brus, who felt Kalecki's growth model missed out the feedback between the achievable rate of growth and economic management).

Given Kalecki's clear statements in many articles and talks concerning the limitations of the basic equation and the sort of analysis that *would* be required to account for the *nature* of the process of the socialist growth, it hardly seems possible that genuine concern about the Harrod-Domar-Kalecki model lay behind the harsh comments of the Polish Stalinists.

The 'trial' of Kalecki by his intellectual non-peers is worth attention in any discussion about 'planning and democracy'. Kalecki is not the only planner to have been forced to resign: Baibakov, Pevukhin, and Voznesensky in Russia are other well-known examples. Communist Parties in power seem to be quite willing 'to shoot the messenger' if economic news is bad or if they are told that their grandiose targets cannot be met.

An anti-semitic upsurge orchestrated by General Mosizar is the usual explanation for the 1967–8 events which caused Michal Kalecki to stand down. Yet the anti-Rightist moves in China in 1957–58 and in the USSR in 1961–64 remind us that these ideological repressions come in waves, and, regrettably, that economists have often enthusiatically joined in.

Thus in 1960 A. Katz attacked Kantarovich for formalism and smuggling in 'bourgeois ideas', while in 1956, G. Blyamin wrote the *Outline of Contemporary Bourgeois Economic Theory,* scoffing at the 'formalism' and 'mechanical, statistical studies' of business cycle theory. The sale of some 25,000 copies of Y. Kondrov (ed.), *Problems of the Political Economics of Socialism* was a sign of a period in which Party economists were busily denouncing Revisionism in 1960. It contained a vitriolic chapter by Madame S.A. Kharvina. Reviewing her polemic, Maurice Dobb (*A.E.R.*, 1962, 52:864) noted that 'although the writers surveyed are distinguished as bourgeois and petty-bourgeois, the points of contrast are not explored and the general tendency is to treat them as a homogeneous reactionary mass'. Yet Kharvina was well read in the economics of socialism, reviewing classics like Barone's *Ministry of Production in a*

Collectivist Society and Schumpeter's writings on socialism, as well as later accounts by Hoff and Lerner[2].

Books of this kind coincided with the 1960 World Communist Party's line on 'combatting revisionism' and with Soviet pressure on Yugoslavia. It was in fact in Poland (perhaps due to the influence of Kalecki and Lange) that debate was much more open. There were the writings of W. Brus and G. Zielinski in the early 1960s in which the importance of rational economic calculation was stressed. For example, Zielinski's *Economic Calculation Under Socialism* (1961) advocated the use of market-type calculations in the context of a planned socialist economy, such as interest and rent charges. As early as 1959 Lange had edited *Problems of Political Economy of Socialism* which did not treat bourgeois economists as a uniformly hostile bunch writing erroneous scripts. Its initial print run of 10,000 volumes had to be reprinted twice.

Hence the onslaught on Kalecki probably reflected that swing between grey orthodoxy and a quickening of interest in new, flexible thinking that went on after Stalin's death in the area of economic analysis. Kalecki was caught and knocked by a swing of the pendulum. The blow was even harder once the anti-semitic overtones also became clear to him.

However, Kalecki's stature made the concerned nature of the attacks on him somewhat surprising. The only comparable post-1945 case is that of Eugene Varga who wrote a long essay entitled 'Changes in the Economics of Capitalism as a Result of the Second World War' in 1946. This was ferociously criticised and in 1949 he lost his post as director of the Moscow Institution of World Economics and World Politics. The original essay when finally published in his collected essays in 1962, was heavily pruned. The similarities between the 'Varga case' and the 'Kalecki case' lies in one common area of concern. Both had strayed into a field the Party evidently finds controversial—growth, structural change, and even the use of Marxian 'reproduction' schemes to illustrate these processes.

Investment Affectiveness

The next area of crucial importance is Kalecki's views on improving the efficiency of investment planning and of developing technical 'rules for investment choice' which both planners and enterprise managers could apply in practice. The first of these is of general importance to the Kaleckian view about how to establish the socialist economy on a firm foundation and to accelerate its rate of development without strain. Unlike advocates of 'market socialism' (found most populously in Yugoslavia and Hungary), Kalecki thought generalised economic reform would bring limited results for the rate of growth and then only in the longer run. It was more important to wipe out 'gigantamania' waste, excessive use of modern technology and to improve investment planning itself. This brought Michal Kalecki into conflict with a close colleague, W. Brus, who argued for a mollification of the level of plan control and a 'reform'. He thought that Kalecki was missing the 'feedback' effects of improved economic management on the rate of growth.

On the need to devise and improve methods of evaluating investment projects and to define 'effectiveness of investment' more clearly, Kalecki (with M. Rakowski) did Herculean labour. Starting in the late 1950s, he continued to research and develop to modify his ideas on this topic. A comprehensive account of this process has been presented by D.M. Nuti (1986) and here we will look only at Osiatynski's comments.

The main point of Kalecki's argument on investment effectiveness was his desire to incorporate a series of coefficients that would modify the standard 'period of recoupment' approach then prevailing in the USSR and much of Eastern Europe. Kalecki considered that the choice of a final set of investment projects not only affects the supply of capital and labour

2 In 1967 Madame Kharvina re-entered the lists to do battle for orthodoxy on a topic vital to the debate about Kalecki—problems arising from excessive investment rates. Clearly 1967 was not a year of sweet and light in Moscow economic circles. Her article, published in *Economic Science* (Ekonomicheskije Nauke), Vol. X, No. 2, 1967 was characteristically entitled 'Fabrications About Crises and Cycles in the Socialist Economy'.

(crucial bottlenecks in Poland) but that this choice soon comes to dominate the overall strategy of growth being adopted. (At his 'trial', Kalecki had emphasised that the aim of all his economic analysis of Poland's problems was to block economic voluntarism and grandiose, unrealistic target-setting by the Party).

Beginning in 1959 he tried to modify the formula used for choosing between real investment variants (with a given final bill of goods) and arriving at the cut-off point beyond which no more items would be placed on the nation's list of projects.

Among the modifications to the formula that had earlier been popularised by T.S. Khachaturov in the USSR (and within CMEA) were the following: capacity utilisation level achievable; debit for resources frozen in plants of greater durability and in those with longer construction and gestation periods; foreign exchange savings; impact on the supply of labour available to industry.

Osiatynski makes it very clear that Kalecki did not adopt the solutions that would be favoured by welfare economists. He stood firm against those who advocated an economy-wide shadow rate of interest, and he never accepted the Western principle that in investment rules the values of output and inputs have to be discounted at a rate equal to the growth rate and, in particular he rejected the 'golden rule'. This holds that in a socialist economy planners should choose techniques, the rate return of which equals the economy-wide growth rate and maximises consumption per head. Osiatynski follows the ideas of Nuti and Mordecai Kurz, but in our view this procedure would have been inappropriate for Poland and Kalecki was right to reject it. We feel that golden rule analysis mis-specifies the issue since the rate of growth is no longer exogenous as in Nuti's models of capitalist and socialist economies. Rather, the whole effort of Kalecki was to 'model' an endogenous rate of growth. While Kalecki was dissatisfied with CMEA's continuing use of the old investment effectiveness and rules, he was also equally sceptical of western investment rules. He therefore moved in a politically realistic way. He modified the investment rules as ideological rigidity in Moscow eased; but he was not interested in rules which led to choosing techniques so as to maximise consumption per head, but in more politically possible rules which had the effect of splitting the potential national product so as to allow a gentle rise in annual consumption per head.

Additionally, Kalecki worried that such calculations tended to isolate the choice of technique from the vital issue of the balance in the labour market. Though Poland at this time had many features of a 'third world' economy it also had a diminishing supply of labour power. An appropriate choice of technique could have accentuated the problem, causing bottlenecks and a braking, if not a breakdown, of the process of growth. Osiatynski also criticises Kalecki for not following the prescription of welfare economists of using an economy-wide rate of interest to discount the streams of inputs and outputs. Neither Osiatynski (nor his role model, H. Fiszel) were clear, however, about the level at which the planners should set this uniform rate, given the absence of free capital markets, nor why a uniform rate was to be preferred to a structure of rates as between sectors.

Osiatynsky concludes this section with a most interesting point (p.141) that Kalecki was always trying to get a uniform method of investment choice to be used by all CMEA countries as a vital step towards 'co-ordination of perspective plans', that he did break through some of these COMECON conventions, but that 'his approach was not without its weak points'. The attempt by Kalecki to bring CMEA initiatives into harmony could also explain why he moved step by step on the issue of investment rules and desirable calculations of investment effectiveness—he was aware of the great influence of Khachaturov and tried to move Hungarian and Czeck economists in the Polish direction. (Later they were to shoot past Kalecki with the application of their own coefficients—usually economy-wide ones).

What manner of socialist was Kalecki? What was his attitude to the condition of lower income groups? What humanist qualities propelled his efforts to design an analytical structure that could be put at the service of a socialist system? A degree of insight into these questions can be gained by reading through a list of Kalecki's comments on consumption. For he was no 'barrack room' socialist planner; on the contrary Kalecki's work is an antidote to some of the severe tradeoffs *against* consumption that emerged from the work of Feldman (the USSR's most significant economist in this area) and those in Poland (like Bronislaw Minc) who largely followed him. For Kalecki's 'government decision function', which traced out the dialectic of planners' pressure to industrialise and the people's concern to protect their livelihood (McFarlane, 1984:12), was an attempt to make planners permanently aware of the dangers of excessive rates of investment for consumption, morale, and labour productivity. He must go down in socialist history as a man who believed in protecting the standard of living of those at the bottom of the pyramid.

Osiatynski reveals (pp.161 ff) that Kalecki had been associated with this attitude since the 1920s. As is well known, he calculated (with L. Landau) in the pre-war period, the major elements of national income for Poland. The framework of this effort included a redivision of the category 'consumption' into the consumption of different social classes and strata. In 1956–7 Kalecki warned in a number of speeches that the defence of the living standards of the masses was as important as the issue of economic reform that was dominating Polish economic discussion. At this time he was an advisor to a powerful economic official, B. Minc, for whom he made studies of income distribution in the period 1937–54. It is highly probable that Minc's main claim to fame—being one of the first official economists to argue that the consumers' goods sector can be expanded more quickly than the capital-goods sector without disruption of the overall rate of growth—owes something to Kalecki's views on consumption.

The 1960s found Kalecki absorbed in the problems of white collar workers (Osiatynsky, p.162). He found that increased employment rather than rising income per head had brought about improvements in household standards of living. This point—once enunciated by Malthus—is not an uncommon one in countries like the Philippines. But it was rather startling to hear it in the context of a European socialist country. In mitigation of their government policy, Kalecki pointed out that real wages would not, in any case, be a wholly accurate indicator of progress, since the resources usually available for supplying real wages had to go in building infrastructure and collective consumption to support rural-urban migration. Despite this we have no reason to think anything but that Kalecki both advocated and welcomed more comforts for the working class. For example, his opposition to withdrawal of subsidies for coal because this would affect the heating of workers' homes supports this contention.

Osiatynski's 'Reconstruction' of Kalecki's 'System of Expanded Reproduction'

In his final chapter, Osiatynski constructs a *system* and puts various elements of Kaleckian theory into a particular place in that system: the determination of growth by work force plus productivity; the four major variables of the Kaleckian growth equation; income distribution; the tendency towards a trade-off between investment and consumption. Here we can also include certain 'delinquent' sub-structures—corruption, blackmarket, stealing from the state, ecological damage and excessive rates of depreciation.

The second half of the system comprises central planning; economic functioning under some influence of workers' control and of moral/ideological incentives; methods of plan construction, plan realism assessment (including consideration of plan variants); the problem of improving effectiveness; the protection of the consumption level; planning the acceleration or deceleration of growth rates; and the foreign exchange constraint.

Postulating ways that these can be stitched together, Osiatynski suggests that when this is done, we have Kalecki's own model of expanded reproduction.

Osiatynski has a number of criticisms of Kalecki:

(a) that he should have included, *before* his exposition of the growth equation, another equation making the growth of national income a function of levels of employment and labour productivity. This might have headed off critics;

(b) that he should have more precisely linked better economic management and the achievement of growth targets;

(c) that he 'does not mention how the producers will exercise their democratic control'.

In our view Kalecki can be cleared of some of these criticisms while Osiatynski's 'reconstruction of Kalecki's theory of expanded reproduction' is not wholly convincing.

In this connection we would point out that the 'golden rule' (Harcourt, 1970:240-8) is not really applicable in the real world socialist economy. Nuti's (1970) brilliant exposition notwithstanding, it by no means follows that a steady-state socialist economy should follow a 'golden rule' or even try to achieve a steady state! In a capitalist system the rate of growth is largely *exogenously* given (except possibly over the very long term when supply reponds to demand), but Kalecki was talking about a situation where the rate of growth was literally being 'sculptured' in the plan, a rate of growth mainly endogenously fashioned. There is nothing magic about the 'golden rule' for the hard task of perspective planning. Here Osiatynski seems too much under the spell of Nuti's analysis.

Second, Kalecki, while interested in the topic 'planning and democracy', was primarily using his judgment as to what to put in and what to leave out of his exposition. Flexible but gritty once he had decided an argument was right, the prospect of watching out for ideological implications that might displease authority was not in his makeup.

Osiatynski has, nevertheless, written a most able account of a remarkable economist. The new biographical details capture a great deal of interest and add considerably to our knowledge and understanding of the socialist and the planner. There is the bonus of a refreshing emphasis on the importance which Kalecki attached to workers' control. Yet we cannot agree that Kalecki failed to go on with this because of a failure to link centralised planning procedures with the exercise of workers' democratic rights. There is, for example, Kalecki's article 'Workers Councils and Economic Policy' also published in Toporowoski (1986). This is no mere sketch; it contains thoughtful remarks about the advantages to planning itself of a fair degree of worker-council involvement.

Finally, does the final chapter provide what was promised on the back flap of the book—an account of Kalecki's contributions which would 'reconstruct his theory of socialist reproduction?' We think not—first, because this would be a hazardous project in *any* circumstances. Second, a real account of a 'political economy of socialism' to be read *into* Kalecki would need to place a good deal more stress on Kalecki's remarks about vertical integration. This covers not only the large firm itself (as in Kalecki's article[3] entitled 'The Vertically Integrated Firm'), but the wider notion of vertical integration based on interdependence of industries and sectors, which is a feature of the work of Pasinetti.[4] Thirdly, it seems Kalecki had no fully-formed model in his mind. He seems to have been involved in a 'learning by doing' exercise in relation to macroeconomic planning. He had neither a 'complete system' nor 'a box of tricks' (to use Joan Robinson's term). Hence, in our opinion, Osiatynski's final chapter, while a gallant attempt to synthesise Kalecki's views, is nevertheless misguided. It is not really useful to group together elements written at different points of time under different historical circumstances and call it a synthesis. What emerges is not likely to be the real Kalecki. Not only are his ideas on planning and democracy thereby rather obscured, but the scientific approach that Kalecki insisted on pursuing also does not come out clearly.

Pat Devine's *Democracy and Economic Planning* addresses itself more directly to the questions of the place of markets, workers' control and bargaining between elements of civil society and the state, problems which are often dealt with very briefly by Kalecki.

Devine gives a lucid account of the faults of centralised planning and an interesting list of objections to market socialism as a system that really could promote democracy (325ff). While not rejecting the market and Yugoslav-style decentralisation, he points out that 'horizontal bureaucratism' can easily replace the vertical structures of the command economy without being less authoritarian in practice. He argues that the market should serve the plan and help in co-

3 M. Kalecki, 'The Vertically-Integrated Firm as an Element in the New Economic Model' republished in Toporowski (1986).

4 L.L. Pasinetti, *Structural Change and Economic Growth,* C.U.P. Cambridge and 'Economic Growth with Structural Change' in Pasinetti and Lloyd (eds.), *Structural Change and Adjustment of the World Economy* (Macmillan, London, 1986).

ordination and efficiency but a central plan of some sort is still needed to give a focus to allocation between the sectors. This resembles the 'Serbian line' rather than the 'Slovenian line' in Yugoslav policy debates (McFarlane, 1988:chs.9–11). It probably goes further in the direction of market socialism than Kalecki would have liked, although, like Devine, Kalecki did write about 'negotiated co-ordination' (Toporowski, 1980:chs.2,3,5).

Devine does not, however, venture into the area in which some of the Croatian and Slovene economists have written—the case for markets that is based on the sheer necessity to revive innovation and get technical progress out of the present stalled situation that prevails in Eastern Europe and the USSR.

Having disposed of the argument that centralised planning might yet survive, and that market socialism is its viable alternative, Devine comes to his own politico-economic proposals for such countries as Eastern Europe and future socialist states in Europe: there must be 'bargains' or 'compacts' struck between firms, and between the state and trade unions. These should not only cover economic issues but all major elements in the plan.

The major problem facing the implementation of Devine's *compacts* approach is that while it will strengthen civil society, by promoting proliferation of organisations rather than the accumulation of power, there is the chance of the appearance of an aversion to political bargaining among non-trade union groups. Consumer groups *may* be able to affect such compacts, but those pushing for education, housing etc. would likely be ill at ease in a collective-bargaining framework.

Nevertheless, there is much political realism combined with idealism in Devine's work which admirably complements Osiatynski's account of Kalecki's contributions. The supreme irony is that while Kalecki was ignored by the Stalinists in power in his day, his protégé, Osiatynski who is now Minister for Planning in Poland, is being similarly ignored by the fervent 'free marketeers' now ascendent in Eastern Europe. It is tragic that in the process of acknowledging the excesses, cruelties, injustices and inefficiencies of Stalinist and other regimes, and in courageously throwing them off, the people concerned have not noted the appalling economic record, and the rising inequalities and injustices of the capitalist world in the last 15 years or so. Should both sides of the now removed Iron Curtain ever come to their senses, they will find in these two books (and in Hugh Stretton's *Essays)* an intelligent, enlightened and humane formulation for removing in one case and making for the first time in the other, socialism in their own countries.

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