

The Typology of Contemporary Socio-Economic Systems and the Trends of Reforms

Branko Horvat*

I. Capitalism

Capitalism has been with us for several centuries by now. This is a sufficiently long period of time for capitalism started as a specifically European phenomenon and developed into a world wide system.

Bearing in mind that every historical periodization is somewhat arbitrary — *historia non facit saltum* — it may be useful to try to visualize the developmental stage.

Table 1. Classification of Capitalist Development

Transition for feudalism: Petty commodity production, mid-XIVth to mid-XVIth c.		
First regulated stage: Commercial capitalism until the mid-XVIIIth c.		
Laissez-faire stage: Competitive, until 1870s Monopoly, until 1930s	}	Industrial Capitalism Postindustrial (transitional?)
Second regulated stage: State, until 1970s Transnational		

The table is self-explanatory. Unlike feudalism, with its hierarchy of estates, capitalism requires independent producers. Thus, economic development of towns — where the “third estate” resided — and disintegration of serfdom over two centuries marked the transition from feudalism. In the second stage, trade — primarily foreign trade — was the main instrument of capital accumulation. But there was little market competition at the time. Artisans in the towns belonged to guilds and foreign trade was heavily regulated by the state. Thus, first markets were regulated and strongly supervised.

The improved ability of European states to provide legal security for

*University of Zagreb, Yugoslavia.

market transactions, initial accumulations of capital and increased political importance of the third estate — bourgeoisie — created preconditions for entrepreneurial activity and capitalism entered its industrial stage. Stage meddling into business affairs became a hindrance and so laissez-faire became the creed of the nascent class and its ideologues and theoreticians. This is the time when Adam Smith discovered the magic of the invisible hand.

Competition cum accumulation tends to create monopolies which are destructive of competition. Business fluctuations with periodic slumps tended to be more severe the more industrialized a country and, at the same time, large unemployment was becoming less and less tolerable. The great slump of early 1930s marked the end of a stage. The state intervened. Kalecki and Keynes soon worked out an appropriate theory. Market automatism of Say's was replaced by demand management under state auspices.

Keynesianism served reasonably well until the oil crisis of 1970s when stagflation indicated that something was very wrong with the system. Stagflation is an economic reflection of changed class relations. The unions became strong enough to insist on wage increases. Businessmen remained strong enough to preserve profits and pass increased costs to consumers. The class war became an obstacle for making profits and even conservatives came to see it as obsolete. Instead, workers and managers came to be seen as partners in development. The hitherto sacred "management prerogatives" were challenged. Germans pioneered in codetermination. Scandinavians in union-management bargainings on the national scale. Swedes added wage-earners funds.

At the time all countries became more or less thoroughly integrated into a truly world market. National stock-exchanges are integrated into an international computer network which functions 24 hours a day. Although an international government is not on the agenda as yet, the need for permanent coordination of national economic policies has been clearly perceived. The system has travelled a long way from the time of invisible hand — though the mainstream neoclassical economics is still not aware of that. Economic theory is disintegrating into a number of "post" and "neo" theories, but a respectable successor of Keynesianism has not appeared as yet.

Capitalism — as any real world system — is wreath with contradictions. They provide an engine of development. Capitalism is based on competition and constantly produces monopoly. It is founded on market and constantly generates attempts to destroy market, and internalize all its decisions. Its twin foundations are political democracy and economic autocracy.

cy. Participants in the system must have split personalities: outside the factory gate they are free citizens, inside the gate they are obedient servants. Capitalism started by liberating citizens from feudal yoke, and making them economically independent. It ended by expropriating the great majority of population. Around 1800 four fifths of population were economically independent (self-employed and employers). Today in mature capitalist countries nine tenths are wage and salary employees.

If one is asked to provide the shortest possible definition of the system, one might say: capitalism is based on political democracy and private property. Up to a point the two institutions are compatible and even mutually reinforcing. But at a certain stage private (productive) property begins to become dysfunctional and to generate tensions. Here is where we have to look for new development.

But it is not just private property that is becoming obsolescent. It is property as such — state property included — as a legitimate basis for decision making. Workers strike against public corporations with equal bitterness as they do against private firms. That has crippling effects on economy. Modern life is based on science and technology. Technological innovations require organizational changes and social adaptations. Both require co-operation. A conflict ridden society will be slower in responding and will lag behind in general economic development. For these reasons, it is not the legal ownership titles that matter; it is the power to make decisions affecting people's lives and livelihoods that is at issue. And so comprehensive nationalizations provide no cure for the problem. Nationalization does not imply socialization, state ownership does not imply social ownership. That explains the trends for reforms in capitalist countries.

II. Socialism

The three centuries spanned by Dutch (1572-1609) and Mexican (1910-1917) revolutions represent the time of bourgeois revolutions. Their battle cries were perhaps best described by the famous trinity of ideals of the great French revolution: *liberté, égalité, fraternité*. It was soon discovered that this trinity did not work in practice. Liberty was negative; with capital you were free, without capital not. Enormous differences in wealth rendered equality spurious. And even the ideologues of the system did not pretend that anything like brotherhood is to be found in a competitive society. The failure of the implementation of the three ideals generated socialist critique. The system, denoted as capitalism, was to be replaced by a different one which around 1830s came to be known as socialism. Another transitional period may be observed. It consists of four partly

overlapping stages (Horvat, 1982: 109-173).

The first were isolated visionaries like Robert Owen (1771-1858), Charles Fourier (1772-1837), Louis Blanc (1811-1882) and Pierre Joseph Proudhon (1809-1865). They produced various utopian schemes by founding communitarian groups in various countries. After a while, they all failed. Louis Blanc was able to experiment with his *ateliers nationaux* when the revolution of 1848 brought him into government. The failure of the experiment was dismal.

Next appear movements. The first one is known as the First International. By the middle of the nineteenth century, the primitive accumulation of capital had already been accomplished in the most advanced countries, the Industrial Revolution had been carried out, and the development of a new social order was in full swing. In the ideological sphere, isolated individuals were to be replaced by broad movements. The new social order, capitalism, generated a new exploited class, the industrial proletariat. Numerous strikes, industrial warfare, and illegal trade unions demonstrated the gradual emergence of its class consciousness. There was a pressing social need to provide a theoretical explanation of the dynamics of the new order and a moral need to provide a defense for its victims. Both were superbly accomplished by Karl Marx (1818-1883) and Friedrich Engels (1820-1895), the chief architects of the First International and the first social-democratic parties. Thus, historically, Marxism appears as a theory of the emancipation of the merging working class. Since the proletariat is the exploited class, by emancipating themselves workers will emancipate the society at large; socialism. Consequently, socialist movements appeared to be essentially working class movements.

At first Marx followed the main socialist tradition and visualized socialist economy as centrally planned, even moneyless, although already in the Communist Manifesto (1848) he and Engels described the socialist society as an "association in which the freedom of every individual is a precondition for the freedom of all." They did not realize that individual freedom and administrative planning are mutually incompatible. It is only at the time of Paris Commune (1871) that Marx came out in favour of workers' management. That, however, became the main idea for French syndicalists, American industrial unionists and English guild socialists. Only the last of the three movements survived the First World War, but became victim of the first postwar slump.

Visionaries and movements prepared revolutions. The Paris Commune (1871) and the Nicaraguan revolution of the present time span the century of socialist revolutions. Almost all of them share a common feature: they spontaneously established some sort of workers' management in the firms

and self-government in the communities. However, post-revolutionary societies failed to develop these institutions. They were rather replaced by an all-embracing governmental control. There has been only one partial exception from the rule: Yugoslavia, where workers' management survived and entered the Constitution.

The fourth and final stage is the implementation of socialist ideas, socialism as an establishment. I leave the discussion of this problem to the concluding section of the paper.

Historical developments call for an analysis and an extrapolation. I developed a complete theory of socialism elsewhere (Horvat, 1982) and would like to draw attention to only a couple of relevant findings.

All socialist revolutions were fought under the banner of justice. An analysis shows that the constituent elements of justice are exactly those three ideals of previous revolutions, namely, liberty, equality and fraternity. Moreover, each of them implies the other two. Traditionally, socialists build on equality. Contrary to conventional wisdom, equality is not an unoperational concept; it can be defined very precisely. We are surely equal if we are equal in performing all our basic social roles. There are only three basic — in the sense that we cannot live in a society without performing them — roles: we are all producers, consumers and citizens. Equality of producers implies equal access to social capital; in other words, it implies social property and self-management. A basic precondition for genuine self-management is a free market (full market autonomy of producers). Equality of consumers implies a distribution of income according to work. The basic precondition for that is planning which must ensure equal starting positions for all producers (perfect competition, in the terminology of neoclassical economists). As is well known, a *laissez-faire* market functions poorly. Planning is used to eliminate market imperfections. Finally, equality of citizens implies self-government and political liberties. That, in turn, requires decentralization and deconcentration of political power.

Again, if we are to provide the shortest possible definition of the system, we might say: socialism is about political and social democracy. For that it needs social property, market and planning. Unlike private property, social property is compatible with economic democracy. Individual initiative, the greatest developmental achievement of capitalism, belongs to social property as well, but changes its nature. Private property generates an exclusive and antagonistic individual initiative, social property a co-operative one. Planning and market stay no longer in opposition to each other: planning makes market work well, market is by far the most efficient instrument of planning. The way that socialism tries to solve con-

temporary social problems is by deconcentrating power, economic as well as political.

III. Etatism

In the preceding section I described the basic socialist creed and worked out theoretical consequences. But socialist movements and thinking followed also two side lines. One is anarchism.

Anarchists believe that human beings are by nature good and sociable and only the state and the concentration of power makes them wicked. Consequently, social evils will be eliminated if compulsory organizations are replaced by spontaneous associations. Anarchist movements came to be occasionally quite important, as for instance in Ukraina at the time of Russian revolution and in Spain at the time of the Spanish civil war. But their power never lasted long.

Diametrically opposite are the ideas of state socialists as exemplified by the Second and, in particular, by the Third International. They shunned away from any spontaneity and insisted on strong organization and the role of the state. The socialists of the Marx's and Engels' generation believed in the withering away of the state. This somewhat nebulous idea at the time it was formulated may be made quite precise if it is realized that modern state performs two very different functions: it is a repressive organization backed by force and it is also an organization providing social services. The oppressive function of the state should wither away, the service function should be maximally expanded.

Socialists of the two later Internationals did not care much about such subtleties. They were mesmerized by the organizational potentials of the state. Stalin openly proclaimed that Engels was ignorant and wrong: state power must increase, not wither away. Even the relatively mild social-democrats and labourites believed that genuine socialist reforms require a widening of the state control and a nationalization of industries. After the Second World War left-oriented governments in various countries carried out extensive nationalizations. The proportion of nationalized industries came to be considered as an index of socialist achievements. Very soon both governments and workers were disappointed; governments because efficiency did not improve, workers because this socialism did not look different from previous capitalism.

Class oppression and social differences were particularly great in the countries lagging behind in development. For this reason such countries were foremost candidates for social revolutions. But lagging in development meant illiteracy and absence of political democracy. With these two

ingredients, revolutions were not likely to be socialist. Rather early — already in 1902 — Lenin expressed his profound doubts in the ability of the working class — not to speak about peasants — to carry out a socialist revolution. He insisted that, instead, an organization of professional revolutionaries, a party acting as a social avant-garde should accomplish the task. Clearly, an avant-garde can be only one.

When socialist revolutions actually broke out — with the exception of the pioneering Paris Commune — a quite plausible theory already existed. A vanguard party should seize the power and use the state to mobilize the uneducated population to build socialism in the interest of all. Revolutions themselves generated everywhere attempts at spontaneous self-management and self-government. But the party was soon able to use its political monopoly to establish an all-embracing state control. *Socialist* revolutions ended up generating *etatist* systems. This historical joke is still a source of great confusion.

Socialism is about self-determination, individual freedom, political and economic democracy, elimination of social hierarchy, deconcentration of political and economic power. *Etatism*, on the other hand, established political monopoly of one party, introduced rigid political and, consequently, social hierarchy, eliminated political pluralism, replaced market by bureaucratic controls, replaced private property by state and not social property, blocks individual initiative and established an extreme concentration of political and economic power. Socialist producers are self-managers; socialist citizens are free and equal individuals. *Etatist* producers are wage labourers hired by the state; *etatist* citizens are obedient servants of the state subject to comprehensive controls of a monolithic hierarchically structured political bureaucratic apparatus. *Etatism* is clearly antithetical to socialism. To confuse the two is more than a small error in comparative systems analysis.

The strengths and the weakness of *etatism* lie in the characteristics of the system just enumerated. Let me first deal with the strength.

A country substantially lagging behind in development has a poor, uneducated community with enormous social and economic differences generating class polarization. Under such circumstances fast growth is unlikely and backwardness tends to be perpetuated. If in such a country capitalism is replaced by *etatism* — which, however, is not the only possible alternative — growth possibilities are greatly enhanced. The state is converted into a collective entrepreneur, the nation is mobilized to carry out development plans, wasteful social and political conflicts are replaced by organized action and single-mindedness of purpose. All that becomes possible if the population can be made believe that the change is worth

while. Here is where the socialist ideology (not socialist theory!) enters the picture. Etatism is a bureaucratic collectivist system with socialist ideology.

As long as the ideological grip is operative, the system works. Etatist countries achieve high rates of growth (Horvat, 1974a, b). That is shown in Figure 1.

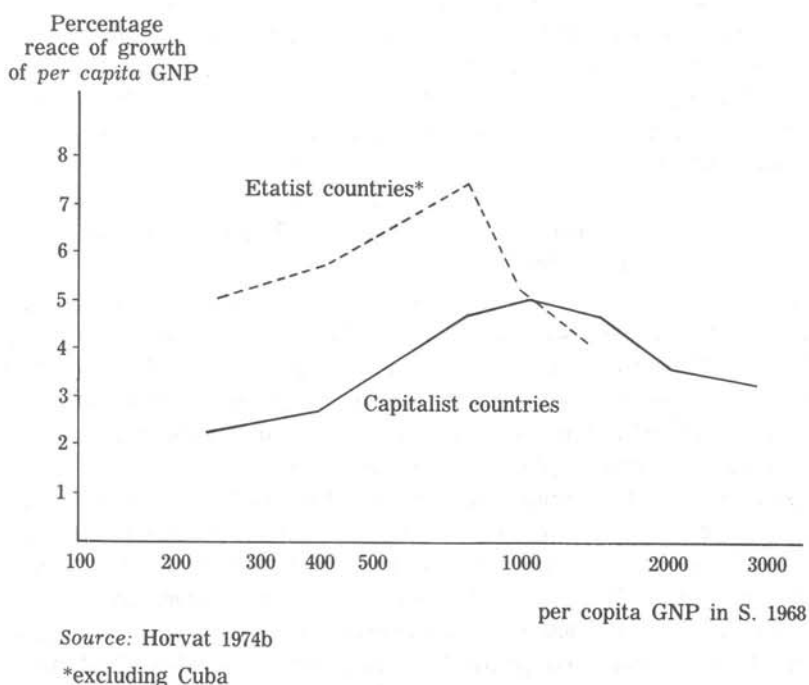


Figure 1. Per capita rates of growth of etatist and capitalist countries: 1960-71

Only countries with reasonably reliable statistics are compared (39 capitalist and 9 etatist countries; the tenth, Cuba, is excluded because of the American blockade). Differences in growth rates are substantial until per capita GNP of about \$900 (1968 prices) is reached.

Not only the rate of growth is higher, the gains from growth are more equally shared. Income distribution is more egalitarian (Table 2), and basic welfare of the population is higher (Table 3).

Basic welfare is defined as the availability of three basic goods: life (measured as life expectancy at birth), education (measured as the number of university students relative to the population) and health (measured in terms of medical services, i.e., the relative number of physicians

Table 2. Size Distribution of Income

	Gini ratio		Percentage share of top 5 percent	
	Spread	Median	Spread	Median
Etatist countries ^a	0.19 — 0.26	0.21	9.2 — 12.2	10.9
Welfare states ^b	0.33 — 0.47	0.36	13.3 — 20.9	15.1
Advanced capitalist countries ^c	0.32 — 0.52	0.40	13.7 — 24.7	17.4

Source: S. Jain. *Size Distribution of Income* (Washington, D. C.: World Bank, 1975). The data are for the last available year from the interval 1962–72. Most coefficients refer to households, and the remainder to income recipients: Polish and Bulgarian data refer to workers. Hungarian data to the population.

^aIncluding: German Democratic Republic, Czechoslovakia, Hungary, Poland, Bulgaria.

^bIncluding: Sweden, Denmark, Norway, New Zealand, United Kingdom, Finland, Israel.

^cIncluding: United States, Canada, France, Australia, Federal Republic of Germany, Netherlands.

Table 3. Basic Welfare of the Population in Etatist and Capitalist Countries

	GNP	Life	Health	Basic	Difference
	1970 (1)	expectancy (2)		welfare (5)	(1)-(5)
Etatist countries ^a	26.6	24.4	25.7	22.1	4.5
Welfare states ^b	11.3	11.9	15.5	13.7	-2.4
Advanced capitalist countries ^c	7.0	10.3	13.4	14.0	-7.0

Source: B. Horvat. "Welfare of the Common Man in Various Countries." *World Development*. June 1974, pp. 29-39.

^aIncluding: German Democratic Republic, Czechoslovakia, USSR, Hungary, Poland, Romania, Bulgaria, Albania, Cuba.

^bIncluding: Sweden, Denmark, Norway, New Zealand, United Kingdom, Finland, Israel, Austria.

^cIncluding: United States, Canada, France, Australia, Federal Republic of Germany, Belgium, Netherlands.

and hospital beds). In order to eliminate differences in economic development, the sixty most highly developed countries are ranked according to gross national product per inhabitant and these rankings are compared with the rankings of social indicators. If the resulting difference is positive, the society in question provides its common members with more basic goods than other societies. A comparison of the rankings shows that in etatist societies the broad masses of population live longer, receive more education and enjoy much better medical care than would occur

generally under alternative social arrangements at the same level of economic development.

The achievements of the etatist systems are quite impressive. The failures are also substantial. As the economy develops and becomes more complex, administrative planning becomes less and less efficient. Figure 1 indicates that after about \$1000 per capita (1968 prices), etatist growth rates steeply fall and sink below capitalist averages. Technological progress, as conventionally measured, falls below the rates common for capitalist countries. Economies begin to lag behind the general world development. In the words of Enrico Belingure: the developmental potential appears exhausted.

Nor is that all. The gap between socialist ideology and etatist practice is widening and the population cannot fail but become intensely aware of that. The resulting credibility gap reduces mobilization capability of the state substantially. Increasing corruption and cynicism characterize the attitudes. Radical reforms are overdue. That is essentially the current state of affairs.

Reforms are necessary, but it is not easy to carry them out. Powerful interests collude to prevent change. Any radical change means expropriation of political power of the ruling bureaucracy — which in the meantime constituted itself as a ruling class — and it is not willing to be dispossessed of power and privileges. On the other hand, egalitarian ideology degenerated in the meantime into what Jozo Zupanov (1979) described as an “egalitarian syndrome”: whatever the results or the lack of results of our work, we are all equal and entitled to equal earnings. Radical change introduces uncertainties, requires productive differentiation and that is not attractive for the large segments of population accustomed to the security of employment, poor work and no responsibility. Thus, many workers also, and not only the ruling bureaucracy, support the status quo. It is extremely difficult to fight such a powerful conservative alliance.

Like capitalism, etatism as its own contradictions. They also provide an engine of development. The main contradiction appears to be the one between socialist ideology and etatist practice. The liberation of man is made impossible by an authoritarian state control. A classless egalitarian society is replaced by a rigid hierarchy of status privileges. The main legitimization of the system — the high rate of growth — is no longer possible.

Again, a short definition of the system might read; etatism is based on political and economic control by the state. For that reason I followed Sveta Stojanović in adopting the term etatism as the most adequate term to describe the system (Stojanović, 1973). Political control implies the

monopoly of one party. Economic control implies state ownership of the means of production, i.e., the economic monopoly of the state. As a consequence market is undesirable and planning is strictly administrative. The main historical role of etatism seems to be to speed up growth in order to catch up with the more advanced countries. Once this task is more or less achieved, etatist institutions become dysfunctional.

IV. Reforms

Reforms are not a specific feature of the current world scene. Every new crisis generates new reforms and there is a continual occurrence of reforms, both in the West and in the East. Not all reforms are of equal importance. But all seem to be pointing in the same direction.

Predatory capitalism with a ruthless class war is — at least within national boundaries — behind by now. Crucial reforms were inaugurated as an outcome of the world economic crisis of the nineteenth thirties. At that time the planned economy of the Soviet Union did not experience unemployment and stagnation which plagued capitalist West. Something had to be done, and so the welfare state and government stabilization policy were invented. Welfare states improved the lot of the poor and underprivilege as indicated in Table 3. When it was inaugurated, welfare state represented a remarkable change in social consciousness, it charged the state with social responsibility. But today that begins to look like a bureaucratic paternalism. The current generations ask for more than mere survival.

Taylorism — which treated workers like oxen — and authoritarian “management prerogatives” — ideologically justified by property rights — are also behind us. The two landmarks were the two world wars. At around the First World War, the autocratic organization of a typical capitalist firm began to encounter strong resistance. The need to expand war production and avoid strikes induced governments and employers of the belligerent countries to experiment with some mild forms of workers participation. Although similar attempts were made already before, particularly in Germany, british *joint consultation*, as exemplified in the Whitley Councils of 1917, may be taken as a landmark. Joint consultation means that the employer is obliged to consult his employees before making decisions that affect their work and income in some important way. However, the final decision is his.

The next step towards democratization of management was made in Germany after the Second World War when codetermination was introduced. Under the pressure of 1918 revolution, when German workers de-

manded the socialization of the economy, the Weimar Constitution envisaged codetermination. But this constitutional provision was never enacted. After the last war a series of laws were passed providing for workers' participation in the boards of directors — in some industries on the parity basis — and also reserving the post of the personnel director for the trade union representative. Today all West European countries, and many other as well, have some form of codetermination. The merits of joint consultation and codetermination are now being rediscovered in the etatist countries as well.

Further development led towards full-fledged *workers' management*. It was both revolutionary and reformist. As a result of a social revolution, workers' management was established in Yugoslavia on a national basis (1950). The reformist way was pioneered by Peru in the 1970s under the president of Velasco Elvarado (it was called *democracia social de participación plena*), but the development was mostly reversed after his death. The same idea was taken over and more successfully implemented by the Swedes in 1980s. Genuine democratization of management requires also a change in property relations; workers must have control over invested capital, at least partly. Swedish Wage Earners Funds are financed by a certain percentage of annual gross profits and a payroll tax. They buy shares of the companies and are controlled by the unions. That, of course, is not full workers' management. The economy is still privately owned and unions are centralized organizations. But the Swedish reform marks a successful beginning of a reformist transition period.

Capitalism began with the establishment of political freedoms and seems to be ending by introducing economic freedoms. That is how the conflict of the two incompatible organizational principles — political democracy and economic autocracy — is approaching its resolution. In this respect quite illustrative are the activities of the United Nations. In 1948 they passed the Universal Declaration of Human Rights which confirmed the classical principles of political democracy already proclaimed in the American Declaration of Independence (1776) and in the French Declaration of the rights of Man (1889). Only a few years later another document was passed complementing political rights with social and economic rights. The modern list of human rights is quite inclusive, but still not completely so. Characteristically, self-management does not appear on the list. The reason is obvious: it is incompatible with both private and state ownership.

It is clear that the etatist reforms will proceed in the opposite direction: from economic security to political liberties. The first wave of liberalization occurred after Stalin's death thirty years ago (and with some delay in

China after Mao's death). The second wave has just been inaugurated with the Russian Perestroika. Complex and rapidly changing modern economy cannot function without a competition of ideas and individual initiative. And neither of the two is possible without political reforms. Thus, political liberalization is an existential precondition for development. In the economic sphere it will lead to an expansion of the market and an increased independence of firms. But radical political liberalization is unlikely because that would change the nature of the system. The ruling class will try to preserve its political monopoly as long as at all possible. Thus, etatist countries are most likely to begin to experiment with economic democracy. Joint consultation and various kinds of co-determination — inappropriately called workers' management — are being tried out and will be so even more in the near future. In this way the need for a radical social-political reform might be postponed for another generation.

In both West and East reforms are encountering the resistance of powerful vested interests. In the West it is private ownership which prevents efficient social planning and workers' management. In the East it is the political monopoly of the ruling bureaucracy which prevents independent initiative and social innovation. As a consequence, capitalism develops through a series of economic crises, etatism through a series of political crises.

Almost forty years ago (1949), in his address to the American Economic Association entitled "The March into Socialism," Joseph Schumpeter predicted an etatization of the economy with the bureaucracy replacing entrepreneurs and called that socialism (Schumpeter, 1950). The prediction was doubly wrong. First, etatism is as different from socialism as is capitalism. Second, etatism is in a deep crisis and is certainly not the target towards which the world is moving.

Yet some trends are discernible. Capitalism is not converging to etatism, as Schumpeter thought, neither are they converging to each other, as two decades later Jan Tinbergen asserted. Both systems are converging to something different. This third, "asymptotical" system, I described as socialism.

References

Horvat, B.

1974a "The Relation between Rate of Growth and Level of Development," *Journal of Development Studies*, 382-94.

1974b "Welfare of the Common Man in Various Countries," *World De-*

velopment, 29-40.

- 1982 *The Political Economy of Socialism*, M. Sharpe, Armonk, New York.
- Schumpeter, J. A.
- 1950 *Capitalism, Socialism and Democracy*, New York: Harper.
- Stojanović, S.
- 1973 *Between Ideals and Reality*, New York: Oxford Univ. Press.
- Zupanov, J.
- 1979 *Sociologija i samoupravljanje*, Skolska knjiga, Zagreb.