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Track #4: Die Hegemonie der Ökonomie

Self-governing Socialism between Marxist Critique and Neoclassical Technocracy: Some Contradictions in Critical Yugoslav Economic Theory

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Introduction

The history of economic thought or more generally Political Economy in Eastern Europe during the existence of Real Socialism is an equally diverse and under-researched field. Recently Kovacs edited a volume on Mathematical Economics and the Central Plan in Eastern Europe and China. There, the authors map theories of central planning and its modernization in the form of optimal planning theory throughout the region during the rule of communist parties. It demonstrates the originality of economic theories that originated in those regions during the communist rule, often times as the attempt to modernize or reinvent a socialist mode of economic organization (Kovács 2022a)

Among the different intellectual traditions in the so called East and West and within the East itself, Kovacs identifies a shared tendency of theorizing the relationship between the market and the plan. Many Eastern European economists developed some concepts of market socialism or self-management, without however turning to a capitalist market, in contrast or even in opposition to the existing administrative planning practice in their respective contexts (Kovács 2022b:3f). The similarity to or even explicit use of neoclassical models and concepts at first might irritate. Because neoclassical economics as a scientific corpus that developed in the capitalist countries during industrialization has an ideological component. Critics of neoclassical economics have frequently pointed out that it veils class relations and provides an ideological mystification of oppressive relations in capitalist societies (cf. Hunt und Lautzenheiser 2011; Shaikh 2016). Similarly, general equilibrium theorists – the most theoretically consistent neoclassicals – have pointed out that the Fundamental Theorems of Welfare Economics comprise the legitimacy of a free-market system (Fisher 2005:74). It thus begs the question, how under the state-official ideology of socialism neoclassical theories gained reception and why the economic theories in the East and the West tended to converge.

The idea that this apparent convergence of capitalism and communism in a mixed-economy of market socialism was primarily a tendency of introducing neoliberal reasoning and policies in the Eastern Block – as for instance Bockmann argues in her history of Economic Thought in Eastern Europe (Bockmann 2011) – is vehemently rejected by Kovacs. Rather a shared scientific method and language among economists on a global scale gave rise to a fruitful independent development of similar ways of thinking about planning and markets. The theories of optimal planning, predominantly developed in the East, were later possible to be integrated into the neoclassical theoretical body due to certain common methodological principles shared with general equilibrium theorists (Kovács 2022b:9). However, from an ideology-critical perspective this convergence and the reception of market-affirming concepts in nominally socialist countries is much more ambivalent. Is the parallel development of theories of optimal planning in the East and the West not an expression of shared societal dynamics and problems, to which the respective economists searched for similar explanations? We will restrict ourselves to the study of one particular nominally socialist society, namely the SFRY because of its peculiar position between the two Blocks and its long-lasting experiment with workers' self-management. What was the relationship between Marxist critique and neoclassical economics in Yugoslavia? This also cannot be answered in general, since there was a rich tradition of economic theorizing in Yugoslavia and a lot of proponents all with different stands on it.

Some authors, like Mencinger (Mencinger 2022), argue that Yugoslavia as a socialist country that broke with the Soviet Union in 1948, was compelled to invent a new political-economic system rather fast. Yugoslav Political Economy evolved relatively free already from the 1950s onwards. The exchange with western theorists flourished and the development of a genuinely new synthesis of Marxist and contemporary western economic ideas began with Alexander Bajt's dissertation "Marxov zakon vrednosti" (Mencinger 2022:296). However, at the same time Mencinger claims that Marxist theory was in general of no great interest to Yugoslav economists, they generally either veiled their theories in marxist terminology or simply quoted Marx and Engels from time to time in order to blend in with the state-official ideology (Mencinger 2022:298). Although this claim appears plausible, it is not elaborated in the study in detail, since Mencinger does not dwell into the theoretical concepts and contradictions of those authors. Differences in Bajt's and Oskar Lange's synthesis of Marxist and neoclassical analysis for instance are only indicated, however not elaborated on a theoretical level. Next to Bajt, the other prominent economist who according to Mencinger dealt in detail with Marxist Self-governing Socialism between Marxist Critique and Neoclassical Technocracy: Some Contradictions in Critical

and neoclassical theory alike was Branko Horvat, the most well known economist and planner in Socialist Yugoslavia:

“Horvat was one of the few economists in Yugoslavia with a deep knowledge of and sincere inclination toward Marxism. Ironically, in the early stages of Yugoslav communism, he had been stigmatized as a non-Marxist and even anti-Marxist. [...] When most former „Marxists“ became “monetarists” after the collapse of communism, Horvat as a Marxist resolutely denied the desirability of restoring capitalism. Indeed, while approving privatization, he supported the idea that the companies should be owned by workers.” (Mencinger 2022:303)

As with Bajt, we do not know much from Mencinger’s article about Horvat’s actual theories and it begs the question in what sense Horvat differed from those Yugoslav economists, that Mencinger claims had no genuine interest in Marxism. In the following we will deal indicatively with Horvat’s Political Economy of Socialism, first published in 1982 (Horvat 2016) and try to work out the specificity of his Marxist-neoclassical synthesis. The choice of dealing with Horvat’s work is not arbitrary as shown by the quote above. His work was highly acknowledged among professional economists in the West, his reasoning was for instance coined by US-american neoclassical economist Benjamin Ward as *Horvatism-Marxism* (Ward 1967). Among Marxist theorists such as Ernest Mandel he was also well known (Mandel 2007), he collaborated with the PRAXIS group, among other co-editing a volume on Self-Governing Socialism together with Mihailo Marković and Rudi Supek (Horvat, Marković, und Supek 1975). His main work The Political Economy of Socialism, first published in 1982, draws from his long-lasting research and experience in planning institutions in Yugoslavia alike.

Horvat’s work is broad and rich in content, we will not give a comprehensive summary of it and will not follow the order of elaboration provided by himself in the book. Of interest in this article is the immanent critique of Horvat’s work, which means that the focus lies on the theoretical contradictions within the work itself. More specifically, the interest is on the synthesis of Marxist and neoclassical theory and the contradictions emanating from such a synthesis. However, we will not follow a marxiological approach and question what ‘actually’ is Marxist about his work, nor will we develop a fundamental critique of neoclassical theory itself. Rather, the contradictions we are interested in are of the sort of its own immanent reasoning. How does he synthesize different economic approaches in order to develop a design of Socialism? For that he draws quite eclectic references from a various range of social sciences. The main contradictions identified are elaborated in five theses given below.

What is the Political Economy of Socialism?

Horvat’s Political Economy of Socialism was first published in 1982 and represents his main work (Horvat 2016:xiii–xiv)¹. The primary content of his theory – the study of socialist institutions – requires a specific methodology. Therefore, what Horvat means by Political Economy is different from the classical understanding of it:

“It should be mentioned, perhaps, that in my usage political economy has a somewhat special meaning. The term *political economy* was invented three centuries ago to denote the management of state economy in contrast to that of family households. With time, this meaning underwent a change. Classical political economy denoted the economics of a specific society: it meant the theory of the capitalist mode of social production. It is this theory that became the target of Marx's *Critique of Political Economy*. With the advent of neoclassical economics, social and political dimensions were eliminated, and what remained was uncontaminated economics. Soon pure economic theory came to mean model building irrelevant to any real-world economic decision making or problem

¹ „My generation undertook to accomplish what Marx called for in his famous thesis on Feuerbach: to change the world, not just to explain it. I threw myself fully into that business of changing. It turned out that changing the world was not at all a simple or easy affair. Contrary to our original views, socialism proved to be rather elusive and far from obvious. Although explaining the world was not enough, it was still an indispensable condition for changing it in the desired fashion. The neglect of serious theoretical research could not but have disastrous consequences.“ (Horvat 2016:xiii)

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solving. [...]he problem with which I was grappling required a very definite unorthodox approach. Since socialist society—despite many promising beginnings—does not exist as yet, the classical approach was inappropriate. Both economic and political institutions first had to be designed before one could study their interaction.” (Horvat 2016:xiv emphasis in original)

This passage has major methodological implications, which we will trace throughout this paper. First, we have to acknowledge the explicit rejection of Marxism as the critique of Political Economy. Whereas it dealt or deals critically with capitalist society, Horvat is interested in designing a socialist society, which requires a different methodology. Secondly, neoclassical economics is understood here as an apolitical theory of abstract modelling, which is equally inadequate for his endeavour on its own. Thirdly, his ascertainment that socialism does not exist yet, is of course to be understood as a criticism of the Eastern Block and to some degree of the nominally socialist society of Yugoslavia itself, as we will see below. And fourth, we can observe some kind of technocratic impetus in his approach to Political Economy, since it is primarily about *designing* socialist institutions, not explaining or criticizing them.

The Political Economy of Socialism is not a depiction of any particular existing society, it is the attempt to sketch very concrete economic and political institutions of self-management and self-governance. Although the influence of the Yugoslav experiment with self-management on Horvat’s work is undeniable, he does not limit himself to an abstract description of its functioning. Nevertheless, the book aims at generalizing the principle of self-management and it therefore still provided very direct reform possibilities for the Yugoslav society and in some instances even a more radical critique². This tension between relatively closely resembling Yugoslav reality on the one hand and generalizing and criticizing it on the other, permeates the whole book. Often criticism of Stalinism and Etatism (which is the term Horvat uses for the system of existing nominally socialist countries in the Eastern Block) contains an immediate critique of Yugoslavia itself. While criticism of Stalinism was of course gladly seen after the Tito Stalin split in 1948, very direct criticism of the Yugoslav Communist Party or later League of Communists in Yugoslavia poses a relatively great risk. Hence the tendential technocratic design of a classless society contains an immanent critique of the very society its written in.

The specific design of institutions includes of course the economically self-managed enterprise as its basic organizational unit and is accompanied by a number of democratic institutions that assure equality of individuals as producers, consumers and citizens alike. Particularly important from an economic perspective is the relation of the market and planning within this set of institutions, which we will discuss in some detail below. Horvat’s vision of self-governing socialism is centered around the idea of decentralization of power and decision making. Power is first and foremost located within the autonomous, democratically self-managed enterprise. Neither private nor state property exists and the autonomous decisions of the enterprises are primarily coordinated through the *planned market*. Additionally, macroeconomic organization is politically enabled via a hierarchical layer of self-governing instances: the commune, the state and the federation. The most local level is the most relevant, and higher levels of political coordination are consulted only in cases where a local solution is not feasible, however, the more local levels are not bound to administration from above. This means that the commune is in principle fully autonomous and it resembles on the political level the economic autonomy of the self-managed enterprise. This version of self-governed socialism is justified by arguments of economic efficiency, organizational feasibility and ethical desirability (Horvat 2016, ch. 6 & 7, p. 174 in particular). Frequently, Horvat backs up his arguments with quotes by Marx and Engels interpreting them in an anti-authoritarian manner. This is of course in one part due to the state-official ideology of (a specific) Marxism and the necessity to position one within, but also in part for criticizing a specific, Stalinist interpretation of Marxism or Marxism-leninism. His readings of Marx and Engels are close to the so called humanist Marxism of the PRAXIS group. Although a

² Most drastically, in the claim that socialism does not require the party, even more so, it is economically inefficient and politically concentrates power: “In short, the disappearance of political parties turns out to be the precondition for overcoming the present general political passivity and replacing it with a rich and varied political life in which most members of the society—not only political activists—will participate.” (Horvat 2016:322)

detailed investigation of the close relations of Horvat's thinking and other members of the PRAXIS group would without a doubt be illuminating, this is beyond the scope of this paper.

What *The Political Economy of Socialism* is not, however, is equally interesting. As its main focus is on the design of a socialist society, the critique of existing socioeconomic systems – capitalism and etatism – is relatively rudimentary in comparison to works of other Marxist economists (cf. Mandel 2007). Probably most innovative within this limited aspect of the work is the thesis, that etatism constitutes an inversion of capitalist relations and that both are conceptually bound together as negative mirror images of one another³ (Horvat 2016, ch. 2). But, and this is maybe the most impressive absence of this work from a self-proclaimed marxist, there is practically no discussion about the concept of value. It is the one of the most significant categories in the demarcation of different economic schools and the main target of Marx' critique of the Political Economy. However, Horvat does not even touch upon this issue, even when he talks about exploitation and alienation. And as we will try to indicate later on, the neglect of the problem of value or its explicit theorization resonates in the lack of a dynamic theory of transition.

We will not reconstruct the whole theoretical body, but rather focus on some contradictions and reconstruct the relevant aspects of it. Particularly, we will trace the following contradictions:

1. The criticism of Scientific Socialism as a Dogma, which Horvat develops, does not resolve the fundamental contradiction of anticipating the non-existent classless society. *Or how it is (still) not possible to think beyond the transition society.*
 - 1.1. Horvat's Political Economy of Socialism rather than a sketch of a truly classless society represents an implicit criticism of and call for reform in Socialist Yugoslavia (and beyond). *Or how to criticize the Communist Regime.*
2. A lack of fundamental critique of existing categories of capitalist and etatist relations results in ideological thought-forms in the design of self-governing socialism. *Or how Horvat's socialism contains aspects of bourgeois categories.*
3. Horvat's Political Economy of Socialism fails to transcend the bourgeois division of labour. *Or how a feminist critique might change a lot.*
4. The lack of a global perspective and its implications aligns with Yugoslavia's openness towards the West. *Or how socialist unemployment integrates in the world (labor) market.*
5. Economic Growth is considered a prerequisite for (socialist) modernization and its reproduction, and its ecological neutrality is falsely assumed. *Or how he negates the environmental question.*

Those contradictions are all with regards to the *content* of his theory, but we will try to elaborate, that they have their counterparts on the *methodological* level.

On 1: Scientific Socialism vs. Designing Socialism

We have argued above that Horvat is interested more in the design of socialist institutions, rather than an elaborate critique of capitalist or etatist institutions. And we have seen that this requires an approach to Political Economy different from the classical or Marxist one. More precisely, he explicitly rejects the orthodox Marxist notion of scientific socialism, which aims to provide a ruthless criticism of everything existing. Horvat faces the criticism of such an alleged utopianism in the very beginning of his work:

"[...] the idea of designing a social system is likely to be met with great suspicion. Does it not smack of utopianism, of wishful thinking? [...] Unlike the engineer, whose task is to design new machines, the social scientist is not expected to design new social systems; his job is to analyze them critically and to explain them. Yet, logically, there is no difference between the two tasks—except that the latter is much more difficult. [...] The tradition of not caring about the design of the future society—in fact, of openly denouncing any attempt at such design as Utopian and antiscientific—has been long and

³ „Like any spontaneous reaction to something one dislikes, the socialist critique tended to become a naive, straightforward negation of bourgeois institutions and values. Once again the basic approach was a negative one. This time it was not the feudal barriers but the bourgeois institutions that had to be destroyed in order to emancipate humanity. Whatever existed was wrong and had to be replaced by something opposite.“ (Horvat 2016:23)

well established in the socialist movement. It started with Marx and Engels, who perhaps might be excused because the society in which they lived—contrary to their own beliefs—was very far away from socialism. But the tradition is still alive, and with disastrous consequences.” (Horvat 2016:xiv–xv)

This quote illustrates Horvat’s methodological approach quite clearly, we can see not only the supposed symmetry of social sciences and engineering – which is quite common among neoclassical economists. We can also see, that a purely critical approach is rejected with a historical argument. Whereas Marx and Engels might have made the mistake of imagining socialism right around the corner, Horvat concludes from the failings of the socialist revolutions and the very early stages of socialism he was witnessing, that the lack of having concrete proposals was diametrically opposed to the socialist cause: “[...] the absence of any meaningful long-run program enormously aided the counterrevolutions [...]” (Horvat 2016:xvi). The counterrevolutions mentioned here are fascism and Stalinism. According to Horvat, the lack of having a concrete proposal for action contributed to disorientation in the Western communist parties and at least supported the rise of the fascist movement. In the Eastern Block – after the initially successful revolution – the Bolsheviks used the notion of scientific socialism for securing their power and eliminating any opposition. Drawing upon the Tanzanian revolutionary Nyerere, Horvat shows the religious structure it had in the Soviet Union (Horvat 2016:28–31). His argument for the necessity of breaking with scientific socialism is therefore primarily historical.

As already mentioned, Horvat backs up his arguments with reference to a (selective) reference of Marx and Engels. One particular and very important point of reference is the “Kritik des Gothaer Programms”. There, Marx argued that the transition from capitalism to communism cannot be without frictions and there necessarily must be a transitional epoch, which he considers to be socialism. Whereas communism is considered the truly classless society organized around the principle of *each according to their needs*, the transitional epoch of socialism is still permeated with contradictions of the bourgeois society and its primary organizational principle is *each according to their work* (Marx 1875). And in some sense, Horvat considers it one of the main goals of his work, to show how the principle of each according to their work actually might function:

“[...] distribution according to work has been generally accepted as *the* socialist principle of distribution. What is meant is really distribution according to the product of work. It seems natural to consider just exchange as requiring that each person receive from the society as much as he or she contributes to it (more precisely, some proportion of the productive contribution, since there are social costs that must be covered jointly). This has been considered such an important principle that it often has been used as an economic definition of socialism. It is therefore rather strange that, so far, this principle has not been subject to a rigorous analysis. There is a lot of talk about distribution according to work. There is practically no analysis to tell us what that should really mean.” (Horvat 2016:263, emphasis in original)

Whereas he discusses the equality of producers in the sense of democratic control and societal ownership of enterprises (Horvat 2016, ch. 8), the equality of consumers is maintained through the distribution of the surplus product according to the proportional contribution of work. And for such, the market is considered an essential institution for achieving this goal. Obviously, the market is considered differently than in liberalism, and his role is greatly restricted by societal control over collective funds and the like. However, the market in combination with the plan is considered to be the appropriate institution for achieving a socialist distribution of income. On the relationship between market and plan we will devote more attention below. At this point we are still interested in reference of the Critique of the Gotha Program. Because there we can identify a striking disparity between Horvat’s theory and the referred text that has important methodological implications.

We have noted, that for Marx there is a historical necessity of some kind of transitional society from capitalism to communism and that society. However, Horvat completely ignores the idea of those separate stages. Throughout the text, this differentiation of Socialism and Communism is lost. This is most clearly seen, when Horvat discusses the marketization of what he calls civil services, which include any non-industrial (non-productive) work that serves to develop human existence, such as

health care, education, and the like. Particularly interesting about that is, that Horvat develops a mechanism which allows for those industries to be organized in the same way as the self-managed (industrial) enterprise. Whereas the classical firm produces material consumption or production goods and autonomously decides upon investment, wage distribution, etc., the so-called civil services on the one hand do not produce surplus product and on the other are considered by Horvat (on ethical reasoning) a basic human need that any individual must be provided in a socialist society, hence have to be organized in a different way. The civil services are – in contrast to the industrial work – to be distributed not according to the contribution of work but according to individual needs. This works in the way that there is a collective political decision upon the volume of civil service provision, the organizations that provide civil services are then assigned those volumes in form of a budgetary fund, which they in turn then organize in the same way as the productive self-managed enterprises. This seemingly allows to determine the need for those civil services politically and simultaneously allows those enterprises and workers providing them to behave in the same way and offer their services on the market (Horvat 2016, ch. 11 and 12). What we end up with is the conflation of the two separate stages of socialist development with their respective organizational principles of *each according to their work* and *each according to their needs* in one and the same society.

Having established his goal – namely to analyse how the distribution according to work actually might look like if it serves as the general societal principle – the question is, what kind of theory serves this cause? For Horvat, one obvious point of departure is neoclassical theory, since it is “the only reasonably elaborated theory about the efficient allocation of resources at the moment” (Horvat 2016:273), but he rightly addresses the circularity of the marginal theory of determining optimal capital, since capital is in itself only possible to aggregate via the price which in turn requires the marginal productivity of capital (ibid.: 274)⁴. As there is no sound theory about the efficiency of allocations that is theoretically consistent and corresponds to the empirical world, the behavior of the socialist firm will be only approximated by neoclassical theory⁵.

On the one hand we have now established a social organization that relies heavily on the market as it is considered to be a reasonably good planning device (in combination with the conscious political plan) but there is no theory on the actual efficiency of the generalized market system. In order to illustrate this contradiction let us in the following consider in more detail the relation of the market and the plan.

Market and Plan

For Horvat the market and the plan do not represent opposites, rather they complement each other as planning devices. Whereas the market can under the right circumstances be an efficient planning device, it cannot operate efficiently outside of a social planning context:

„[...] we need *the market as a planning device* in a strictly defined sphere of priorities. [...] in turn [...] we need *planning as a precondition for an efficient market*. Planning means the perfection of market choices in order to increase the economic welfare of the community. Far from being incompatible or contradictory, market and planning appear complementary, as two sides of the same coin. Neither is a goal in itself. Both are means for the appropriate organization of a socialist economy.“ (Horvat 2016:332, emphasis in original)

It is important to note at this point that Horvat’s theory of the planned market emanates from a critique of capitalist markets and administrative authoritarian planning in the Soviet Union alike. While they are both inefficient they are also undesirable since they either negate consumer sovereignty (in the case of administrative planning) or the autonomy of producers (in the case of privately owned capitalist firms) (Horvat 2016:332). Just as the market needs to be restricted to a

⁴ This is of course the circularity of marginal neoclassical theory addressed in the famous Cambridge Capital Controversy. This criticism holds as well for labor theories of value, since labor as such also needs to be aggregated via some measure – labor as such, just as capital, is not by itself comparable.

⁵ “Since neoclassical theory has nothing to say about the optimal distribution of income, efficiency considerations in the Pareto spirit do not take us very far. Thus neoclassical theory breaks down without repair, and we have to find another standard for evaluating the efficiency of the socialist system. The obvious thing to do is to compare it with the actual capitalist system.” (Horvat 2016:274)

specifically defined sphere, the plan has to be organized democratically and participatory on every level of planning, for which Horvat develops a relatively broad set of institutions (Horvat 2016, ch. 12).

However, let us again take a look at the quote above. It is not at all at odds with neoclassical theory – at least not with its theoretically consistent version of general equilibrium theory – with the claim that markets and the plan do not constitute a contradiction. A brief mention has to be made regarding the aforementioned circularity of neoclassical theory. This circularity is resolved within general equilibrium theory, as it provides the simultaneous determination of prices and quantities as the simultaneous solution to a set of equations (Mas-Colell, Whinston, und Green 1995). And within this theoretical framework, the two most important theorems explicate precisely that. The Fundamental Welfare Theorems formulate a symmetry between the completely decentralized and perfectly competitive market and the authoritarian administrative planning. In principle – that means under very restrictive assumptions on the capacities of individual instrumental rationality and some additional economic assumptions⁶ – the market equilibrium can achieve any desired Pareto-efficient allocation as an omniscient planner (the so-called benevolent dictator) could (Stojanović 2022:44f). But why is this even relevant? Horvat's approach appears to be – and in parts it is – undogmatic and open in the search for a socialist organizational principle. His criticism of capitalist markets and etatist central planning is plausible. But his theory of markets is in some sense uncritical. This is particularly clear to see, when he fails to acknowledge the ambivalent findings of general equilibrium theory with regards to the general efficiency of the market. While he correctly addresses the apologetic character of the Welfare Theorems as a generalizations of Smith's Invisible Hand Argument⁷, he fails to realize the immanent critique of markets most famously articulated in the Sonnenschein-Mandel-Debreu-theorems (Stojanović 2022:43–45), which is paradoxically more critical of the efficiency of the market as he is.

Unsurprisingly he anticipated Marxist critique of his work and included a brief discussion about what might come after socialism – which is truly an epilogue to his work which does not stand in direct connection to the socialist design he provides in the entire book. Nevertheless in this final chapter called *Socialism and Beyond* he addresses the anticipated critique of the problem of socialist commodity production: (Horvat 2016:500–504).

„Many Marxist economists and philosophers declare that socialist commodity production is a *contradictio in adjecto*. It is *either socialist or commodity production*. It cannot be both, since the latter implies market relationships, which result in competition, periodic slumps, commodity fetishism, and various other phenomena of alienation incompatible with socialism. Socialism requires planning, which is a negation of market. [...] If true, these are serious accusations indeed.“ (Horvat 2016:500, emphasis in original)

Beside historical arguments for the initially emancipating force of the market he provides technical, economic arguments that he borrowed from Joan Robinson, which are the following four:

„First, if prices are set so as to equilibrate demand and supply, there is no scope for black market speculation and no need for governmental administrative interventions. "The supply-and-demand pricing system is thus a bulwark of freedom and public morality." Next, the market (properly regulated) allocates scarce goods to those who find them most desirable and, consequently, to those who are most likely to derive satisfaction from them. Third, "it appears fair and reasonable that each family should pay for what it chooses to take from the common pool at the valuation that the market has put upon it." Finally, prices indicate the relative scarcity of various commodities and

⁶ The assumptions for the first- and second Fundamental Theorem of Welfare Economics are different, even more restrictive for the second, and can be found in *Microeconomic Analysis*, especially in chapter 16 (Mas-Colell, Whinston, und Green 1995).

⁷ „A far echo of Smith's apology is the modern welfare economics "theorem" which states that perfect competition maximizes economic welfare. Every bourgeois economics student is expected to be able to reproduce this proof that he lives in the best of all possible worlds.“ (Horvat 2016:215)

thus the structure of investment that will lead to the best possible alternative uses of available resources." (Horvat 2016:501)

Now, although Horvat previously in his book discusses the reasons for market failures and hence inefficient allocations via the market, he seems overly confident in its allocational efficiency at this point. Earlier he argues precisely because of the inefficiencies of the market for the need of a social plan, heavily restricting its functioning. He does acknowledge that neither consumer nor producers need act rationally (Horvat 2016:329f), that markets might be unstable or money prices might not be applicable (Horvat 2016:330), technological or other externalities might distort the market and that individual decision need to be replaced in part by social decisions (Horvat 2016:331f). And those six market imperfections are precisely the reason, why the plan is necessary. That is meant by the earlier quote of the plan being a necessary precondition for the market to function.

Considering, however, what we know about market failure and the efficiency of the general market equilibrium from general equilibrium theory, his claim becomes less viable. As we know, the world of general equilibrium theory – the theoretically consistent theory of market distribution in the neoclassical framework – is a highly abstract world with lots of simplifying assumptions. But even within this theory, meaning in the most stylized world of perfectly rational and competitive individuals, there is no hope for any confidence in the generalized market system as there is simply no possibility to guarantee the existence of a stable general equilibrium, let alone its uniqueness (cf. Rizvi 2006). This is a result of general equilibrium theory, not of Marxist critique.

We have seen that Horvat departs from the rejection of Scientific Socialism, which means that he accepts the necessity to concretely think about the design of a socialist society. In his design he constructed an elaborate mix of planning and market institutions (among many other political institutions) and consulted neoclassical theory as the only existing theory of efficient market allocations. His criticism of neoclassical theory is valid but he still constructs his main arguments of the legitimacy of the market on neoclassical insights. Rejecting the position of critique as the main epistemological approach he necessarily must draw upon the existing theories of markets and equilibria. There is obviously no harm in doing that, what is however an issue is that his reference of said theories are not critical enough. There is no fundamental critique of the market as an organizational force and there is no critique of its conditions of existing. He affirms the market – and everything it presupposes⁸.

We can now relate the contradictions on the content level and those on the methodological level. Critique as the main point of departure is rejected due to the historical necessity of building a socialist society. At the same time the rejection of the epistemological primacy of critique is accompanied by the conflation of Socialism and Communism and the rejection of any dynamic transitional path. In turn, this fits very well with the affirmation of neoclassical theory, since it is a purely static theory, that eliminated any driving contradictory tendencies and resolves around social harmony through mutually beneficial exchange. It thus has nothing to say about dynamics (cf. Kirman 2005). Similarly, Horvat's design of socialism is vaguely placed between what Marx called Socialism and Communism and has little dynamics of itself. At least there is no dynamic in the sense required to transition from a society that enumerates everyone according to their work to a society where each is provided with everything according to their needs. This issue of synthesizing a static theory of optimal allocations with a dynamic theory of societal development is not resolved within Horvat's work. Nevertheless, he does provide some moments, where he very interestingly dynamizes the static theory by relating it actually to political practice and we can see that when Horvat faces the problem of determining a welfare maximizing allocation – for which neither the market nor the administrative plan can provide a solution:

„How do we find the point where the welfare gain due to redistribution is exactly equal to the welfare loss due to reduced output—which is the point of maximum welfare and which, consequently, determines the optimum of the income distribution? From the point of view of a benevolent despot—traditionally assumed tacitly by welfare economists when discussing possible improvement in income distribution—there is no answer to the

⁸ First and foremost the bourgeois subject, whose rationality is grounded in supposed autonomy and instrumental rationality. We will deal with the preconditions for the functioning of the market below.

question posed without engaging in interpersonal welfare comparisons, which leads to an impasse. Fortunately, however, in the institutional setting of a socialist economy, the benevolent despot problem is irrelevant. Here, wage differentials are determined—and, consequently, income is distributed—by a process involving the most direct interpersonal welfare comparisons. Once the members of a working collective have agreed on a just income distribution, there is no other distribution that could increase their welfare. Arriving at a just distribution implies a complete evaluation of the welfare of every member of the group. If it were thought possible to increase the welfare of the group, the group would have proceeded to do it, and that would then be the optimal distribution. It is impossible, in a normal human group, to consider that injustice contributes to welfare.

The solution of the optimum distribution problem proves possible because the actors themselves engage in interpersonal welfare comparisons and make the relevant decisions. Neither the capitalist market nor the etatist bureaucracy can do that.” (Horvat 2016:277)

Although this passage regards the distribution within a single firm, the principle of immediate political decision (which by no means is a conflict-free process) for resolving the theoretical inability of engaging in interpersonal comparison can applied to most of Horvat’s discussion of markets and (re)distribution. It provides his theory with a necessary link to the practice of political self-governance and dynamism in this specific context of income distribution within a single firm. When we try to think of such a dynamization via democratic self-governance on a macroeconomic level however, we might think that it is in principle possible in the same way, but it is very hard to imagine in it on a societal level.

Still, we can see in this quote, that there is a break with the autonomy of the rational individual of neoclassical theory. Where the conflicting interests of the assumed isolated individuals cannot be addressed coherently on the theoretical level, Horvat leaves it to the practitioners to find a common goal (a desired welfare function) via a democratic process⁹. This undermines the technocratic tendency inscribed in neoclassical theory and quite drastically differentiates Horvat’s design of socialism from other neoclassical Marxists, such as Oskar Lange’s Economic Theory of Socialism (Lange, Taylor, und Lippincott 1938).

What we can observe in Horvat’s work is therefore a permanent tension between an affirmation of existing theories of optimal allocations through the market and a critique that is based upon a societal practice very different from that we usually know markets operating it. This different social environment is characterized first and foremost by societal ownership of the means of production and the direct and autonomous control over them by the ones operating them. Indeed, as Horvat counters criticism of socialist commodity production, this constitutes a qualitatively different social relation:

“In socialism, social ownership makes social capital equally accessible to everyone, while the authoritarianism of a privately managed or state-managed firm is replaced by self-management. Socialist commodity production means a market system in which, for the first time, labor power has ceased to be a commodity.” (Horvat 2016:502)

On 2: ...

...

On 3: ...

...

⁹ „Planning itself ought to be participatory. By this I mean that plans are formulated at all levels and then are gradually integrated into an overall plan by an iterative process of consultation and negotiation.” (Horvat 2016:333)

On 4: ...

...

On 5: ...

...

Conclusion

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