

# NOTES on the WAY

## Soviets and Capitalism: What is the Difference?

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NEVER WAS the world more dangerously divided than today; never was it more difficult to say what the two halves differed about. Yet never more necessary.

WHEN LENIN rose to power almost thirty years ago his purpose seemed clear enough. But actually it was quite vague. He was resolved to nationalize the means of production; to assume power to dispose of banks, factories, farms, etc., but that was all that he clearly foresaw. He had no idea how the new powers of the State should be used in conducting production. He did not even realize that this was a serious problem. A problem in fact which may prove insoluble; or else soluble only by restoring almost every essential feature of private capitalism—the very features like profits, piece work, inequality of wages and production for a market, which had been the reasons for the overthrow of private capitalism.

Nationalization—it was thought, of course—would be instantly followed by the establishment of a “planned economy”. But, alas, “planning” is but a name for a vague purpose; a name which in Lenin’s mind covered a complete blank. It expressed the intention that the State should dispose centrally of all the factories, etc., and make them serve “the public good”. Yet up to this day we don’t quite know to what extent the “public good” differs from the sum total of services given to consumers by private capitalism, and still less how that difference is to be made good by a central direction of the process of production. Moreover, secrecy, prejudice and obscurity of thought have drawn such a veil of pretence over the Russian scene that it is hard to see what they have really achieved in this matter—by so much harshness and suffering.

NATIONALIZATION at any rate is something real. It is clear that in the Soviet Union there are no private shareholders. In other words savings are not allowed to accumulate in thousands of little pools, each serving an individual enterprise, but are collectively stored in one central tank and sluiced from there under public supervision into the little pools of individual enterprises. Under capitalism each enterprise must live on its own little pool, and each rewards or punishes (by profit or loss) its particular band of investors for placing their money as they did. Under Socialism the investing public of the country bears all risks jointly and dividends are paid to all in the form of cheaper market prices, social services, etc.

This is State Capitalism. It might involve no central planning at all. Each enterprise might be charged with conducting its business simply for commercial profit and the State might distribute capital on the same lines. The State Bank may place its money, like a private investor, so as to get the highest returns on it. Enterprises working at a loss would be sold up and profitable ones expanded instead. In the absence of interested shareholders, intent on getting the best return for their own bit of capital, and also without a stock ex-

change to redistribute investments sensitively and quickly, this kind of State Capitalism may be sluggish and perhaps sometimes corrupt—but otherwise very much like private capitalism.

AND NOW for Economic Planning. Let us envisage one single item on its programme. You have before you the application of the “Red Dawn” rubber works in Puklowo, requesting the sum of a million roubles for the expansion of its plant by 20 per cent. If granted, the expansion would draw away coal, labour, transport and a thousand other resources from all over the country. It would adversely affect to this extent the volume of the boot-lace manufacture in Gromovo, of the production of Lenin busts in Minsk, of the breeding of horses in Saratow and of thousands of other lines of trade everywhere. Against these reductions we have to weigh the public benefits arising from the proposed extension of the Red Dawn rubber works. These benefits, too, are rather complex. Red Dawn may be producing a few thousand different articles of rubber. (Goodrich in Akyon (Ohio) lists—I am told—30,000 different lines.) Different degrees of urgency are attached to each of these thousands of articles and moreover the need for each must be weighed in due consideration of the various available substitutes which could replace rubber in every particular instance.

Now then, after all this: is it, or is it not in the public interest to grant a million roubles for expansion to the Red Dawn works? This must be decided somehow. But how?

THE ANSWER to this question divides the two halves of the world today.

One half of humanity asserts that the proper criterion for granting the request of the Red Dawn works is whether they are making a profit, and that in fact no responsible decision can be taken in this matter on any other grounds. It admits that various kinds of public considerations may come in to modify this decision—such as the effects of the Red Dawn plant on the scenic beauties of Puklowo or the effects of an increased production of rubber balls for tennis and golf on the general health of the community—yet it maintains that the only test which can normally be used for all the day-to-day decisions concerning the Red Dawn plant, and the millions of similar day-to-day business decisions made all over the country, is the test of profitability.

The other half of humanity hates profitability as a guide to economic decisions and would wreck the whole world to prove that it can impose the public interest on economic decisions centrally, without reference to profit. Men who see no limits to the efficacy of administrative action quite naturally believe in this method and stake all their hopes on it.

THE POTENCY of administrative action is actually very limited and vastly inadequate to the task of

rationaly distributing coal, labour, etc., between a busy network of thousands of enterprises. The history of the Soviet Union is made up of a series of inflexible attempts to charge through this impenetrable barrier.

They started by an all-out attack in which they did their best to abolish the use of money altogether. But their system of central allocation of resources (later covered up by the misnomer “War Communism”) broke down in disaster and revolt (1921). There followed the great retreat to State Capitalism. But then this involved the surrender of all “planning”, which was politically unbearable. So they returned to the charge once more—only to cause a second outbreak of famine (1932). Checked a second time, they relaxed central control again (1932–1935), and finally seem to have now adjusted central control at a point which satisfies the need of politics and yet does not prevent the market from giving sufficient guidance to economic life.

WHEN A régime sets its political existence on carrying out economic planning and finds its purpose unachievable, it can find a substitute in a pretence of planning. The Soviet Government has practised such pretence on a considerable scale. You can see it from the way they “plan” the number of letters and telegrams to be forwarded, and even the future size of their population. Surely neither births nor deaths are actually *planned* but merely forecasted.

Much of Russian economic planning is in fact merely business forecasting. We can deduce this from the fact that their over-all economic plan is largely based on a grand collection of plans received from individual enterprises. For a true plan (that is a comprehensive idea which leaves the details to be filled in later) must be conceived first at the centre, and an aggregate of thousands of plans can never be welded to a real central plan but can only be made into a forecast.

A PRETENCE of planning will be reinforced by demonstrative emphasis on all actions of the State. The State can do many useful things in economic life. It handles about one quarter of it under private capitalism. When it owns all means of production it can probably do even more to reasonably good purpose; and some more again without doing excessive harm. A régime of die-hard planners may well press on even further and stop only at the brink of administrative breakdown.

When all this is put into action, and done with tremendous display of deliberate governmental action (while all existing market relations are camouflaged as “planned prices”, “planned profits”, etc.), then the existence of a commercial network providing effective guidance to the economic system, can be thoroughly obscured and even altogether concealed. The system can then claim the political honours of planning even while retaining the despised market as its principal guide.

HOWEVER, does the Soviet system not effectively eliminate unemployment, the supposedly ineradicable bane of capitalism? Does that not prove that it is based on principles entirely different from those of capitalism?

Yes, it is true that there is no unemployment in Soviet Russia but this is not due to deliberate planning but to the inflationary bias inherent in a system in which the State pays up all losses.

I shall explain this next week.

Professor Polanyi will conclude his “Notes on the Way” next week.