

RESUME

of the

CONTINUING GROUP OF THE INTERDISCIPLINARY PROJECT

Session No. 2.

1. Remarks on Social Cost - Karl Polanyi
2. "The Affluent Society" - Paul Medow
3. Accountancy Problems in the U.S.S.R. - Paul Medow

Participants: Prof. Karl Polanyi
George Dalton
Paul Medow
Abe Rotstein

New York,
November 22-23, 1958.

1. Remarks on Social Cost

- Karl Polanyi

Our group must deal with questions which arise not out of our own thinking, but exist independently of us. The general realm of these questions is the reform of industrial society, whether capitalist or socialist.

We should avoid getting lost either in the technicalities or in the basic axioms, postulates etc.

Several questions might arise, and we have discussed three:

- a) The organization of the industrial economy from the point of view of costing. We don't subscribe to an overriding efficiency, but provide for values, norms and perspectives which have a cost. Efficiency and normativity are therefore the two poles.
- b) The institutionalization of the inevitable conflicts of interest inherent in human society. This would also provide an answer to problems in the organization of industry.
- c) The inevitable ethical problems involved in social organization. Paul Medow raised this question and it comes up later on.

We might take up various topical material from the Eastern Europe of the last ten years e.g. Hungary, Poland, Yugoslavia. There are also discussions in Russia on prices. There now exists material on the experience of administrative methods of regulating the problem, but

this material has several shortcomings. Some of it was written by hostile people and is gravely negative. Also this is administration via foreign rule, not by the people themselves. Moreover, in the case e.g. of Hungary, there are specific problems and burdens characteristic of the initial stages of industrialization which may detract from the generality of the experience.

There are two basic effects: the loss of efficiency in society as a whole in some general way (e.g. freedom), and the other, the effects inside a particular enterprise on specific consumer goods and products. Our problem is, how do the ideals which cost, relate to efficiency? Some humanistic ideals impair efficiency, others absorb material goods. Our point is that we want to know the costs, and maintain the efficiency calculation in spite of that.

There is the further question of how far we can carry on cost comparisons which are adulterated all the time. We will have to burn the books every 30 years. Schumpeter shows that in the long-run, the figures don't mean anything at all. Everything is cheaper and there is the added problem of quality.

This is not utopia entering our work. Utopia is vague and boundless. We deal with actual ethical realities, demands and requirements. These are facts. The situations and their moral content are both real. We must be able to fend off the argument that this is all utopian. There is a distinction between wishful thinking and thinking about wishes.

The problems can be tackled by scholarly methods, in a scientific way and checked.

Suggestion was made by G.D. to include other areas of the world

entailing situations of industrialization and social control on some non-market basis, e.g. India, the hiring of wage-labor in the Kibbutzim etc.

Social dislocation is unavoidable and victims of social dislocation must first be compensated. (There is a sentence to this effect in "The Great Transformation"). There is no social progress if it cannot make up for the damage it causes. Precision is not needed as long as we have some idea of the limits of the effects or the margin of error.

The minimum goods which are needed for the whole of society, must however be produced with maximum efficiency.

One of the questions we might take up is what is happening in inadequate socialist economies. We want to know if there is agreement on the negative effects of administrative methods under scarcity conditions. Are these different for example, from abundance conditions?

Take the case where there is no problem of selling, only of production. Then every industry accepts everything, whether it was ordered or not. As long as producers get a premium, everyone wants all the raw materials and finished articles possible, regardless of whether they are useful. If they accept them in this way, it must increase the cost perhaps three-fold. If the director, or manager for example, gets a premium on the weight of steel produced, he makes pipes three times as heavy with tremendous waste. The system doesn't work at all then.

2. "The Affluent Society"

Paul Medow

This report on Galbraith's "The Affluent Society" is presented in the light of Prof. Polanyi's position that "An ^{effective} industrial society can afford to be human and free".

The substance of the message in "The Affluent Society" is largely hidden by its form, which is psychologically effective and probably serves very well to convey the radically new position that he takes in a way that is not only acceptable to the general reader but also traditional economics, and particularly the inferences for policy that have been traditionally made from it, are rooted in nineteenth century realities that have long since vanished, and that the changes that have occurred in the realities since, and particularly the replacement of scarcity by affluence, most clearly call for new concepts concerning the need for and potentialities of government policies.

While this emphasis on the psychology of conceptual lags does serve to capture the interest of readers, it also brings with it, however, two important weaknesses that are of concern to the serious reader. First, the substance of his message itself, the thought, that is, that now entirely new things are possible with regard to government policies, is hardly developed in the book. It is barely brought out. The stronger impression, in fact, concerns not the new possibilities that are now open for policy (although it is true that his general statement that now it is possible to introduce individual happiness as a criterion is certainly strong) but rather the new needs-for public investments complementary to the private ones and for investing in technological training and basic research - that he notes have unexpectedly

appeared. These needs are still related to economic effectiveness, and not the humanization of the economy. Yet the substance of the book, I take it, is precisely that effectiveness criteria may now begin to be sacrificed to the happiness criteria points where the two conflict. In the "Affluent Society", however, this part appears as a barely forming flower bud on a long stem abundantly covered with leaves.

In the second place, the basic emphasis on the psychology of concepts causes Galbraith to give up, in effect, any general body of principles, either concerning effectiveness or concerning happiness that might serve as guiding lines in devising new policy measures. British tradition in economic analysis are no longer relevant today, economic analysis generally may be safely abandoned, and should not be allowed to impede the implementation of various "ad hoc" policy measures, such as the ones that he suggests. As for the other criterion - happiness - since he refuses to speculate on that, it does not provide any criteria for policy either. In the absence of general principles, the political radical may in this way be encouraged once again that almost anything can be done to the economy in order to serve "social justice".

There is one more weakness in the general message that also derives from the general emphasis on the psychology of concepts. This is the very brief but arresting account that he provides of the transition from a competitive nineteenth century order to the new world of the twentieth century.

In this account he suggests that this occurred in a very simple way, namely as a result of the hypocrisy of the convictions of all concerned: all groups, he states, accepted the need for competition - for others, and proceeded to eliminate its threats for themselves.

As a result labor and the farmers obtained favorable legislation while larger businessmen proceeded to eliminate the threat of competition in other ways.

In fact, of course, as we learn very convincingly from both "Capitalism, Socialism, and Democracy" and "The Great Transformation", these events have occurred for functional and not psychological reasons, and their understanding requires an understanding of "the reality of society" on the one hand, and of the increasing capital intensity of innovations in the third Kondratieff wave on the other.

It follows that the next steps that should be taken by persons who agree with the substance of the message in this book should be:

1) to provide a popular, but still realistic account of the "great transition" from the nineteenth century world of competition to the modern economic world. This need be done only for England and the United States. In the other countries the institutional structure of the economy has been so different from the first, that a different kind of account would be needed.

2) To make it clear that while the British economic sociology of the nineteenth century may be quite dead, economic analysis is not, and it need only be purified from any specific set of institutional postulates. The marginal principle, in this connection, which was used correctly by Menger, and was not used correctly by Marshall, remains the basis of "twentieth century economic analysis" as it is presented in the works of Schumpeter devoted to pure theory.

3) Indicate that in the light of economic analysis, effectiveness must not be given up as a criterion in industrial economies, and that

in fact, only an effective industrial society can afford to be human and free.

4) That in the light of the works of Erich Fromm and also of Cassirer (and I would now also add Hannah Arendt's "The Human Situation", 1958) positive statements may now be made concerning the requirements of individual happiness, and in addition definite statements can also be made concerning the harmfulness for human happiness of specific institutional arrangements.

5) By developing a method and institutional arrangements for determining the actual costs in terms of effectiveness of specific proposed institutional arrangements aimed at enhancing freedom and happiness, it is possible to institute an orderly, safe, and rapid process of transition to a humanistically oriented industrial economy. Therefore the formulation of such a costing method and the study of corresponding institutional arrangements may be regarded as the decisive item for study.

General Discussion

Concerning the passing of scarcity phenomena in our society, people in the working and middle classes still find it difficult to make ends meet. Is it the artificial raising of wants? Do advertising and other phenomena raise wants so that making ends meet is as difficult as before?

Continuous permanent inflation is the absolute necessity of society because it is the way that increasing productivity is passed on to the lower strata. It is for this reason that they can't make ends meet. If P. was asked whether he is for a continuous slow inflation he would answer Yes. Certain people would suffer but you compensate the victims

(the fixed income people) automatically out of the surplus that you have. Therefore a permanent slow inflation is the answer to such a society since there is no other way of passing on increases. It is the organized institutional pressure for raising wages which is the basis.

The weakness of Galbraith is that he leaves out one basic point - the passing of economic motivation (profit and hunger) and therefore that we have a status society. Instead he makes affluence the center and gets e.g. five ^{things} ~~things~~ instead of one or two.

Our concept of relating efficiency to human values is far superior. The minimum production for society should be created with maximum efficiency and in relation to this we should know how much all other ideals cost. Galbraith does not come to a sharp conclusion on efficiency. He thinks that an affluent society can afford to be inefficient. An industrial society can afford to be free and human if it is efficient. We should begin to have, not wishful thinking, but thinking about wishes.

We bring in the freedom needs of individuals in an industrial society, compulsion etc. For example there may be people who don't like to get up at 7 o'clock in the morning. They would be miserable all day. They should be allowed to come in later and make it up some other way. Freedom consists of a margin of shunting. There are three principles here as follows:

First, the hard conscientious objection should be accepted whenever compulsive regulation comes in.

Secondly, the extension of the habeas corpus act to industry. The worker should not be at the mercy of the trade union which represents him. After exhausting his rights he should be able to go to the courts.

Third, there is implied in the first two the existence of a second best. It may not be what you would prefer, but as soon as you have this it is a different life.

In spite of the Hayek position, the economy in this country is the least of the sources of loss of freedom, while the loss occurs on the political and cultural level.

3. Accountancy Problems in the U.S.S.R.

Recent discussions among economists in the Soviet Union of the need for costing in a socialist economy. - Paul Medow.

(Based largely on an article devoted to this in Voprosy Ekonomiki, #8, 58).

Background: The institutional structure on the basis of which industrialization has proceeded so rapidly in the Soviet Union was not established on the basis of any specific theoretical principles. Lenin had merely envisioned a system in which individuals in charge of firms would be made through a system of administration to account for the timely execution of specific tasks formulated in physical, rather than in monetary terms, by economic experts in a planning agency. These economic experts would formulate the specific assignments for the various plants (Lenin had proposed to assign up to sixty plants for supervision of task-fulfillment to each economist in the planning agency) on the basis of their general knowledge of prevailing input-output relationships (the method of balances). The basic assignments, however, would be made by the political leaders.

This method did not enter the thinking of the economists who discussed the theoretical principles of planning at the request of the party leaders after Lenin's death. The advice of these economists, whose thinking, while it was macroeconomic, tended to be based on statics, and who tended to see some form of market economy as the only viable one, was rejected by Stalin, who appears to have introduced an important innovation into Lenin's scheme. Stalin emphasized that planning was an administrative, and not a theoretical concept, or rather he stated that it was the administrative meaning of that term that was theoretically relevant. At the same time, however, by introducing

strict cost-accounting for the firms, and by introducing the practice of making resources available to firms only in strict accordance with their proper use, as determined in the yearly contractual commitment of the firm (the planned commitment), he replaced, in effect, Lenin's principle of administrative supervision, which could be applied only with regard to a limited number of firms, by the putting out principle of production, geared, however, in this case, not to serve consumers markets, but to serve the needs for real capital resources of the investment program adopted by the political leaders and elaborated by the planning agency.

The use of the putting out principle in an advanced industrial economy as an alternative to either administrative control or market regulation appears to contain many possibilities, particularly in the field of investment, that have not yet been explored by theoretical economists. It is also true, however, that its use requires complex channels of administrative communication, since it is based on contractual commitments that refer to a large number of physical indexes other than the quantity norm. At the same time, as the quantity of fixed capital equipment in each plant increases in the course of time, the need to give it a meaningful valuation becomes apparent, since that would determine the need for replacement and the degree of obsolescence. Such a valuation, however, would require that producers goods have a meaningful market determined price that would reflect all possible uses of the equipment, and not merely those which are emphasized by the priorities system in force during any given investment program.

It is largely this new need to establish meaningful values for capital equipment, but also the new role that the consumers market is beginning to assume as a direction-giving factor in the Soviet economy

that has encouraged economists to explore the problem of price formation in a socialist economy. In addition to this, a direct appeal to a Congress of economists to study rationally the proper methods for establishing prices was made by A. Mikoyan, whose interests have long been associated with the development of the consumers goods industries. This was done shortly after Stalin's death, and shortly before the adoption of a decentralized planning structure for the economy.

As a result of this appeal Soviet economists have been discussing the basic problems of the Soviet economy in a way that is directly opposed to the general principles laid down by Stalin on these matters shortly before his death.

Stalin had emphasized that while the concept of market-directed production (commodity production) did persist in the Soviet economy despite the presence of a socialist order, this was to be regarded as a necessary evil, that existed because concessions had had to be made to the farmers in Russia, who for the time being still owned their means of production, (even though not as individuals, but as members of the collective farm) and still produced for the market. (This seems to be a way of saying that the farmers, because of the very character of agricultural production, were not amenable to direction-setting through the putting out principle at that time, and therefore, unlike other groups, looked to the market in terms of its income giving aspect). In the course of time, Stalin thought, the farmers too would be induced to associate themselves through contractual commitments to specific groups of factories who in return would provide them with manufactured goods. (Another variant of the putting out system).

In the new discussion that developed, however, the Soviet economists generally took the opposite position: that commodity production a

(production for the market) was not merely a temporary evil, but rather a permanent institutional feature of even a socialist economy. Market determined prices should be accepted as the basic ones in guiding production, although it was then agreed that there should be no reluctance to inject a variety of non-price considerations (and pay subsidies) into the actual functioning of the economy: political aims, such as the aim of enhancing the growth of a certain class; or the location of industry in certain underdeveloped regions even though this might be initially more expensive; or subsidizing certain new types of machines in order to encourage their use by other factories; etc..

It is generally agreed, now, that a market for producers goods should be allowed to develop. But it is also universally agreed that the actual market for labor is not a market, since labor must not be a commodity in a socialist society. In fact, of course, the role of monetary incentives appears to have been increased by the political leaders both for the farmers and the workers.

In seeking to appraise this new development in terms of the basic issues that are now accepted for discussion by economists in the Soviet Union, it may be noted first of all that a conflict has been recognized between the needs of effectiveness and certain other non-economic aims. As in the case of Galbraith, the position that is now accepted is merely that effectiveness may be sacrificed to other considerations on certain occasions, but here again there is not theory, no body of principles, that might provide guidance on such occasions. Presumably it is up to political leaders alone. Accordingly, in view of the new awareness of the great importance of costing, there might be a very great interest in a method of establishing the costs

of any non-effectiveness oriented measure in terms of lost effectiveness.

There is also another point in the case of the Soviet issues, however, that calls for definitive clarification. This is the point that in fact, if not in principle, labor too is a commodity from the point of view of any general costing system. It is by making clear the principle that while labor must be costed as a commodity this does not mean that operations must then necessarily be carried out solely on the basis of cost criteria that significant progress might be made.

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inside a particular enterprise on specific consumer goods and products.

Social dislocation is unavoidable and victims of social dislocation must first be compensated. (There is a sentence to this effect in *The Great Transformation*⁸). There is no social progress if it cannot make up for the damage it causes. Precision is not needed as long as we have some idea of the limits of the effects or the margin of error.

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New Page

2. "The Affluent Society" - Paul Medow

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Start here

Resume of report given 22 Nov, 1958

Galbraith's "Affluent Society" in the light of Prof. Polanyi's position that "An effective industrial society can afford to be human and free". (P. Medow)

The substance of the message in "The Affluent Society" is largely hidden by its form, which is psychologically effective and probably serves very well to convey the radically new position that he takes in a way that is not only acceptable to the general reader but also attractive. I am referring to his primary emphasis on the fact that traditional economics, and ~~is~~ particularly the inferences for policy that have been traditionally made from it, are rooted in nineteenth century realities that have long since vanished, and that the changes that have occurred in the realities since, and particularly the replacement of scarcity by affluence, most clearly call for new concepts concerning the ~~is~~ need for and potentialities of government policies.

While this emphasis on the psychology of ~~is~~ conceptual lags does serve to capture the interest of readers, it also brings with it, however, ~~a~~ two important weaknesses that are of concern to the serious reader. First, the substance of his message itself, the thought, that is, that now entirely new things are possible with regard to government policies, is hardly ~~developed~~ developed in the book. It is barely brought out. The stronger impression, ~~if~~ in fact, concerns not the new possibilities that are now open for policy (although ~~it~~ it is true that his general statement that now it is possible to introduce individual happiness as a criterion is certainly strong) but ~~the~~ the new needs - for public investments complementary to the private ones and for investing in technological training and basic research - that he notes have unexpectedly appeared. These needs are still related to economic effectiveness, and not the humanization of the economy. Yet the substance of the book, I take it, is precisely that effectiveness criteria may now begin to be sacrificed to the happiness criteria ~~at~~ ^{the} points where they conflict. ~~In the~~ ^{in the} "Affluent Society", however, this part appears as a barely forming flower bud on a long ~~and~~ stem abundantly covered with leaves.

In the second place, ~~this~~ the basic emphasis on the psychology of concepts causes Galbraith to give up, in effect, any general body of principles, either concerning effectiveness or concerning happiness that might serve as guiding lines in devising new policy measures. One is left with the impressions that since the basic concepts of the British tradition in economic analysis are no longer relevant today, economic analysis generally may be safely abandoned, and should not be allowed to impede the implementation of various "ad hoc" policy measures, such as the ones that he suggests. As for the other criterion - happiness - since he refuses to speculate on that, it does not provide any ~~criteria~~ criteria for policy either. In the absence of general principles, the political radical way in this way be encouraged once again that almost anything can be done to the economy in order to serve "social justice".

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also derives from the general emphasis on the psychology of concepts. This is the ~~xxx~~ very brief but arresting account that he provides of the transition from a competitive nineteenth century order to the new world of the twentieth century.

In this account he suggests that this occurred in a very simple way, namely as a result of the hypocrisy of the convictions of all concerned: all groups, he states, accepted the need for competition - for others, and proceeded to eliminate its threats for themselves. As a result labor and the farmers obtained favorable legislation while larger businessmen proceeded to eliminate the threat of competition in other ways.

In fact, of course, as we learn very convincingly from both "Capitalism, Socialism, and Democracy" and "The Great Transformation", these events have occurred for functional and not psychological reasons, and their understanding requires an understanding of "the reality of society" on the one hand, and of the increasing capital intensity of innovations in the Third Kondratieff wave on the other.

It follows that the next steps that should be taken by persons who agree with the substance of the message in ~~xxxxxxx~~ this book should be: 1) to provide a popular, but still realistic account of the "great transition" from the ~~xxxxxxxx~~ nineteenth century world of competition to the modern ~~xxxxxxxxxxxxxxxxxxxxxxxx~~ economic world. ~~This~~ This need be done only for England and the United States. In the other countries the institutional structure of the economy has been so different from the first, that a different kind of account would be needed. 2) ~~Make~~ Make it clear that while the British ~~xx~~ economic sociology of the nineteenth century may be quite dead, economic analysis is not, and it need only be purified from any specific set of institutional postulates. The marginal principle, in this connection, which was used ~~principally~~ correctly by Menger, and was ^{used correctly} ~~not~~ by Marshall, remains the basis of ~~xxx~~ "twentieth century economic analysis" as it is presented in the works of Schumpeter devoted to pure theory. 3) Indicate that in the light of economic analysis, effectiveness must not be given up as a criterion in industrial economies, and that in fact, only an effective industrial society can afford to be human and free. 4) ~~That~~ That in the light of the works of ~~Erich Fromm~~ and also of Cassirer (and I would now also add Hannah Arendt's "The Human Situation", 1958) positive statements may ~~be~~ made concerning the requirements of individual happiness, and in addition definite statements can also be made concerning the harmfulness for human happiness of specific institutional arrangements. 5) By developing a method and institutional arrangements for determining the actual costs in terms of effectiveness of specific proposed institutional arrangements aimed at enhancing freedom and happiness, it is possible to institute an orderly, ~~xxx~~ safe, and rapid process of transition to a humanistically oriented industrial economy. Therefore the formulation of such a costing method and the study of corresponding institutional arrangements may be regarded as the decisive item for study.

Smith Letters
GENERAL DISCUSSION

Concerning the passing of scarcity phenomena in our society, people in the working and middle classes still find it difficult to make ends meet. Is it the artificial raising of wants? Do advertising and other phenomena raise wants ^{so} that making ends meet is as difficult as before?

Continuous permanent inflation is the absolute necessity of society because it is the way that increasing productivity is passed on to the lower strata. It is for this reason that they can't make ends meet. If P. was asked whether he is for a continuous slow inflation he would answer Yes. Certain people would suffer but you compensate the victims (the fixed income people) automatically out of the surplus that you have. Therefore a permanent slow inflation is the answer to such a society since there is no other way of passing on increases. It is the organized institutional pressure for raising wages which is the basis.

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Third, there is implied in the first two the existence of a second best. It may not be what you would prefer, but as soon as you have this it is a different life.

In spite of the Hayek position, the economy in this country is the least of the sources of loss of freedom, while ^{the loss occurs} ~~on~~ the political and cultural level, ~~there is a loss.~~

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3. Accountancy Problems in the U.S.S.R.

T E X T

Resume of report given 23 Nov 1958

Recent discussions among economists in the Soviet Union of the need for costing in a socialist economy. - Paul Medow

(Based largely on an article devoted to this in Voprosy Ekonomiki, #8, 53)

Background: The institutional structure ~~have~~ on the basis of which industrialization has proceeded so rapidly in the Soviet Union was not established on the basis of any ~~theoretical~~ specific theoretical principles. Lenin had merely envisioned a system in which individuals in charge of firms would be made ~~to~~ ^{through a system of administration} account for the timely execution of specific ~~physical~~ tasks formulated in physical, rather than in monetary terms, by economic experts in a planning agency. ~~These economic experts~~ These economic experts would formulate the specific ~~assignments~~ assignments for ~~the various plants~~ the various plants (Lenin had proposed to assign ~~up to~~ up to sixty plants ~~for~~ for supervision of task-fulfillment to each economist in the planning agency) on the basis of their ~~general~~ general knowledge of prevailing ~~input-output relationships~~ input-output relationships (the method of balances). The basic assignments, however, would be made by the political leaders.

This method did not enter the thinking of the economists who discussed the theoretical principles of planning ~~at the request of the party leaders after Lenin's death.~~ at the request of the party leaders after Lenin's death. The advice of these economists, ~~whose thinking, while it was macroeconomic,~~ whose thinking, while it was macroeconomic, tended to be based on statics, and who tended to see some form of market economy as the only viable one, was rejected by Stalin, who appears to have introduced an important innovation into Lenin's scheme. Stalin emphasized that planning was an administrative, and not a theoretical concept, or rather he stated that it was the administrative meaning of that term that was theoretically relevant. At the same time, however, ~~by~~ by introducing strict cost-accounting for the firms, and by introducing the practice of making resources available to firms only in strict accordance with their proper use, as determined in the yearly contractual commitment of the firm (the planned commitment), he replaced, in effect, Lenin's principle of administrative supervision, which could be applied only with regard to a limited number of firms, by the ~~putting out principle of production, geared, however, in this case, not to serve consumers markets, but to serve the needs of~~ putting out principle of production, geared, however, in this case, not to serve consumers markets, but to serve the needs ~~of~~ for real capital resources of the investment program adopted by the political leaders and elaborated by the planning agency.

The use of the putting out principle in an advanced industrial economy as an alternative to either administrative control or market regulation appears to contain many possibilities, particularly in the field of investment, that have not yet been explored by theoretical economists. ~~It is also true, however, that its use requires complex channels of administrative communication, since it is based on contractual commitments that refer to a large number of physical indexes other than the quantity norm.~~ It is also true, however, that ~~its use requires complex channels of administrative communication, since it is based on contractual commitments that refer to a large number of physical indexes other than the quantity norm.~~ its use requires complex channels of administrative communication, since it is based on contractual commitments that refer to a large number of physical indexes other than the quantity norm. At the same time, as the quantity of fixed capital equipment in each plant increases in the course of time, the need to give it a meaningful valuation becomes apparent, since that would determine the need for replacement and ~~the~~ the degree of obsolescence. ~~Such a valuation, however, would require that producers goods have a meaningful market determined price that would reflect all possible uses of the equipment, and not merely~~ Such a valuation, however, would require that producers goods have a meaningful market determined price that would reflect all possible uses of the equipment, and not merely ~~the~~ which ~~is~~ is emphasized by the priorities system in force during any given investment program.

It is largely this new need to establish meaningful values for capital equipment, but also the new role that the consumers market is beginning to assume as a direction-giving factor in the Soviet economy that has encouraged economists to explore the problem of price formation in a socialist economy. In addition to this, a direct appeal to a Congress of economists to study rationally the proper methods for establishing prices was made by A. Mikoyan, whose interests have long been associated with the development of the consumers goods industries. This was done shortly after Stalin's death, and shortly before the adoption of a decentralized planning structure for the economy.

As a result of this appeal

Soviet economists have been discussing the basic problems of the Soviet economy in a way that is directly opposed to the general principles laid down by Stalin on these matters shortly before his death.

Stalin had emphasized that while the concept of market-directed production (commodity production) did persist in the Soviet economy despite the presence of a socialist order, this was to be regarded as a necessary evil, that existed because concessions had had to be made to the farmers in Russia, who for the time being still owned their means of production, (even though not as individuals, but as members of the collective farms) and still produced for the market. (This seems to be a way of saying that the farmers, because of the very character of agricultural production, were not amenable to direction-setting through the putting out principle at that time, and therefore, unlike other groups, looked to the market in terms of its income giving aspect). In the course of time, Stalin thought, the farmers too would be induced to associate themselves through contractual commitments to specific groups of factories who in return would provide them with manufactured goods. (Another variant of the putting out system).

In the new discussion that developed, however, the Soviet economists generally took the opposite position: that commodity production (production for the market) was not merely a temporary evil, but rather a permanent institutional feature of even a socialist economy. Market determined prices should be accepted as the basic ones in guiding production, although it was then agreed that there should be no reluctance to inject a variety of non-price considerations (and pay subsidies) into the actual functioning of the economy: political aims, such as the aim of enhancing the growth of a certain class; or the location of industry in certain underdeveloped regions even though this might be initially more expensive; or subsidizing certain new types of machines in order to encourage their use by other factories; etc..

It is generally agreed, now, that a market for producers goods should be allowed to develop. But it is also universally agreed that in the actual market for labor is not a market, since labor must not be a commodity in a socialist society. In fact, of course, the role of monetary incentives appears to have been increased by the political leaders both for the farmers and the workers.

* * *

In seeking to appraise this new development in terms of the basic issues that are now accepted for discussion by economists in the Soviet Union, it may be noted first of all that a conflict has been recognized between the needs of effectiveness and certain other non-economic aims. As in the case of Galbraith, the position that is now accepted is merely that effectiveness may be sacrificed to other considerations on certain occasions, but here again there is not theory, no body of principles, that might provide guidance on such occasions. Presumably it is up to political leaders alone. Accordingly, in view of the new awareness of the great importance of costing, there might be a very great interest in a method of establishing the costs of any non-effectiveness oriented measure in terms of lost effectiveness.

There is also another point in the case of the Soviet issues, however, that ~~calls~~ calls for definitive clarification. This is the point ~~that~~ that in fact, if not in principle, labor too is a commodity from the point of view of any general costing system. It is by making ~~this~~ clear ~~that~~ ^{the principle that while} labor must be costed as a commodity/~~this~~ does not mean that ~~in~~ operations must then necessarily be carried out solely on the ~~basis~~ basis of cost ~~criteria~~ criteria that ~~significant~~ significant progress might be made.

Dec. 10/58

Memo on Galbraith

Dear Friends:

Galbraith's "Affluent society" ^{may} cut deeper than any work in economics since Keynes' "General Theory". But while Keynes remained within the confines of his discipline, Galbraith is consciously transcending it.

To put order into my mind I will close it to the numerous daring avenues opened up by Galbraith, and restrict my thinking to three points of particular interest to our present studies.

These are: (a) the 'market theorem' as one might call the institutional analysis of the origins and history of industrial capitalism as set out in 'The Great Transformation'; (b) the polarity of efficiency and normativity as inherent in an humanistic understanding of a technologically complex society; (c) the industrialization of Asia and Africa.

Galbraith's work centers on a reinterpretation of the socio-economic conditions of the West. He rests his case on the assertion of an affluent society (in contrast to the stark poverty of the Ricardo-Marxian "First World") and the inadequacy of economic analysis to deal with this fact.

Ad (a): The "Market theorem" starts from the Industrial Revolution as a prime cause, and 'explains' the market-system as a means of using expensive elaborate machines for production. Commercial capital is accepted as the necessary 'organizer' and 'riskbearer'. Galbraith's 'poverty' and 'insecurity' carry closely similar connotations right through "the first world". Add to this Galbraith's "inequality" exacerbated by the spread of market methods - Marx' 'exploitation' - and our market theorem sufficiently approximated the elements of "The Affluent Society" to serve as an introduction to it.

True, the market-theorem attempts also a functional analysis of the fictitious commodity character of man, nature and money as well as of the 'double movement' of market dislocation on the one hand, the self-protection of society on the other. All this is more complementary to, than divergent from, Galbraith's understanding of typical socio-economic developments in "the first world".

Nevertheless in the affluent Western society, the 'second world' as one might call it, an entirely new directive postulate emerges in the form of full or near-full employment. While inequality and insecurity in general have been permanently reduced as sources of concern, unemployment as a specific form of insecurity has gained a new status. Its absence has become an absolute requirement of security but has not yet been safely achieved. The outcome is an overwhelming stress on the one factor to which all improvement is due and to which alone we can look for the ultimate attainment of the security of employment, namely, increasing production and productivity. Not because short of it inequality would tend to grow; nor because social insurance, savings, union strength and other antidotes of insecurity depend upon it, but because if production falls off unemployment is present.

Galbraith's stress therefore is on the unbreakable context of production and employment under a market system, which undermines the original prime context of production and consumption. Theoretically, the conceptual system of economics has lost grip; practically, the original organization of industry finds itself in a condition of multiple uncertainty. New possibilities, both good and evil, emerge: synthetic wants induced by advertising as a 'dependence effect' of production; the illusion of national security; the need for shifting the "social balance" from private to public services; a cyclically graduated

compensation to the unemployed as an anti depression measure; a new class whose primary identification is with their job; investment into the personal capital of the country, together with other aims that flow from a humanistic valuation of life in society.

(b) The interpenetration of efficiency and navstivity takes on an unexpected aspect if production is again divorced from security - a development which may be anticipated once affluence is institutionalized.

The postulate of maximum efficiency is a derivative of the postulate of productivity. The gradual subordination of all human values to the postulate of efficiency mirrored the rise of production to an end in itself. One would expect the reversal of this perspective to be accompanied by a weakening of the primate of efficiency.

(c) Galbraith speaks of Western affluence, thereby appearing to exclude the East. But the present West is the future East. What conclusions can and should we draw from this?