European Social Forum in Florence
6-9 Novembre 2002

'Dialogues'

Social and State Economy

John Milios
National Technical University of Athens, Greece

I will approach the subject of social and state economy by posing the following questions:

1) Can private economy be social in character, i.e. can it function in favour of the classes and social groups which comprise the majority of our society?
2) Can state economy be social in character and if yes under what circumstances?

In order to answer the second question, a third one shall be posited and answered beforehand:

3) Were the state economies of the East Europeans countries, the so-called states of "actually existing socialism" social in character?

I

Let us start with the first question: Can private economy function in favour of the social classes which comprise the majority of our society?

The answer is definitely negative: The essential feature of the private "market economy" (of capitalism) is not the production of useful things, of use values, not even commodity exchange; it is the production of profit, which takes the form of the advance (by the capitalist) of an amount of money with the sole aim of obtaining or better cashing in more money at the end of a certain period.

In capitalism, money becomes an end in itself. It constitutes the most general form of appearance of capital, i.e. of the system's core structural element. Money is not the representative of a material or of a commodity, but the embodiment of the capital relation. Its functions become the "outer husk" of the overall process of capitalist production: Money puts in motion the *circuit of (social) capital*.

$$M—C\ (= Mp+Lp)\ [\rightarrow P\rightarrow C']—M'$$

The capitalist appears on the market as the owner of money (M) buying commodities (C) which consist of means of production (Mp) and labour power (Lp). In the process of production (P), these commodities (C) are productively used up in order to create an outflow of commodities, a product (C΄) whose value exceeds that of C. Finally he sells that outflow in order to recover a sum of money (M΄) higher than (M). As Marx wrote, money appears to possess "the occult ability to add value to itself" (Marx 1990, *Capital* Vol. 1: 255).

For the capitalist, who is the leading figure of the private economy, profit, i.e. the increment of the money amount he or she had initially advanced, is the aim of his or her involvement with the economy. Production itself, i.e. the creation of useful things for the society is only a means. The creation of profit is achieved by means of the exploitation of the working classes, i.e. the extraction and appropriation by the capitalists of surplus labour, which takes the form of surplus value.

Surplus value is not to be comprehended as a simple "subtraction" or "deduction" from the product of the worker's labour but as *a social relation, which necessarily takes the form of (more) money, as the increment in money value brought about by uniting the process of production with the process of circulation.* Capital is a "self-valorising value". "Money therefore forms the starting-point and the conclusion of every valorisation process" (Marx 1990: 255).

The above analysis has a straightforward conclusion: Speculation is an inherent tendency, or better formulated an immanent characteristic of private economy, i.e. of the capitalist system.

It is one-sided and consequently wrong to portray capitalism as a system with two "realities", one productive (i.e. "positive", which might become social in nature) and one speculative (i.e. "negative"). Between the productive and the financial spheres of capitalism there exists no dichotomy. Money, functioning as capital, seeks for spheres of higher valorisation in any form of economic activity.

Capital constitutes a historically specific social relation of exploitation and domination, appearing as self-valorising value. In the circuit of capital, money-making (i.e. profit and investment) would be unconceivable without the financial and credit sphere. Speculation is the heart and soul of capitalist entrepreneurship, namely the anticipation on the maximisation of profit.

The idea that capitalism comprises of two separate spheres, one of values and one of money and speculation, disguises and varnishes the immanent features of capitalism: In reality there is only one sphere, that of self valorising value, i.e. of capital which is put in motion by money. Money, credit, the financial sphere and speculation are not the "bad side" of capitalism, which might be circumscribed. They *are necessary forms of appearance of "self-valorising value",* i.e. of the way the system as a whole functions.

It becomes thus apparent that private economy, i.e. capitalism, can never function in favour of the majority of the working classes of society, or of the society as a whole.

II

We may now tackle the question of whether state economy can be social in character. Under the term "state economy" we shall comprehend an economy organised or commanded by the state. Legal state ownership of enterprises does not alter the features of private economy (independent enterprises interrelated through market transactions) already discussed.

Let's start from discussing on the character of the state economies that had existed in Eastern and Central Europe.

These countries were state economies not just because the vast majority of enterprises was state-owned, but also because the whole economy was state commanded, through the so-called "economic plan", which had the status of law.

The plan set the goals (concerning production output and specialisation, productivity increases, etc.) which the enterprises were supposed to follow on the one hand, and on the other implemented the appropriation by the state of the greater part of the economic surplus produced by the enterprises. To a large extent this surplus was redistributed to the enterprises by the state in accordance with certain criteria. This appropriation of enterprises' economic surplus was effected through two mechanisms:

a) A form of "circulation tax", which transferred to the state a proportion of the overall earnings of enterprises from the sale of their products on the market.

b) Transfer to the state budget of a part of the "income" of state enterprises, i.e. of their profits after the deduction of the "circulation tax".

The productive units were administered by a director appointed to his position by state authority. The director was responsible to the state for the fulfilment of the goals of the plan by his enterprise, through methods and initiatives, however, which he himself chose. This afforded a certain economic autonomy and independence to the productive units.

The whole system shaped the structures and the operational guidelines of enterprises in such a way as to promote a typically monopolistic regulation by the state of the productive activity of each branch of the economy:

a) Capital was concentrating in ever-larger productive units, causing a subsequent reduction of the number of enterprises in each branch of production. The enormous size of enterprises, along with their monopolistic position in the market increased the power position of managers in the society, and enabled them to negotiate the plan objectives with central authorities.

b) The market was being divided up between enterprises in the same branch, in an effort to minimise economic competition between them.

The problems arising for the command economy out of the monopolistic regulation of the productive procedure and the absence of intra-sectoral competition have to do with the lack of powerful incentives for increasing labour productivity (incentives which in Western capitalism are created by competition as such, which sees to it that less productive enterprises are excluded from the market). The plan was supposed to be able to tackle this problem, setting itself the goal of technological modernisation and an increase in labour productivity in the individual enterprise, through the institutionalisation of a system of material rewards and incentives.

However, it became clear that, in essence, the management of the enterprise determined the quantitative content of its planning goals. The central planning authority, through institution of a system of incentives and disincentives, acted like a lever exerting pressure to increase enterprise efficiency. In other words, it functioned as a "substitute for capitalist competition".

This specific type of state economy was not social in character, i.e. it had nothing to do with a workers' control of the means of production. In this sense there were not, or they ceased to be socialist societies. The body of employees and managers who controlled the central planning and the enterprises became the actual owner (with the sense of a relation of production) of the means of production. In this sense this body formed a social class (a state bourgeois class), due to the relation which existed, between it and the means of production, on the one hand, and the workers, on the other, as Charles Bettelheim has shown many years ago.

The *economic ownership* of the means of production, i.e. the appropriation and control of the surplus-product, as well as the *direct possession* of them, i.e. the power to put them to work (to manage enterprises) was in the hands of the ruling class, as it happens with western capitalism. However, this appropriation of surplus product took place not on a private but on a collective basis: the surplus product was appropriated and controlled by the ruling class *through the state*. Only the direct possession of the means of production (the power to put them to work) was assigned by the state to the *individual* enterprise directors.

Thus, the state-capitalist societies obviously differed from societies of Western capitalism. However, the particular difference between the regimes of "existing socialism" and those of the countries of Western capitalism, was not that of labour (in place of capitalist) class power, the social and political institutions of worker democracy and of people's power, nor that of socialist economic relations of production. It was the collective ownership of the means of production by the state-capitalist class, based on the "monopolist regulation" of the economy.

In this economic system, despite the limits of activity of the individual enterprise, and thus of speculation, the separation of the workers from the means of production and of the produced output continued to be reproduced in conditions similar to those of classical capitalism: Surplus value appropriation, subjection to the manager's imperative and the factory's despotism. Besides, the state economy continued to be a commodified money economy: The efficiency of the plan and of individual enterprises was calculated in money terms; income redistribution between economic branches was implemented also in money terms, etc. The major difference from the private capitalist economy was that now the state played a much more decisive role, (besides the market), in the subordination of the circuits of individual capitals to the circuit of *social capital*.

The state economies were thus a form of (capitalist) class societies whose ruling class consisted of two fractions: the "state bourgeoisie" of high state and Communist Party officials –who manned both the political apparatus and the administration apparatus of the "planned economy"– on the one hand, and on the other the managers of the state-owned enterprises (who hold dominion over the direct possession of the means of production).

The relations between the two fractions were often antagonistic, which means that the whole system of the state economy could be proven unstable: the high state administrators consisted in the dominant fraction of the ruling class, pursuing an even effectiver control over enterprises, whereas managers struggled for a higher degree of enterprise autonomy, as a means to acquire also (aspects of) the economic ownership of the means of production.

The final form of the social conflict was, however, ultimately shaped by the intervention of the working classes.

The labouring class, subjected to the exploitation relations of the state economy and confronted with the strict political dictatorship of the one-party regime, had not the opportunity for a legal open opposition to the ruling class of state administrators and managers. The ruling class could partially relax social tensions and social distress, and elaborate a consensus with the ruled labouring class on the basis of a social protection system based on three pillars: a) full employment, entailing a series of benefits administered by enterprises; b) free education and social care; c) a system of subsidies which ensured low prices of necessities, such as housing, food, public transportation etc.

The intervention of the labouring class attained from the beginning a hidden and underground form, attempting to enlarge the worker's legal rights (system of benefits etc.) on the one hand, and on the other to reduce the exploitation rate of the labour force, by faking plan fulfilment. The workers' objective, not to allow full transparency of enterprises' performance to the central state administration, coincided with the managers' objective to ensure a higher degree of enterprise autonomy from "central planning".

A social coalition between enterprise managers and workers was then formed, attempting at a higher enterprise autarchy and power which finally led to the overthrow of the state commanded economy. The privatisation process was nothing more than a transfer of enterprise ownership from the central planning authorities to managers and senior cadres.

III

The conclusion of the above rather detailed analysis is that the state economy can by no means be identified conceptually with social economy.

A state economy, even if it is less speculative than the private capitalist economy, may be equally exploitative with it, i.e. non-social.
A state economy can be social only if the working classes possess the political power in the state. "State ownership" over the means of production will then constitute the initial precondition which gives the working people the possibility of control over the means of production. This is however the question of social revolution, which is not the subject of discussion in this panel.