

'the best of all possible worlds'

debating alternative economic systems in south africa

sean archer

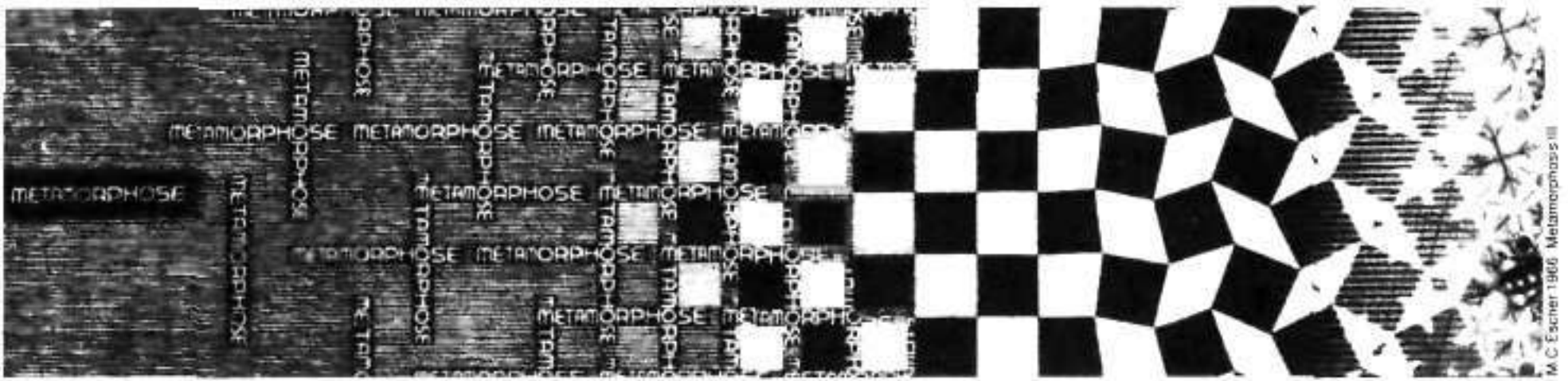


Pangloss: 'Tis demonstrated ... that things cannot be otherwise; for since everything is made for an end, everything is necessarily for the best end.'

Candide: 'If this is the best of all possible worlds, what are the others?'

(Voltaire)

Most of us have lived all our lives in one kind of socio-economic system. Unless we are unusually reflective and critical, we are likely to assume it is the only workable system. From there the step to the belief that it has evolved 'naturally' over a long time, and is therefore the best, is short. The discovery that many people do not share this view, indeed reject it on perfectly respectable intellectual grounds, can come as revelation or shock. The following discussion may assist in understanding why fundamental changes in our existing system are being debated.



The role of the state in the classic capitalist model has been likened to that of a night watchman.

The goals of any economic system, whether capitalist, socialist, or hybrid like the welfare state, include the following:

- poverty elimination;
- efficiency of functioning;
- growth in gross national product;
- adequate consumption levels of the population;
- equity in the distribution of income;
- resilience, adaptability and autonomy in the face of adverse change.

This list is not a ranking and neither is it exhaustive, but these objectives are without doubt amongst the most important. Some inter-relationships should be noted, indeed, a little reflection will show that all the listed goals are related in one way or another. For instance, per capita consumption in South Africa, when viewed as a simple average, is at a reasonable level by international standards yet, because equity in the distribution of income (which governs consumption) is so low, poverty remains a major problem.

Another illustration is furnished by the large group of Third World economies that rely heavily on a single or small range of commodity exports for growth and international exchange; copper in Zambia, oil in Nigeria, sugar in Cuba are cases in point. Under favourable demand conditions in the world economy most of their goals can be met and the potential created for development. Yet their position is that of the proverbial tail of the dog, extremely volatile and dependent, so their economies are short on resilience and autonomy in the face of adversity.

These goals may also mutually conflict rather than complement each other. Equity, for example, entails decision-taking that is democratic and therefore slow; collective responsibility which carries the danger of buck-passing; solidarity and economic security that generate complacency and a weak commitment to work. Thus a single-minded pursuit of equity can jeopardise the other goals. In practice, compromises - 'trade-offs' - characterise the functioning of any economic system.

What is capitalism?

It denotes a system characterised by private property in the resources (natural and man-made) used in production and exchange. That is, the 'instruments' or means of production are held by individual owners, singly or corporately, for profit. Note that property is not a thing; it is a right to a revenue or income.

Wage labour is the second defining feature. That is, the worker is employed by a boss or company who owns the land, buildings, machines and tools and pays for labour services at regular intervals on a time or piece-rate basis. Other characteristics are monetary exchange through the market - of means of production and means of consumption - and free enterprise in the sense of unfettered scope, or legitimacy in law, to pursue profit as the maximum surplus over production costs.

The role of the state in the classic capitalist model has been likened to that of a night watchman. Its functions are to guard property rights, to maintain the law of contract, and to hold the arena for capital and labour, as free and equal parties, to enter into mutually beneficial exchange.

What is the merit of this system? Historically speaking it has generated high rates of accumulation*, in some countries at certain times. By the mid-nineteenth century, two political economists destined to be capitalism's severest critics could write:

The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together ... [that class] by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbaric nations, into civilisation.

(Marx and Engels)

* 'Accumulation' means the way in which, within a given structure of ownership of resources, the surplus of output over the consumption needs of those working is extracted, mobilised through financial channels, and invested for replacement and new productive capacity, like farms, factories and infrastructure - roads, powerlines - including schools, hospitals and the like.



Within capitalist societies - markedly so in the one we all know best - gross inequities abound.

Capitalism has liberated the creative potential of humanity on a large scale. Our globe has been transformed by industrialisation, urbanisation, and advances in applied science. The resultant material prosperity of *some* of its inhabitants is without historical precedent.

Problems with capitalism

The original and still-enduring criticism of capitalism points to the contradiction - an 'incompatibility increasing over time' - between the *private* ownership of resources by capitalists, for the generation of profit that is individually appropriated, and the *social* nature of production. Concentration of economic power conflicts with growing interdependency in the division of labour. It is held that the sequence from individual capitalist enterprise, to corporate forms of ever-greater complexity, to the rising economic role of the state, is a law, a historical regularity, not simply a trend amongst a set of possibilities open to capitalism. This metamorphosis will lead to a system some call socialism. So runs the prediction.

Secondly, some critics contend that capitalism is inherently incapable of stability. Development of the forces of production in the form of modern technology has so altered economic choices that the market cannot handle them. Co-ordinated action *beyond* the market mechanism is essential to deal effectively with problems posed by:

- length of time horizons;
- scale of risks;
- cost of information dispersal;
- increasing impact of externalities (effects outside private responsibility and the market) like pollution, and the depletion of common property resources in the oceans and atmosphere;
- degradation of the work environment;
- social responsibility for welfare;
- equality of opportunity.

At best the markets necessary to handle these phenomena function imperfectly; at worst they do not - some say, cannot - exist.

Current events remind us that the 'primary instability' in the system, its propensity to boom

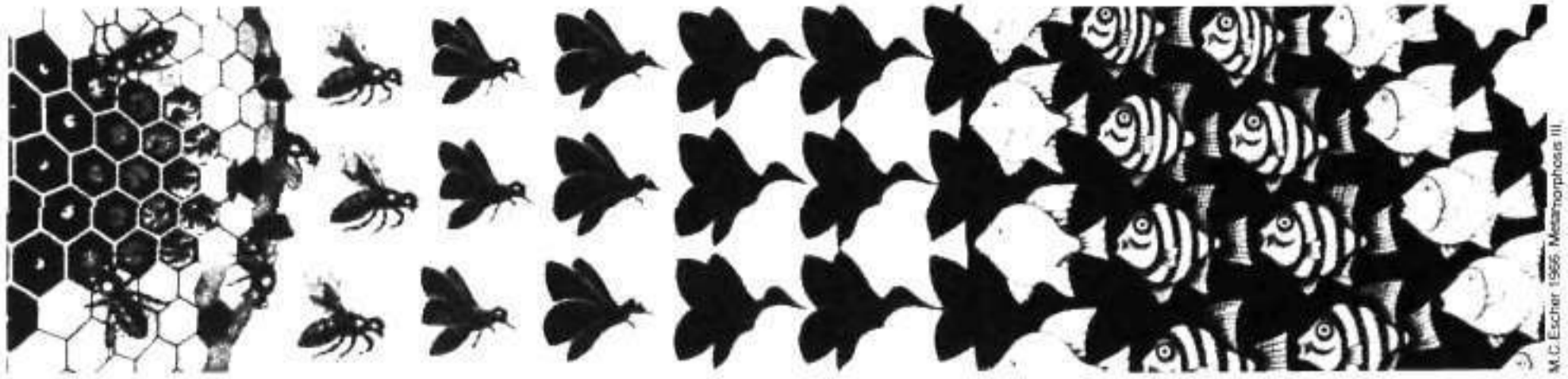
and slump, remains pervasive in modern capitalism. Once upon a time it seemed that the state could 'fine tune' the economy by judicious monetary and fiscal policies (taxation and public expenditure). This seems much less evident today. In peripheral economies like South Africa these fluctuations are accentuated: when the developed centre of the world economy sneezes, we have a seizure.

Thirdly, it is not a world system. Capitalism exists fully fledged in only a small minority of nation states. Some of these are growing, some are stagnating. Brazil and the small 'miracle economies' of South-East Asia - Hong Kong, Singapore, Taiwan, South Korea - are examples of the former; Britain and, arguably, certain other West European countries are instances of the latter.

There is a joke in which Reagan, on becoming president and surveying the world, asks his advisors anxiously: 'Can we have capitalism in only one country?' So, the relevant question is not 'Will capitalism become a world system?' but rather 'Could it do so?' There is an answer of wide currency in the Third World, notably in Latin America, which is emphatically negative. To think otherwise is to misconceive the history and nature of capitalism: some nations are wealthy and powerful *because* others are poor.

Thus, to postulate global capitalism is to postulate a contradiction. Exploitation is not a reciprocal relationship: I cannot exploit you, and you me, and we both get rich in the process. In this view the material standards achieved in developed capitalist countries do not constitute a mirror of the future for the vast population of the earth because they are impossible to emulate.

Finally, capitalism is an unjust system. Within capitalist societies - markedly so in the one we all know best - gross inequities abound. These negate common notions of distributive justice. The pertinent issue, however, is whether they can be overcome *within* the system. This is to be doubted, some assert, in that the ultimate causes are systemic, built in, rather than contingent. Economic agents enter the market place not on a basis of equality but with differences in power. At root such differences stem from



M.C. Escher 1936, Metamorphosis III.

The proponent of socialism should be perceived neither as a bogeyman (or woman) nor as a purveyor of indisputable propositions

property relationships, in the sense that in production labour is structurally subordinate to capital. Profit is thus unearned income stemming from resource ownership. Such inequalities are deepened by the accumulation process which concentrates wealth and power in fewer hands. Why? The short answer is that the logical end of competition is monopoly. In Orwell's pithy phrase, 'The trouble with competitions is that somebody wins them.'

In the richest countries the free supply of education, albeit meritocratically in the upper reaches, the acquisition of skills, the spread of health care and social security, the growth of trade unions, in short: the paraphernalia of late capitalism that we associate with Keynesian thinking and the Scandinavian model of the welfare state, have been highly effective in raising levels of living for the bulk of their populations. No serious anti-capitalist critic will deny this.

But the circumstance often overlooked by advocates of the welfare state for other societies is that prior accumulation on a vast scale appears to be an absolute precondition. You cannot pay a worker more simply because he is poor; he must be more productive. The logic of the market and the law of value require either that he be more skilled, or have available more capital equipment, or work harder, or all of these in combination. Extensive recourse to the tax-transfer mechanism is not possible unless there is fat in the system. To be egalitarian *under capitalism, you must be rich first.*

A last thought in this connection concerns the role of economic growth. Maintenance of the capitalist economy has been likened to bicycle riding: stability requires forward motion. Expansion of the system helps to defuse social conflict within. Low growth rates undermine the ability of the capitalist state to redistribute income just when the need to do so becomes greater, a dilemma which South Africa's rulers are having to contemplate.

What about socialism?

To introduce the socialist alternative adequately would take another paper. We must be content

instead with a few observations calling into question those preconceptions, usually negative, and misconceptions, usually positive, which abound in South Africa on both sides of the political and social divide. Not only does prejudice have to be combated, but blind advocacy has also to be purged of illusions and wishful thinking. The proponent of socialism should be perceived neither as a bogeyman (or woman) nor as a purveyor of indisputable propositions: both stereotypes do progressive ideas a disservice.

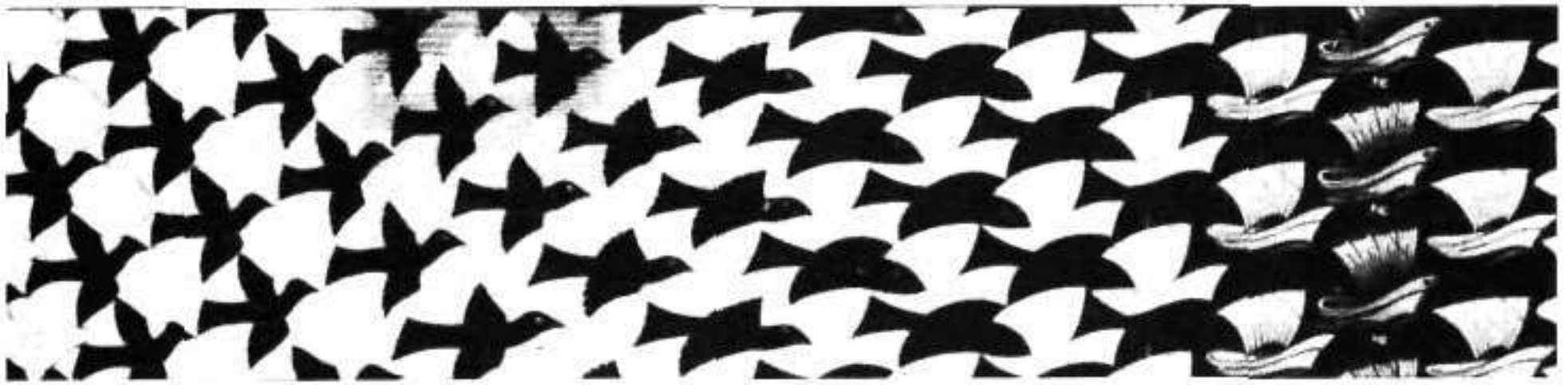
For the sake of discussion, a working distinction between socialist thought (the principles of socialism) and socialist practice ('realised' or 'actually existing' socialism) is useful. Unlike the legitimating philosophy of capitalism, socialist theory is a less unified body of thought. There are many strands, some rival, some complementary. Anarchism (or anarcho-socialism), for instance, is hostile both to private property and centralised power. And how do we situate Eurocommunism within the many variants of social democracy?

Socialist theory

To distil a common set of principles, or system rules, for socialism is no easy task. But we begin by asking: what is predicted to happen when ownership of productive resources passes from a private to a social basis? Take note that 'social' does not mean 'public'. The German terms *'gesellschaftlich'* (belonging to society) and *'öffentlich'* (belonging to an open or public institution) bring out the distinction better. In South Africa, ISCOR, SASOL, the Industrial Development and Armaments Corporations and their other counterparts are public, not social bodies. As agencies of the capitalist state they represent sectional interests, and many inhabitants would see their activities as less than benign.

What are the anticipated consequences of the transformation from private to social ownership?

- **The human factor.** Labour changes from hired labour, working for someone else, into associated labour working consciously for



... capitalism might be even worse than it is if there were no socialists who thought that the world could be made better.

- oneself. Men and women become self-managing, no longer exploited or alienated.
- **Co-operative participation.** Released from subordination, i.e. from the compulsion to work for owners of the means of production, association between producers becomes freely chosen and co-operative. Technical progress, being in the social interest, is fostered, and 'best-practice' methods of production are adopted because there is no vested concern for the retention of knowledge in private hands.
 - **Social scale rationality.** What appear to be 'external' effects and interests from the vantage point of a capitalist would fall away. In production and exchange the stimulus for micro-level action by individuals along with their co-ordination through macro-level planning would be undertaken on a social not a private scale.
 - **Distributive justice.** A more just system will come about via three key changes: the abolition of wage labour; the disappearance of unearned income stemming from the private ownership of natural assets, capital and intellectual property; and the community will freely determine the principles of distribution. This does not mean immediate equality, nor does it presume new socialist men and women imbued with idealism and altruism. The effects will come by change in social conditions, not from the internal moral transformation of individuals.

This smacks of utopianism; agreed, but not in a pejorative sense. These ideas have emerged from an historical tradition that has actively sought the analytical and ethical basis of a system now labelled *socialism*, but pre-dating this term (1827) by many generations of ideas. 'An association in which the free development of each is the condition for the free development of all' remains an abstract ideal. Yet the endeavours of many have made it a motor for major events this century, and continue to do so in our own lifetimes.

Indeed, capitalism might be even worse than it is if there were no socialists who thought that the world could be made better.

Problems with socialism

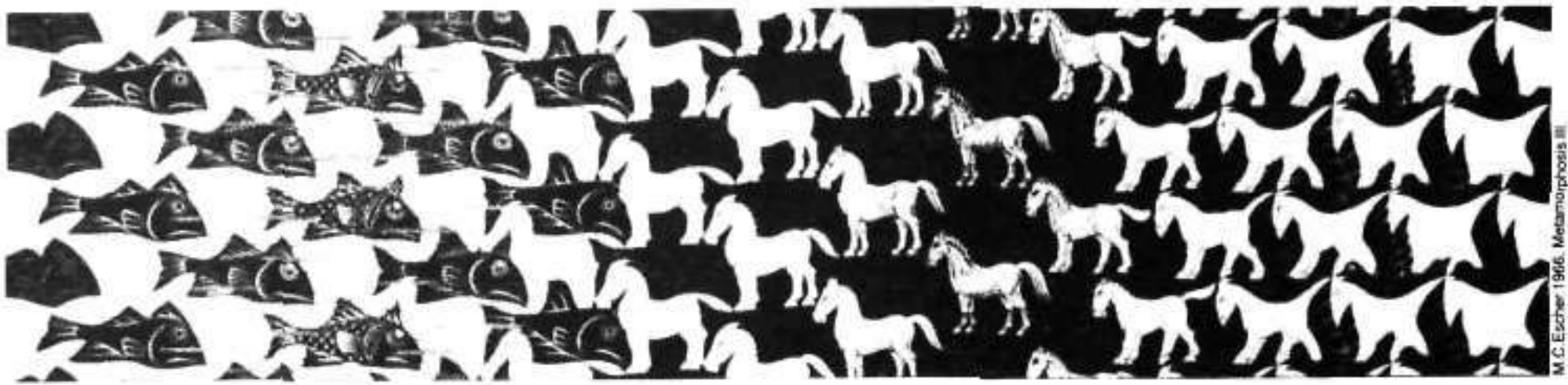
Coming to realised socialism, by which we mean the thirteen countries currently following non-capitalist or, more narrowly, Marxian precepts, what are the distinguishing features of these systems? In combination and varying proportions they are claimed to comprise: economic planning and central co-ordination; state or public ownership; conscious striving for equality; and wide participation in decision-making. The deficiencies of these systems at the political and bureaucratic levels - repression, cultural stagnation, repudiation of individual rights and civil liberties - are well known, so discussion here will concentrate upon the economic sphere; although, as we shall see, the two dimensions are intimately linked.

Central planning coupled to the other institutional features has been highly successful viewed in a long-term perspective. Countries economically and socially amongst the most backward have been industrialised rapidly; education, health, science and certain arts raised to levels comparable with developed capitalist countries; and full employment of labour maintained with the price level held constant. The list of achievements is long. In its speed - 30 to 60 years, taking China and the USSR as examples - it is unique.

Two conclusions can be drawn. First, where the set of output targets are few in number, are homogeneous (limited in variety), and require a relatively uniform technology with economies of large-scale output, an important historical lesson is that central planning can be highly productive. Examples of such outputs range through fuel and power, housing, medical care, transportation, schooling and basic consumer goods like clothing. Secondly, when sacrifices from the population are needed, a planned economy can impose demands and deliver rewards on a scale incompatible with the market mechanism.

Why are these systems today rather less attractive to poor countries than they were twenty years ago?

- On a technical level their vaunted growth



The level of politicisation of the population in a planned economy ... must be higher than that of other economies ...'

performance, while still positive, is markedly lower since the early seventies;

- they now appear more not less dependent upon capitalism for technology and food imports, and as outlets for exports;
- consumption, both of goods and services purchased privately and of education, health care and other items supplied collectively, has levelled off;
- agriculture supports a sizeable fraction of the population and yet remains the Cinderella sector despite the diversion of huge investments to it.

In sum, the picture is of deteriorating economic performance, despite the high rates of saving built into the system: a quarter to a third of the income flow is reinvested annually to boost production capacity. The economic model of 'centralised socialism' has been likened to a car locked into low gear: large quantities of fuel (accumulation) pass through but only low speeds can be attained.

It is important to realise that many trained and gifted minds - advisers, intellectuals, technocrats, leaders at many levels - are acutely aware of their system's inadequacies. Why then is there no reform and why do attempts in the past appear so half-hearted and ineffectual?

One answer is that technical problems of co-ordination are now much more formidable. The growing and unavoidable complexity in production (that is, in variety, technical choices, *intermediate linkages*, *scale of operation*) generates a demand for information in geometric ratio. The existing apparatus of planning cannot meet this demand. Nor is it solvable by adding more and more hardware like computers. What is needed is decentralisation of authority, devolution of decision-making, use of incentives and space for enterprising activity, and recourse to indirect methods of reconciling competing claims through the market mechanism. This is obviously controversial.

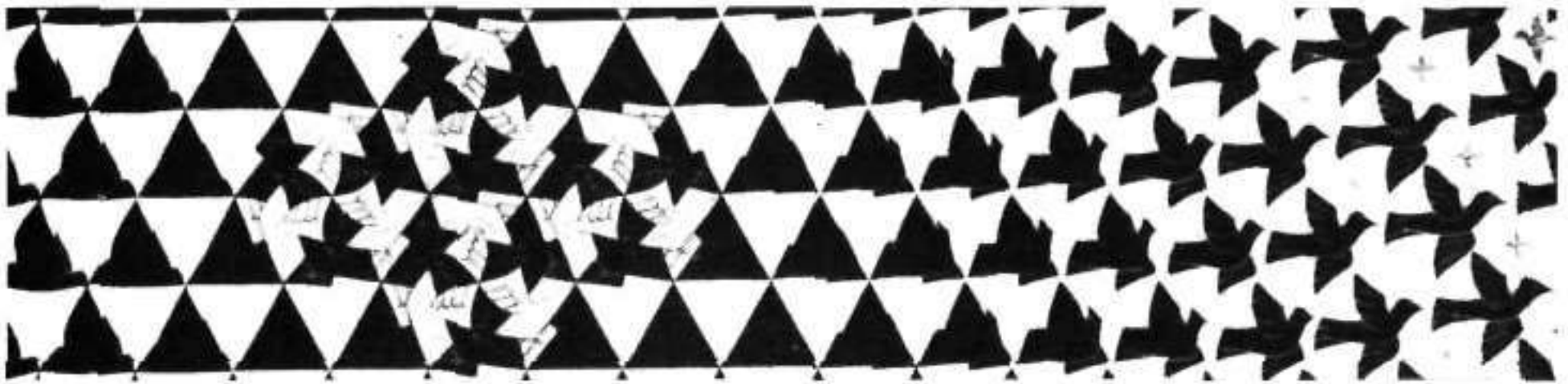
Here we see that the major obstacle is, in fact, political. Centralisation of power is a fundamental precept in the interpretation of socialism that is orthodox in these systems. It is upon this rock that attempted reforms have come to grief, and continue to do so. In the

post-Stalin era this concentrated power is less malevolent than ambiguously benevolent in its effects, except for dissidents. This dimension of the state's role in the Soviet Union and the 'people's democracies' is exemplified in the joke from Hungary which has a boy scout coming home and saying, 'Phew, what a job I had doing my good deed today!' His mother asks, 'What was it?' 'I helped a blind man across the road.' 'But why was that so difficult?' 'Because he did not want to go.'

The level of politicisation of the population in a planned economy, it is argued, must be higher than that of other economies, because economically relevant information is highly dispersed and its free flow is absolutely essential for economic calculation by the central planners. For this flow to occur democratisation and participation of a high order are required so that people actively identify with the goals of the system; in addition, there has to be *social* not elitist control over accumulation and growth. There is historical irony in the fact that as long as this does *not* happen, i.e. that power is not dispersed to create a feed-back mechanism, then by default capitalism draws strength and adherents from the negative example of these socialist dictatorships.

The best system?

Some mixed economic formation, some amalgam and compromise between the mechanisms of plan and market seems to be inescapable for a workable embodiment of the socialist idea. Direct producers - whether on the factory floor, or working the land, or providing services - know best what input-output combination maximises surplus or minimises cost. Consumers again can more effectively signal their preferences - whether, what and when to buy - by revealing them in buying behaviour rather than by confronting a shopping list which the planners have based on hypotheses about demand. 'Menu' construction - deciding what will be produced - requires a two-way information flow in which consumers (including intermediate producers) play an active not reactive role. This



'You whites have dominated us blacks politically for three centuries ... you exercised this power to ensure that you were first at the starting line.'

presupposes market instruments and scope for bargaining on the shop and factory floors.

Similarly, a major economic role for the state appears to be an essential precondition for 'capitalism with a human face'. This emerged during the 30 years after 1945 in which the late capitalist countries experienced the most rapid burst of economic growth in their history. The visible hand of the state (to invert Adam Smith's metaphor for the market) manifested itself in measures of planned co-ordination and steering, price and wage interventions, and income redistribution. Notwithstanding the resurgence of *laissez faire* rhetoric this past decade, there is little evidence of regression to the 19th century model of competitive capitalism.

A second area of compromise and reconciliation must be that of incentives. What motives, in addition to self-advancement, can realistically be expected to spur action in the economic sphere? And under what conditions are private and social interests perceived by individuals to compete with as well as complement each other? Wishful thinking about altruism and the community-identification of ordinary people can be painful and disillusioning to those who subscribe to socialist goals. Tanzania since the late sixties and Hungary under the New Economic Mechanism, to cite intentionally disparate examples, are national experiences that have demonstrated the complexity of devising incentive structures which reconcile the goal of productive efficiency with that of equity in distributing its fruits.

We need to talk less about systems and to talk more about mechanisms. Yet we have also to beware of the 'supermarket fallacy'. System construction does not resemble pushing a trolley past the shelves of system components - economic instruments, policies, value systems, institutions - in order to put together that composite hybrid which we rank most highly by a set of criteria like those already discussed. The acid test has always to be posed in the light of empirical precedent and current circumstances: 'But will it fly?'

A South African Perspective

How do we draw together this discussion into a form that will throw light on the choice of a 'best' system for South Africa? Suppose yourself to be a defender of the existing order if liberalised in some degree. You meet a black political activist here or, more likely, abroad. You agree together on the necessity for economic reform in the post-apartheid period. In response to your arguments extolling the virtues of a market system (allocative efficiency, growth, dispersion of economic power), he says:

You whites have dominated us blacks politically for three centuries. In all that time you exercised this power to ensure that you were first at the starting line. You accumulated capital; you acquired education and skills; you took title to exploitable land and natural resources; you constructed a legal and administrative framework for these processes; and the government you elected guided the market in ways declared to be in the 'national' interest.

He continues,

Where does this put us today? In the economic sphere, along with more political democracy, you advocate the freeing up of market institutions and the greatest feasible scope for individual advancement. I translate that into the slogan: 'Equal starts for all.' That is, we blacks shed our handicaps and everyone is at the starting line together.

What is going to happen? Here your predictions and mine diverge fundamentally. History will have left us with an economy oriented towards satisfying your consumption demands, while the educational system will still favour those who already have the major share of skills and material goods. Similarly with the infrastructure, the spatial location of productive activity, and the legal and regulatory apparatus: of contract, right to strike, factory acts, industrial health, taxation and subsidies. These, along with social welfare policies operating outside the market as safety nets, were instituted in response to the needs of pressure groups

'What we need is directive intervention in the economy by a democratic state.'

now forming part of the elite.

You say: treat all these features inherited from our economic past as by-gones, as given, and let the free market run. This way you will generate positive incentives, high rates of saving, entrepreneurial activity, innovation and growth, because the most potent solvent of bottlenecks and vested interests is the pursuit of self-interest by free individuals.

I say: this will entrench the existing disposition of economic power. The growth process will be neither impartial nor equitable; to that extent it is of dubious value because it will be disrupted by frustration and unrest. My people can be forgiven for seeing this as a ploy by the capitalist elite and the labour aristocracy for holding on to what they got through skewing the system their way in the past.

The philosophy of *laissez faire* and equal life chances will condemn the bulk of South Africans, now and in the coming generations, to poverty and deprivation at unacceptable levels. What trickles down will barely suffice to employ the increase in the working age population, let alone the vast numbers now permanently without proper jobs. And the rich will grow ever richer.

What we need is directive intervention in the economy by a democratic state. A restructuring of property rights or endowments, as you term them, is inevitable. Those self-regulating mechanisms of the market that are compatible with our redistributive objectives will be retained. Thus we shall use the price system, but as an instrument, a servant of our political and social endeavours, not as our sovereign.

This statement will ring with greater or lesser authenticity to different readers. But it can hardly be denied that the obscene disproportions in the wealth and income shares of our society generate much hostility amongst black leaders and intellectuals not to the regime alone but also to the system.

This implies a sobering consideration for reflective South Africans. There is a substantial segment of our population for whom even authoritarian socialism promises to confer large and tangible benefits within their own lifetimes. To them it appears to mean, at worst, the same degree of regimentation and interference with personal freedom that exists now. Set against that cost is the promise of significant gains in material living standards, since such a regime would directly address basic needs: shelter, nutrition, health, education.

Why might these be forthcoming? Because, whatever its faults, that is a fundamental objec-

tive of such a system, and it would consolidate political support. Why could they attempt to do so? Because the accumulation process has provided sizeable means. There is a large infrastructure, plant and buildings, a labour force with industrial skills and work discipline, sophisticated educational system, administrative framework and so on.

One has to tread here with great care. But it will surely be conceded that the negative consequences of a system of centralised power with socialist aims, initially will be remote for many in the population. Is there another way of satisfying their needs and aspirations? If you doubt that capitalism will deliver the goods within an acceptable time horizon and still remain extant, then the real challenge to be faced is clear. This is what the choice of a socio-economic system for the future South Africa is all about. □

Condensed version of *Economics Learning Resource No. 12*, University of Cape Town 1987; the assistance of Candy Malherbe and Sarah-Anne Raynham is gratefully acknowledged.

Further Reading

The following items should be accessible to the interested reader:

Dalton, G. 1974

Economic Systems and Society;
Harmondsworth: Penguin

Dobb, M. 1970

Socialist Planning: Some Problems;
London: Lawrence & Wishart

Kolakowski, L. and S. Hampshire (eds)
1974

The Socialist Idea; London: Weidenfeld
& Nicholson

Kornai, J. 1985

*Hungary's Reform: Halfway to the
Market; Challenge (New York)*,
May/June, pp. 22 - 31

Lane, D. 1985

Soviet Economy and Society; Oxford:
Blackwell

Leatt, J., T. Kneifel and K. Nümberger
1986

Contending Ideologies in South Africa;
Cape Town: David Philip Publisher

Lekachman, R. and B. van Loon 1981

Capitalism for Beginners; London:
Writers and Readers Publishing
Cooperative

Macpherson, C. B. 1966

The Real World of Democracy; Oxford:
Clarendon Press

