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The economic conditions of political liberty

Gilboa, David, Ph.D.
The Ohio State University, 1989
THE ECONOMIC CONDITIONS OF POLITICAL LIBERTY

DISSERTATION

Presented in Partial Fulfillment of the Requirements for the Degree of Doctor of Philosophy in the Graduate School of the Ohio State University

By

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* * * * *

The Ohio State University

1989

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Department of Philosophy
In Memory of my Father
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Areas of Specialization: Social and Political Philosophy

Areas of Competence: Philosophy of Law, Philosophy of Economics, Business Ethics
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Some people believe that three types of economic systems exist in our world: communism, socialism and capitalism. They believe that communism is the economic system of the Soviet Union; that a socialist system can be found in Sweden; and that capitalism is the economic system of the United States. However, while government involvement in the economy is more extensive in Sweden than in the United States, economists do not consider this an essential difference between the two economies, and they hold, instead, that the economic systems of both countries are two of the "many shades of capitalism."¹ For them, as well as for political scientists and political economists, two major economic systems inhabit our world. The first is interchangeably called "capitalism," "welfare-state capitalism," "free-market economy" or "private enterprise." This system exists in England and in France, in Japan and in South Korea, in Australia and in New Zealand, in Argentina and in Brasil, as well as in both...
the United States and Sweden. The second type of economic system is interchangeably called "socialism," "communism," "centrally planned economy" or "command economy," and it can be found in the Soviet Union, the countries of Eastern Europe, China, North Korea, Vietnam and Cuba. As most of these states are ruled by a communist party, "communism" is often used to refer to their economic system. I think, however, that "socialism" is more in line with Marxist theory, in which socialism is taken to be the historical stage that follows capitalism, a historical stage that is characterized by the state establishing its control over the means of production, and where communism is taken to be the historical stage that follows socialism, a historical stage where the state would "wither away." A number of authors believe that the economic system of Yugoslavia should be considered a third type of economy, which they call "market socialism." This belief will be explored in the next chapter, where I discuss in more detail each of the major systems, in light of a few criteria which can be used to classify economies.

In addition to a classification of economic systems, we need to have, in order to see what is meant by the phrase "the mystery of the empty box," a classification of political systems. Now political scientists draw a distinction between polyarchal and authoritarian systems.
A system is authoritarian if the ruling institutions are controlled by one group, and if people do not have the freedom to criticize the ruling group, to form (or to belong to) an opposition party and to vote the ruling group out of office. A system is polyarchal if it is not authoritarian, which typically means that people are free to criticize the ruling group, that there is a number of parties the voter can choose from, that popular vote determines the composition of the legislature and that both the legislature and the judicial system are independent of the executive branch. At the time of writing, the political systems of China, Paraguay, Syria and Albania are authoritarian, while the United States, Japan, Israel and England have polyarchal systems.

Because "polyarchy" seems to be a substitute for "democracy," one may wonder why we need a new term where we already have one. One answer is that political science must have unequivocal terms, where "[d]emocracy has become an ambiguous thing, with different meanings—even apparently opposite meanings—for different peoples."3 Another answer is that "polyarchy" may be used to denote a state like South Africa, which has institutions of polyarchy without universal suffrage, and as a result, is not exactly authoritarian but one may find it very hard to call "a democracy."
Having developed some basic terminology, we can put together the following chart, which I call "Lindblom’s Table" because a similar table appears in Charles E. Lindblom’s book *Politics and Markets.*

<table>
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<th>Political Systems</th>
<th>Polyarchal</th>
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<td>Economic Systems</td>
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<td>Socialist</td>
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If we go through the list of the world’s states and check the appropriate box for each of the states on the list, we would not encounter any problem checking three of the boxes. The United States would warrant a check in the box corresponding to polyarchies with a private enterprise economy. Chile, however, belongs in the box for authoritarian states that have a capitalist economy, while the box for socialist states which have an authoritarian political system would be checked for China. After checking the appropriate box for each of the states of the world, we would observe an intriguing fact: one of the boxes of the table has remained empty. This is the box for polyarchies which have a socialist economy, which
remained empty because, out of all the states that either are polyarchies or have a socialist economy, not even one is a socialist polyarchy!

This fact is intriguing because "a socialist polyarchy" does not seem to be a contradiction in terms. We can conceive of a state-of-affairs where the people of, say, the Soviet Union, have the freedoms which are possessed by people who live in polyarchal societies, while socialism continues to be their economic system. Alternatively, we can conceive of a state-of-affairs where England, or France or one of the other polyarchies has a socialist economy, without a change in its political system. Yet no state has a socialist economy coupled with institutions of polyarchy.

What explanations have been given of the mystery of the empty box? What has been said to account for the fact that polyarchy and socialism are not found together? I have found two explanations. The first explanation focuses on polyarchy, that is, on the polyarchal aspect of the mixture of socialism and polyarchy. There are no socialist polyarchies--this explanation goes--because there is something about polyarchal systems that doesn't allow incorporating a socialist economy. One of the leading champions of this explanation, Charles E. Lindblom, emphasizes the central role of the business
sector in today's polyarchy. He argues that much of the welfare of citizens is dependent upon a successful business performance, and as a result, the government feels compelled to acquiesce in the demands of business, practically handing over to it control over the state. Now the business sector is opposed to a socialist economy, and using its grip over the politics of the state, it prevents the adoption of socialism even when the majority of people want to substitute socialism for the capitalist economy.  

It should be stressed that even if Lindblom's account is true, it only provides a partial explanation of the mystery of the empty box. It does explain why polyarchies have not adopted a socialist economy. It explains, that is, why neither France, England, the United States nor any other polyarchy has a socialist economy, the explanation being that each one of these states has been controlled by its business sector, which wouldn't permit the overthrow of the capitalist system. But Lindblom's account does not explain why socialist states have failed to become polyarchal. It doesn't tell us why neither the Soviet Union, China, Cuba nor any other socialist state is a polyarchy.

The second explanation centers on the socialist aspect of the mixture of polyarchy and socialism, saying
that there is something about a socialist economy which doesn't allow it to go together with polyarchal institutions. This line is taken by Milton Friedman and Friedrich Hayek, who both believe that, by its very nature, government poses a threat to the kind of freedoms that people have in a polyarchal society, and hence that government power must be checked if these freedoms are to be preserved. They both feel that only through the capitalist system can government power be held in check, for a strong private sector constitutes a crucial check on the power of government, and only capitalism can allow for a strong private sector.7

It might be objected that this line only provides a partial explanation of the mystery of the empty box, for even if true, it only explains why socialist states have failed to become polyarchies, without explaining why polyarchies have failed to adopt a socialist economy. However, Friedman and Hayek do not have the problem that they only provide a partial explanation of the mystery of the empty box. They do not have to account for the fact that no polyarchy has a socialist economy, for if they are right in what they say about the connection between polyarchy and a system of private enterprise, they are not required to give an account of why polyarchies haven't had a socialist economy. It does not matter, for Friedman and
Hayek, why polyarchies haven't replaced the capitalist system with a socialist economy, for if the account of Friedman and Hayek is a correct one, then upon the adoption of socialism by a polyarchal state, the adopting state would, sooner or later, cease to be polyarchal! Whatever explains why no polyarchy has adopted a socialist economy: if the Hayek-Friedman line is upheld, then nothing else has to be said to account for the fact that socialism and polyarchy are not found together. Given, therefore, that the Hayek-Friedman line is correct, it does provide a full explanation of the mystery of the empty box, and so it has a methodological advantage over Lindblom's line.8

Apart from the fact that it can fully explain the mystery of the empty box, the Hayek-Friedman line has another attractive feature, for it promises to take us a step ahead towards the completion of an important philosophical endeavor. From John Locke to Robert Nozick, philosophers sought to justify private property in the means of production, which Hayek and Friedman could justify along the following line.9

Unlike the authoritarian state, polyarchy gives us political freedoms such as the freedom to criticize the government, the freedom to be a member of an opposition party, the freedom to run for office and the freedom to
determine which party or group of parties has control over the legislature. Polyarchy, however, would not exist alongside a socialist system, taken to mean the abolition of private property in the means of production. It follows, therefore, that political freedoms would not be granted to the people in the absence of private property in the means of production, so as long as we wish to have political freedoms, we have to allow for private property in the means of production.

My goal is to answer the question "why is there no such thing as a socialist polyarchy?" Because this question involves the concept of a socialist economy, I will discuss this concept in Chapter One through a comparison with the concept of a capitalist economy. Once we know the difference between the major economic systems, we understand what the main question is all about, so we can examine the two replies which have been mentioned above. In Chapter Two, I will examine Lindblom's line on why polyarchy fails to exist alongside socialism. Partly because I feel that there are many problems with Lindblom's explanation, and partly because, as I said before, Lindblom's account is insufficient even if it is true, I will proceed by focusing on the Friedman-Hayek line. Chapter Three will be devoted to Friedman's version, leaving Hayek's version to be examined in Chapter Four.
I find the line of Friedman and Hayek better than Lindblom's line, and Hayek's version constitutes an improvement over Friedman's. Yet Hayek's version is not free of problems, which call for reformulation of the ideas that Friedman and Hayek share, in a way that avoids the problems which they have encountered. This, therefore, is my undertaking in the concluding chapter. In it, I develop a theory about the economic conditions of freedom, that is, a theory about the sort of economy which has to exist if the population of the state is to have political freedoms.

I call the theory of Chapter Five "the balance of powers theory," for its basic idea is that political freedom would not exist without a balance of powers. The balance of powers to which I refer consists of two conditions. First, there has to be a system of private enterprise. This does not mean a complete absence of government involvement in the economic system. It only means that a large portion of the economy has to be privately owned. As only a small portion of the resources can be privately owned in a socialist economy, the first condition explains to us why political freedoms have been denied to the people of the states which have a socialist economy, and thus we obtain the solution to the mystery of the empty box.
The balance of powers theory, however, takes us beyond the initial target of the investigation, as it postulates a second condition of political freedom: limited inequality. Political freedom can exist without equality in the control over the means of production, but not in the presence of any degree of such inequality, for beyond a certain degree, inequality is detrimental to political freedom. While the second condition takes us beyond the scope of the views that Hayek and Friedman promote, it clearly enhances our understanding of the conditions of freedom, for it can explain why political freedom is often denied to many people in capitalist states where there exist a great degree of inequality in the control over the means of production.
INTRODUCTION

NOTES


5 Lindblom develops this thesis in chapters 12 through 17 of his Politics and Markets.

6 This is acknowledged by Lindblom on p. 169 in a footnote?!


8 Suppose we have an explanation of why polyarchy does not exist in the Soviet Union, and an explanation of why polyarchy does not exist in China, and so on, so we have a full set of explanations for the absence of polyarchy in each of the socialist states. A conjunction of these explanations, together with a conjunction of the explanations for why polyarchies do not have a communist economy, could be considered a third reply to the mystery of the empty box. However, while the third reply may eventually be the correct explanation, it is much more complicated than each of the previous replies, so we have to consider them first.

CHAPTER I

THE MARKET vs. THE PLAN

1. Introduction. For Kai Nielsen, capitalism is a class society in which "labor power is a commodity." For Charles Dyke, one of the defining features of capitalism is that "the gap between use value and exchange value will exist for the workers," while for Milton Friedman, "capitalism" means "[a] working model of a society organized through voluntary exchange." But if "capitalism" means different things to different people, "socialism" certainly does not fall behind. According to Nielsen, a socialist society is one in which "all able bodied people are .... workers, [who], in the form of worker's councils and the like," own and control their own means of production. For Friedman, however, the concept means a society in which economic activities are co-ordinated through the use of coercion. Frank Cunningham conceives of socialism as a society "legally and politically structured to facilitate ... material equality," whereas it seems that for Robert Nozick, a society is socialist given that wealth in it is distributed according to need.
Because of different conceptions about the nature of socialism and capitalism, there is some confusion regarding the question of where these systems exist. In spite of opposing sentiments with respect to political matters, both Friedrich Hayek and Charles Lindblom (strangely, I think), believe that Nazi Germany was a socialist state, while Carl Cohen takes New Zealand to be a socialist state.

Where a concept has a variety of meanings, one has to make clear the meaning that he attaches to it. "Capitalism" and "socialism" are two of the concepts around which this work revolves, and since it is now clear that each of these concepts has been given more than one meaning, I will begin by discussing what I mean by them. For this discussion, I have selected two dimensions of the economy, and the meanings of the concepts will emerge by comparing them along these two dimensions.

2. The Two Dimensions. The first dimension has to do with the dominant form of ownership of the means of production. The means of production are the land, capital and materials which are used in the production of either goods or services. So, banks and service-producing organizations in health, transportation, entertainment and education fall under "the means of production" just like
mines, power facilities and heavy or light industry. Means of production may be owned privately or by the state. That something is privately owned does not mean that one individual is the owner of it: General Motors is privately owned by a very large number of people who purchased company stock. To say that an enterprise is privately owned is simply to say it is owned but not by the state.

Presumably in an attempt to boost agricultural production, some socialist states allow for private ownership over pieces of land. Privately-owned small firms can also be found in some socialist states, but these exceptions only affirm the general rule that the means of production in socialism are owned by the state. State-owned enterprises are not absent from private enterprise economies. The U.S. government owns the postal service, a number of nuclear-power plants and all the properties of NASA. At one time, the British government owned the coal industry, public transportation, an airline and communication systems. The French nationalized an auto company after World War II, and in Israel, public utilities, hospitals and military industry are only some of the state-owned enterprises. Yet for the most part, the means of production are privately owned in private enterprise economies, as we see from the fact that in
"none of the dozen ... capitalist economies of today does the state own more than one-fourth" of the economy.15

The second dimension has to do with the making of a certain set of economic decisions. This set consists of decisions about what the firm manufactures, the materials which are used in the process of production, the prices of the products, the wages of the employees and how much of the revenues would be invested in the firm.

In systems of private enterprise, these decisions are made at the level of the firm; people who work in the firm are the makers of these decisions. In their attempts to maximize the profits of the firm, the people who run it choose the products to be manufactured, the raw materials and the designs, the prices of the various products, the wages of the employees and the portion of the revenues which would be invested in the firm.

In (non-market) socialist systems, many of those decisions are not made at the level of the firm. Instead, they are made by a group of people (a planning commission) whose job it is to devise a plan of production and investment for the entire economy, as if "the whole of society ... [has] become a single office and a single factory," as the often quoted saying by Lenin goes.16 In a market economy, the total product is the result of numerous uncoordinated decisions of many entrepreneurs,
each of whom is pursuing his own good. In a centrally-planned economy, the total product is set forth by a planning commission in an attempt to use the resources of society to meet the needs of the people. While an enterprise in a capitalist system, in some sense, is an independent entity, the goals of which are often in conflict with the goals of other enterprises, the enterprise in central planning does not have its own goals apart from the goals of the planners, for it is merely a tool at the disposal of the planning commission, who dictates the goals of the enterprise as well as the means to achieve them.

In a somewhat simplified description, central planning works in the following way. There is an attempt to figure out what will be the needs of the nation in the next five years or so, where needs encompass consumer goods and services, as well as producer and public goods. Once the planners determine the needs of the nation, in something like a list of things which have to be produced, they draw a plan in which it is shown how to use available resources to produce the desired things. Enterprise managers are instructed what to produce, where they should get their raw materials, how much money they should pay for them, how many people they should employ, the wages of their employees etc., in such a way that the total
production of enterprises would yield the things that the planners determined to be the needs of the nation. In practice, however, central planning has a number of problems, some of which I will now address, for unless we know a few things about the problems of central planning, we do not really understand what central planning is.

3. Central Planning and the Problem of Information. As it took away from the enterprises the power to make their own decisions and put in charge a planning commission, the socialist state rejected the market as the mechanism which determines what will be produced. It had, therefore, to come up with a method of its own. The planners consider a number of things to guide their decisions on what should be produced. In terms of goods and services, they estimate the lowest standard of living which allows for a decent life and the highest standard of living that all members of society can attain at the time. By somehow shuffling these estimates, then taking into account the number of people in society, the planners seek to come up with the list of the goods and the services the economy should produce, but not before they consider two additional things. One is consumption figures of the preceding period, the other consumption trends in western
markets from which they can learn about the existence of new kinds of goods, e.g., computers and video games. 18

Once the planners have made a decision on the desired outputs, they need to ensure they do not call for producing things for which there are no resources. Because they are under pressure to bring about economic growth, the planners also seek to use all the resources they have. 19 In order to meet these two constraints, the planning technique that the planners use is called a material balance. They find out the material requirements of the desired output, then compare these figures with the resources they have at their disposal. Through a process of repeated adjustments, the planners seek to draft a plan which is not necessarily the most efficient, but is one in which "all available resources are employed but none overallocated." 20

The material balance technique, however, has a serious flaw. The planners cannot apply it to all the materials in circulation because of the enormous amount of information they would need to consider. The planners, therefore, only focus on some of the materials, leaving the rest to lower-level planning commissions and, most of the time, to no planning at all. 21

Since material balances are calculated only for some materials, the plan is made without ensuring sufficient
supplies of all the materials which are used by the various industries. The planners, therefore, do not know that there is enough of each material to execute the plan, and so unpredictable interruptions in the production process, caused by a shortage in the supply of "unplanned" materials, have become a pervasive problem of centrally planned economies, exacerbated on some occasions by human mistakes in the drafting of the plan.

The planners may not be able to solve the problem of shortages, but they can try to attenuate the severity of its effects. They determine priorities in the allocation of materials in short supply, so such materials are first channelled to high-priority industries, and only then are remaining supplies directed to other industries. For a long time, shortages of consumer goods were an epiphenomenon of the priorities system in the Soviet Union, for high priorities used to be given to heavy industries. The priorities system also enhances stockpiling of materials, as low-priority enterprises fear that they won't receive enough materials to fulfill their quotas. Stockpiling is wasteful because the hoarded stuff can become spoiled, and also because the plant pays interest on the stock, but as long as profits are not as important as meeting the quota of the plant, managers
would incur financial losses rather than run the risk of not having enough materials to meet the assigned quota.27

One of the problems of central planning has to do with the measuring of the quota. If the quota is measured according to the number of final products, (as when an enterprise is instructed to make, say, 500 bicycles), the enterprise could cut down on the quantities of the raw materials it puts into the product, even when the result would be a lower-quality product. This could ensure the enterprise enough materials to meet the required quota, or a greater number of final products than the required quota, sought by the enterprise in order to get the bonus given to those who exceeded the quota.

Another way to measure the quota is by means of the total weight, as when an enterprise is instructed to make X tons of nails. In such cases, the enterprise is prone to produce only nails of a certain size, even when the manager knows that a number of sizes are needed, for this is the quickest way for him to meet the assigned quota.28 The point is that, unless the planners are very precise on the qualifications of the product, something that they may not afford for lack of time, etc., the quota may often be fulfilled by making a shoddy product or by giving rise to some other distortion. Why should the enterprise do this? Why should it take advantage of the chance to
fulfill its quota in a distorted manner? Because more often than not, meeting the quota is more important than the sale of products.29

Centrally planned economies suffer from a slow pace of technological progress, brought about by a low level of innovation coupled with a slow pace in the introduction of new technologies.30 The source of the problem is not the lack of incentives, of which there are quite a few in centrally planned economies, but rather in the excess amount of information the planners need to digest. Innovations have to be approved by the planning commission, who has to revise the plan in light of the new data. This means that approved innovations carry with them additional work for the planners, whose most fundamental problem is that, because the plan has to be written long before they can comprehend all the relevant data, they do not have enough time to do what they have to do. Innovations, therefore, must be approved by people who have a strong incentive not to approve them.31

In the west, we are accustomed to frequent changes in prices, reflecting changes in the conditions of production, demand, competition, etc. In central planning, prices often remain unchanged for long periods of time. In the Soviet Union, wholesale prices were virtually the same for a period of fifteen years, from
1968 until 1983, when the whole range of industrial prices had been the subject of change. Such rigidity may reduce the profits of enterprises, but it can be defended as an attempt to protect the purchasing power of consumers. Hewett, however, reports that

Because planners must constantly be on the alert for ways to cut down their enormous information load, prices are set for long time periods .... to avoid the daunting task of recalculating the myriad of interrelated prices in the entire economic system.

As a matter of fact, the problem of prices is even more fundamental, for it casts doubt on the possibility of rational decision-making in centrally planned economies. This issue was raised by Ludwig Von Mises but, for reasons that will become clear later, is taken up in my discussion of market socialism.

An analysis of central planning must include a few words on the quality of the goods that are produced in the system. Because consumer report-type publications are not exactly a matter of course in centrally planned economies, much of the evidence is anecdotal and not based on statistical data. This makes it harder to draw reliable generalizations, but it doesn't prevent researchers from having a clear picture of the situation.

If the Soviet economy is a reliable indicator of what happens in other command economies, the system has
troubles mass producing decent-quality products such as electronic calculators, watches, cameras, TV sets, phonographs and washing machines. Advanced personal computers can only be hoped for sometimes into the future. Reliable cars and computers can be found, but they are often made with obsolete technologies, no longer used in the West. The Soviet industry has not yet completed the change from vacuum tubes to transistors.34

The poor quality of many types of consumer goods is the source of widespread dissatisfaction among the people of socialist states and, at least lately in the Soviet Union, repeatedly draws complaints from the leadership.35 It also prevents the socialist state from effectively competing in world markets and, thus, from obtaining much needed foreign currency, (the recent failure of the Yugo automobile being a case in point). In a reference to 'Perestroika', Hewett goes as far as to say that "Gorbachev understands that all of his goals ride on his resolution of the quality problem in industry."36

It might be objected that the problem of quality should be attributed to the preferences of the planners. The rate of investment in central planning is clearly higher than in the capitalist economy, and the system displays a clear bias in favor of heavy industry. Now these factors are more related to the psychology of the
planners than to some structural features of the planned economy. They are not, as such, inherent to central planning but rather reflect the particular attitudes of the planners, mainly their quest to achieve industrial growth. It is not, therefore, the objection goes, inconceivable for the planners to lower the rate of investment and to divert resources from heavy to light industry, and then we might have an improved situation in the quality of consumer goods.

However, what is more likely to be explained by the bias in favor of both investment and heavy industry is the scarcity of consumer goods, shown, for instance, by long lines in the grocery store. The poor quality of consumer goods can be attributed to what may be the most fundamental feature of the centrally planned economy: its not being a consumer sovereignty system. It is not the preferences of consumers, as manifested in the market, which guide the decisions of those who determine what will be produced, and how well its products are sold is not necessarily the thing that determines whether or not the enterprise is a success. It is not impossible for central planning to mass produce consumer goods which have a decent quality, but its failure to do so on many occasions is deeply rooted in the nature of the system.
As I discussed a few of the problems of central economic planning, I tried to draw attention to what is not made clear enough in some of the excellent accounts on which I based my analysis. This is that many of the problems of the system can be traced, either completely or in part, to one fundamental fact: that central planning, in some sense, is an unrealizable goal, for the planners cannot possibly handle all the data relevant to their decisions. I must say it wasn't my goal to show that central planning is an inferior system. I discussed the problems of central planning and not the problems of the market because we are all familiar with the problems of a market economy, while most of us know very little about central planning.37 I think, however, that as the study of central planning reveals severe problems in the structure of the system, it is conducive to understanding why Hayek believed that "[i]f it were the result of deliberate human design, ... [the market] would have been acclaimed as one of the greatest triumphs of the human mind."38

4. Perestroika, or: What is to be Restructured? Those in charge of central planning have been aware of its shortcomings and, as a result, a few attempts to reform the economy have been initiated in the socialist states.
The latest and not the least ambitious of these attempts is now unfolding before our eyes in the Soviet Union, spearheaded by the enthusiastic Secretary General of the Communist Party, Mikhail S. Gorbachev. Gorbachev recognizes that reform is urgently needed, as is seen from the fact that he talks of "a crisis" when he refers to the present condition of the Soviet economy. He is on record having said that the Soviet Union of today embodies a conflict between its "productive forces" and its "relations of production," a Marxist description of situations in which revolution is imminent. Hence he insists that his Perestroika constitutes "a radical reform" rather than a mere change of policy.

And a radical reform it is. The reform calls for transferring decision-making from the center to the periphery, so individual enterprises would thus be able to make decisions on what, how much and how to produce. The enterprises would also have the freedom to choose from among suppliers and to determine the prices of their products. At the same time, they would have to compete in a market for both consumer and producer goods and they would not be able to rely on the government to cover financial losses, as their fate would be entirely determined by their market performance. If the reform is fully carried out, central allocation of materials--"the
hard core of the Soviet economic system" during the past 80 years--would be thrown to "the dustbin of history." No more Gosplan! 41

The system envisioned by the reformers is called by western observers "market socialism." It has been discussed since the 1920s and many people believe that something sufficiently close to it was implemented in Yugoslavia in 1952. "Much of what is happening in Moscow is old news in Belgrade," a witty commentator said. Later on, a number of sections will be devoted to market socialism. At this point, I am going to tackle the notion of "capitalist planning," for failure to grasp the way in which planning is practiced in capitalism blurs the distinction between socialism and capitalism, on which my discussion is based.

5. Capitalist Planning? So far, my strategy has been to elucidate the distinction between socialism and capitalism by showing how they can be contrasted and compared along two dimensions. One dimension focuses on ownership of the means of production, which are mostly in the hands of the state in the socialist system, whereas in capitalism private ownership is the dominant form. The other dimension has to do with production and investment decisions according to which the enterprise operates,
which in socialism are part of a plan that a government agency drafts for the whole economy, whereas in capitalism these decisions are made in the enterprise, and are coordinated—if this is the term to use—by a system we call "the market." There may, however, be a need to clarify some of the concepts, to have some confusions removed, and to reply to a few objections.

Some writers seem to believe that central planning should not be discussed as if it is a unique feature of socialist economies. In his defense of socialist planning, Carl Cohen, one of these writers, claims that "[e]conomic planning in Japan ... has brought stability, full employment, and security of all citizens."42 Now it is important to understand that Cohen confuses two very distinct senses of the term 'planning', but there are reasons for his confusion that have to do with the history of the last seventy years. In what follows, I will discuss a few of the things that give rise to talk of planning in systems of private enterprise, and this should give us a chance to contrast it with the kind of planning that socialist states have.

Following World War II, western governments found themselves in possession of a wide array of ways and means to influence the economy. Many of these were first used after the war or in the preceding decades. To prevent a
recurrence of something like the stock-market crash of 1929, which led to a record number (8,000) of bank failures, the Roosevelt government passed laws the aim of which was to stabilize financial institutions. Banks were forbidden to buy common stock, and the federal government undertook the job of insuring deposits of up to $100,000.\textsuperscript{43} As it started a program of social security and public utility projects like the Tennessee Valley Authority, the administration indeed accepted more responsibility for the welfare of the people. However, disagreement exists as to whether there was a substantial increase in government spending during the Great Depression, (which is roughly what should have happened if government actions constituted a new sort of policy).\textsuperscript{44}

During the war, the administration was in charge of allocating aluminum, copper and steel, which gave it a chance to experience the flavor of hard-core central planning.\textsuperscript{45}

In the context of the emergence of the modern welfare-state, contemporaneous events in Europe have been very significant. Before the war, publicly-owned transport, communication and utility corporations had been established in Great Britain.\textsuperscript{46} After the war, the Labor party carried out an ambitious program of nationalization which brought, among other things, "civil aviation,
telephone and telegraph, gas, railroads and trucking," under the auspices of the British government, which thus became the owner of about one fourth of the economy.47

Similar developments took place in Italy and in France,48 but let me make the main point without listing the relevant data in each and every country. The period we are talking about has witnessed a transformation of the capitalist system, the mark of which was an unprecedented increase in the involvement of the government in both the production and distribution of goods and services.49 Through nationalization, government became an owner of productive means and, in its attempts to steer the economy, developed a wide selection of regulatory devices. Quotas or tariffs on imports are some of the means that governments use to help business combat foreign competition, while tax shelters stimulate growth by encouraging capital investment. The state hopes to protect the consumer through antitrust legislation, and price controls and product-safety regulations aim at the same goal. Workplace safety-regulations help to protect the worker, and a substantial body of regulations aim at protecting the landscape from industrial pollution.50 Some legislation has been financed by the government budget, e.g., subsidies for growers. Also backed by government budget were social programs such as student
loans, welfare and social security, housing and road construction and health and unemployment insurance.

Because such programs have been financed through the government budget, the capitalist countries have experienced an increase of government spending. This was expressed in absolute terms and in relation to Gross National Product. In the United States, for instance, government spending grew from 10 percent of the GNP before the Depression to more than 30 percent of the GNP in the 1970s.\(^1\) This process began as politicians confronted problems they knew not how to solve, in a world that had gone through a terrible war and an economic depression. But advancements in economic theory soon turned government spending into a laudable thing, (even, sometimes, when the increase in spending created a deficit), and made the practice of intervention clearly more respectable, for they gave rise to the feeling that the whole of society could be rewarded if government made a judicious use of new economic Knowledge.

6. Keynes and the Business Cycle. Of all the economists whose work encouraged government involvement in the economy, John Maynard Keynes (1883-1946) is believed by many to be the most important. In his 1936 book, The General Theory of Employment, Interest and Money, he urged
government to increase spending in certain situations. A few words on business cycles may introduce us to the theory Keynes proposed in the book.

At least since the 18th century, business activity in capitalist systems has been subject to violent fluctuations. For a time, the economy will expand as investment is up and unemployment is all but non-existent, but when the system begins to falter, there is nothing to stop a further decline to a full-blown depression, where investment dwindles and unemployment is rampant.52

Economists found it hard to explain this "wavelike succession of expansions and contractions,"53 but not because they couldn't conceive of a certain decline in economic activity. The problem was the depth and duration of these "periodic collapses," which contradicted the common belief that recessions should rather quickly end, for when the economy is slowing down, its self-correcting mechanisms would rapidly be put to work.

Keynes proposed an explanation to the tenacity of the depressions that plagued the capitalist system. His main point was that the economy could achieve a stable condition in, as he put it, "appreciably less than full employment." When the economy achieves a stable condition, market forces do not work to change the existing condition. It follows that high unemployment
could persist for a long period of time. In support of his view, Keynes argued that wages were "sticky" and won't necessarily go down as a recession begins. He also argued that since investment had to depend on the volume of savings, it won't, in recession, be stimulated by a decline in the interest rate as much as it would be depressed by a decline in the volume of savings. Keynes' policy recommendations followed from his analysis. A portion of the government budget should be used to initiate public works, which could reverse the recessionary trend by creating demand for investment goods which must be used in the projects. Moreover and more important, the money paid to the employees would create demand for consumer goods, and encourage investment to meet the rising demand. Keynes believed that once the government blocked the diving economy, private investment could be lured by cheap credit to take over the leading expansionary role.

The General Theory achieved its reputation because it analyzed and proposed a cure to the problem of business cycles, a perennial problem of the capitalist system, and also because of a special mix of historical circumstances. Socialists in Europe have always believed that government should have an expansive economic role, and they have interpreted Keynes' work as a
straightforward corroboration. They applauded a theory which provided them with a scientific stamp of approval, a gift they could not have expected to receive in their wildest dreams. In addition, a better time for the publication of Keynes's book could not have possibly been chosen. Because of the Depression western governments had already taken the kind of measures the theory was recommending, and hence they praised a work that made them feel they were doing the right thing.

7. Econometrics and Input-Output Analysis. A number of authors suggest that compared with the period preceding the Second World War, today's governments of the west are more successful in combating business cycles through the use of monetary and fiscal measures. Keeping in mind that "monetarists" object to the frequent use of such measures to "fine-tune" the economy, the alleged success can be attributed partly to econometrics.

Econometrics has to do with equations concerning relations among macroeconomic variables, such as government spending, consumption, investment, taxes, saving, interest rates, national income and gross national product. Some equations are "definitional," i.e., their components relate to each other through definitions of pure economic theory. For instance, "national income is
equal to gross national product minus taxes" is a definitional equation. Other equations contain empirical parameters, which are obtained by observing the behavior of the economy during some period of time. In the equation "investment is equal to C(profits in the previous period)," the constant C has been obtained through empirical observations.

Econometrics can be helpful in making decisions on fiscal and monetary measures. If the government wants to know, for instance, how GNP would be affected if income tax was increased by 10 percent, it has to plug the appropriate numbers in the equation (or equations) relating changes in GNP to changes in income tax. In an article in the International Encyclopedia of the Social Sciences, Tinbergen describes how, once the desired level of private consumption is determined by the government, econometrics can be used to find out the monetary measures that would facilitate it.

Another technique which has been praised as an effective tool in the struggle against business cycles is input-output analysis. It is based on data about interrelations among various industries during a given period, organized in an input-output table.
An Input-Output Table for Four Industries (millions of dollars; imaginary data)

From left to right, the first column conveys information about the inputs (purchases) of the rubber industry. Each cell in this column tells us the value of the input bought from the industry whose name appears to the left of the row in which the cell is contained. From top to bottom, the first cell tells us that the rubber industry is using $300 million worth of input from the rubber industry. The second cell tells us that the rubber industry has $200 million worth of input from the steel industry. The second cell also contains a figure within brackets (0.18). This figure expresses the share of the steel industry in the total input of the rubber industry, or in technical jargon, the rubber industry's input coefficient for steel. The rubber industry has $200
million worth of input from the steel industry, and its total input is worth $1,100 million. Therefore, the rubber industry's input coefficient for steel is $200 million/$1,100 million, which is equal to 0.18.

Because an input coefficient contains information about relations between industries, it is used to determine how a change in the output of one industry would affect the demand for the output of another industry. If the rubber's industry input coefficient for steel is 0.18, it would take 18 cents worth of steel to produce an additional $1.0 worth of rubber. Similarly, if the auto industry's input coefficient for glass is 0.20, an additional $1.0 worth of an automobile requires 20 cents worth of glass.

Except for the Soviet Union, where something like input-output tables is used to prepare the material balances, the French have probably made the most extensive use of the technique. Assuming a 5 percent annual growth-rate, a typical French four-year plan has been based on input-output tables for almost 30 industries and 300 sub-industries. It has been the product of an elaborate system of committees involving government agencies and representatives of the industries, some 3,000 people altogether. Except for its obvious effect on the industries which are given predictions of future demand
for their products, the plan has been used to detect in advance the occurrence of shortages in the supply of materials, and also for estimation of future investment and of trained personnel. It should, however, be kept in mind that coefficients express assumptions on prices and technologies, and many of those are going to change in a four-year period. This is enough to invalidate the initial predictions of the plan and, to the extent that predictions serve as a guide for decision making, the reliability of the plan is thereby reduced.

Before we conclude this survey of the various factors that gave rise to the notion of 'capitalist planning,' let us be clear about the fact that despite the ambition of French planning, it is very different from Soviet planning in two fundamental ways. First, the plan is not comprehensive. It hasn't included the agricultural sector and the military industry, as well as the automobile and the housing industries. Second, "the plan is not enforceable by law. No one—not even the nationalized industries—is commanded to do anything." To attract participants to the plan, the government employs the usual incentives, cheap credit, tax shelters etc., but no corporation is compelled to do what the plan recommends.
8. Central Planning vs. Capitalist Planning. After surveying a few of the things that gave rise to the notion of 'capitalist planning,' we may want to compare it with central planning, the kind of planning which is practiced in the command economy. It is hard to make this comparison because, unlike central planning, there isn't really one thing that is meant by 'planning' as practiced in capitalism, but nevertheless we can try.

Central planning is pervasive (or comprehensive). This means that, barring the small private sector (that doesn't always exist), the plan reaches to every corner of the economic system, and has something to say about what happens in every factory, store or office. Whatever is done in the name of planning in capitalist economies, it is never so comprehensive. As in the case of French planning, major sectors of the economy may not be addressed at all, and some planning only applies to the actions of the government, having nothing to say on the actual workings of business corporations.

Another feature of central planning is its being exclusive. The plan is not just one of the things that managers have to consider, and its directives are not to be weighed against other constraints, for where ever the plan has something to say, other constraints or consideration are excluded by it. But not so in
capitalism, where the plan is only one of the things that managers can consider. The course of action the plan suggests may be compared to other courses of action, and it doesn’t have to be preferred or given maximum weight, and needless to say, its being considered does not mean the exclusion of alternative courses of action.

A third feature of economic planning has to do with the way it generates action, the way by which it makes managers act. A capitalist plan generates action through the use of incentives. It promises prizes to those who play along. When managers do what the plan says it is not because they are forced to, but because they desire the prize. In contradistinction, central planning is authoritative and works by means of commands. This is not merely to say that every article of the plan is the law of the land, with sanctions against violators, and it doesn’t mean there are no rewards for those who comply with the plan. The point is that it is not the reward that makes managers act, but the mere fact that the enterprise for which they are responsible has been given a role in the plan. What the plan says is something that has to be done, regardless of whether the manager wants the reward.

I have discussed a number of features that serve to distinguish socialist planning from planning in capitalism, but is there an essence to this distinction
that can be captured in a single characteristic? Let me make an attempt. Central planning functions as a replacement for the market. It is not an attempt to maximize profits which guides the decisions according to which most enterprises operate, and the makers of the decisions are not people who work in the enterprise. A plan that is drafted by the government determines the things the economy will produce, and each individual enterprise is assigned a role in the implementation of it. However, there is no attempt to replace the market by doing the things that are called 'planning' in capitalist economies. The old way of doing business is still considered the most effective institution society has in pursuing material welfare, and the profit motive is recognized as the source of this efficacy. Planning amounts to a range of means to manipulate and to supplement the market, as many believe that market performance can be improved through the use of such means.

9. **Introduction to Market Socialism: The Calculation Debate.** Some people might think that socialism and capitalism are not the only economic systems which need to be discussed, for a third type of economic system can be found in the world, which is called "market socialism." In order to take an informed stance on this claim,
however, we have to consider the so-called "calculation debate" which was started by the economist-philosopher Ludwig Von Mises in the early 1920s. 71

Von Mises has argued that in order to allocate resources rationally, decision makers have to have a measure of calculation. In the capitalist system, Von Mises has pointed out, such a measure is provided by prices, as determined by the interplay of supply and demand in the market. If an entrepreneur entertains the idea of building, for instance, a railway line, a rational decision on whether or not to build the line requires him to calculate his expenses and his revenues. According to Von Mises,

[s]uch a calculation could be made only in money .... We can make systematic economic plans only when all the commodities which we have to take into account can be assimilated to money. True, money calculations are incomplete. True, they have profound deficiencies. But we have nothing better to put in their place. 72

But market prices, Von Mises has argued, are not available in a socialist economy, for market prices arise out of a competition among producers catering to the preferences of consumers, which is a condition that doesn't exist in a socialist economy. Therefore, he contended, after the planners decide what goods to produce, "there still remains the problem of ascertaining
how the existing means of production can be used most
effectively to produce these goods in question." What
measure of calculation can the planners employ, he asked,
in order to choose from among "the bewildering chaos of
alternative materials and processes," those that provide
for the most efficient allocation of resources? What can
the planners, in other words, use for the purpose of
economic calculation?

After denying that Marx's labor theory of value
could be used for the job, Von Mises contended that
socialist planners did not have a measure of calculation,
because, as he put it, "[w]here there is no market there
is no price system, and where there is no price system
there can be no economic calculation." Unlike the
capitalist entrepreneur, who uses the prices of the market
to choose an investment project from a range of
possibilities, or one method of production out of the often
very large array of alternatives, the planning commission,
said Von Mises, has no measure of calculation with which
to weight alternative ways of producing the desired output
out of the given resources, and as a result, it cannot
rationally make decisions about allocation of resources.
The planning commission, wrote Von Mises, "must cross the
whole ocean of possible ... [alternatives] without the
compass of economic calculation," and because calculation,
for Von Mises, was the very essence of economic rationality, it followed, for him, that "socialism is the renunciation of" economic rationality.\textsuperscript{75}

If Von Mises denied that rational allocation decisions could be made in a centrally planned economy, then he overstated his case, for even before he launched his attack, both Pareto and Barone demonstrated the mathematics that could be used for rational allocation decisions in a planned economy.\textsuperscript{76} It seems, however, that many scholars tend to accept Hayek's reconstruction of the argument of Von Mises, where emphasis is laid upon the difficulties in the application of the relevant mathematics. Below is a brief account of some of these difficulties.

First, for an economy with 700 commodity types and 100 people, 70,899 equations would have to be solved, and if this task "exceeds practically the power of algebraic analysis,"\textsuperscript{77} can it be carried out for the Soviet economy, with its 8,000,000 commodity types and more than 250,000,000 people?\textsuperscript{78} A second set of problems is related to the "enormous volume of technological information" that would have to be fed into the relevant equations.\textsuperscript{79} This information would have to address not only alternative processes for the production of every desired commodity. It would have to address the conditions of particular
production facilities: their location, the conditions of machines in them, the availability of skilled labor and so on, things which determine the efficiency of the production process but cannot be transmitted through statistical information. No society could spare enough labor force to collect this information and, no matter how smart they are, planners would not be able to retain all of it even if it was available to them. Third, assuming that the required data could have been assembled, (something Pareto has called "absurd"), carrying out the computations seems to be an enormous task. Before computers were introduced, solving the problem of computation bordered on the inconceivable, which fact explains why the new technology of computers had been the subject of much hope in the centrally planned economies. Unfortunately, although the fast pace of computer technology makes it, perhaps, impossible to render a final verdict, the prevailing sentiment among western scholars is that "the introduction of computers will not alter the traditional planning system in any significant way." It is important to keep in mind that the issue which Hayek raised, the lack of ability of the planners to collect and process information, is not the same as the issue discussed in section three: "Central Planning and the Problem of Information." What Hayek and Von Mises
discussed is a problem of allocation of resources. It concerns the selection of one out of the great many ways in which the desired output can be produced out of the given resources, and so it arises only when there is an attempt to find out that particular way. But real-life planners do not attempt to single out the most efficient way to produce the desired output out of the given resources. They do not worry about it. Not because it is not important but rather because the planning conception which they employ does not stress this aspect of planning, and also because, as many economists following Hayek tend to believe today, the planners must know they would not be able to solve the problems which they are going to face.

This, perhaps, is the most fundamental problem of central economic planning. The market "divides" economic data into numerous parcels of information, each of which is extremely small when set beside the staggering pile of information the planners have to digest. Thus, a market system enables people to make intelligent decisions. But in central planning, the limited powers of human cognition are called upon to perform tasks for which they are not fit, for the huge body of information the planners are asked to comprehend if the efficiency of their system is to approximate that of the market, is far beyond their capacities. Oddly enough, it appears that the same
insight has been expressed by none other than Trotsky: "If there existed a mind," he wrote, "that would register simultaneously all the processes of nature and society, that could measure the dynamics of their motion, that could forecast the results of their interactions, such a mind could, of course, a priori draw up a faultless and exhaustive economic plan, beginning with the number of hectares of wheat and down to the last button for a vest." 83

Needless to say, real-life planners do not have such a mind, nor do they possess anything which can do the work of such a mind. What real-life planners are worried about, which is what I discussed in section three, is drawing a plan in which the material resources of the economy match the materials which are required for the desired output. From a conceptual point of view, this is a simple problem, for it only involves comparing quantities of materials. The planners have to make sure they do not call for producing things for which there are no material resources and also that the plan would commit all the materials which are available to them. Because of excess of information, they cannot draw material balances for all the materials in the economy, but this problem is not the same as the problem that Hayek and Von Mises discussed in their critic of central planning. 84
10. The Lange-Taylor Model. The notion of market socialism has been conceived through an attempt to defend the vision of socialism against the criticisms of Hayek and Von Mises. Since the problem of calculation had to do with the absence of market prices, socialist thinkers sought to solve it by putting together a market with a state control over the means of production. Needless to say, this was a real novelty, for socialism was thought to have two constitutive features, state control of the means of production coupled with central planning, and the new concept only retained the first of these features.

At least two different models have been called "market socialism." One is the Lange-Taylor model, which has been named after Oscar Lange and Fred Taylor, who gave it its most powerful formulation in 1939. The other model is often referred to as "the worker control model," and I shall discuss it following a brief exposition of the Lange-Taylor model.

The Lange-Taylor model is characterized by consumer sovereignty, which means that decisions on what, how much and how to produce are made by the enterprises, who try to maximize profits just as if they were operating in a capitalist system. But the Lange-Taylor model does not have a genuine market for producer goods, as prices of producer goods are determined by the state. If producers
report a declining demand for some consumer good, say, electric heaters, a state board would respond by reducing the prices of some goods that producers use to produce electric heaters, helping producers reduce the price and raise demand for the heaters. If producers report a rising demand, which they cannot meet, for some consumer good, the board would respond by raising the prices of goods used to produce that consumer good, thus bringing about a rise in the price and declining demand for the good.  

Lange and Taylor intended the board to function as a substitute for the market: to do what the market would have done. According to them, the problem of information would be solved because to help the economy achieve equilibrium, it would not be required of the board to drown in an ocean of information. The board would only have to respond intelligently to easily detectable changes in the market: to raise prices in response to an increase in demand and to reduce prices in response to a decrease in demand, where changes in the demand for goods could easily be inferred from changes in the inventories of producers.

It is not clear that Hayek's criticism of the Lange-Taylor model is as powerful as his criticism of central economic planning, but this question need not
concern us here. Hayek's criticism centers on questions of economic efficiency, which are not my main concern. What I want to know is who controls the means of production in the economic system, and not the level of efficiency which the economy has. It seems to me that in spite of the introduction of market, the state in the Lange-Taylor model still retains a high degree of economic control.87

11. The Worker Control Model. When allusions are made in today's discourses to market socialism, the model that people have in mind is the "worker control" model, which is largely believed to be implemented in the Yugoslav economy. Three features are often discussed in connection with the worker-control model of market socialism.

1. Market in both consumer and producer goods.
2. Workers' participation in both management and profits.
3. Privatization.88

The Yugoslav economy is most often said to resemble the worker control model, but Hungary has also tried to develop in this direction since 1988,89 and the Soviet Union will have a market socialist economy given that the more enthusiastic supporters of Perestroika will have their way.
I will now discuss the features of the worker-control model, starting with privatization (but keeping in mind that private enterprise has existed in centrally planned economies). Private enterprise is allowed but closely watched by the state. The state determines the upper bound of the number of people who work in the firm, and the type of the business is also subject to state regulations. Private publishing may not be allowed but restaurants, auto and home repair and transportation services, which have traditionally been neglected in the planned economy, (sometimes because they were thought of as "unproductive"), are legitimate fields for aspiring entrepreneurs. Needless to say, private enterprise in agriculture would be encouraged in socialism if any kind of entrepreneurship will be allowed to grow.

Privatization may be beneficial not only because it may bring about more and better services, but also because of its effects on "the second economy" (black market). Formerly illegal private businesses can start operating in the open, helping reduce the distrust of the public towards the politico-economic system, which must exist when people feel that the state is tolerant of illegal activities. But owners of previously illegal businesses cannot be expected to be in a rush to "sign up" with the government, because then they would have to pay taxes they
have not paid before.\textsuperscript{91} They would have another reason to stay out of the system if they have witnessed previous attempts to reform the socialist economy, for then they should know that, just as the government, one day, opens up to private enterprise, one day it may decide to reverse its position completely. This cycle of liberalization and retrenchment has been depicted very nicely in one episode of a CBS T.V. series which takes place in the Soviet Union. One of the characters on the show talks to a police inspector, saying: "I merely promised Mr. Chelov a small fortune. Is this a crime in Russia?" "Some years yes, some years not," the inspector says in reply.\textsuperscript{92}

Benjamin Ward has made an interesting contribution to the scholarly discussion of the second feature of the worker-control model, worker participation in management and profits. Ward focused on the requirement of equal remuneration, arguing that this requirement is likely to have an adverse effect on the efficiency of the economic system.\textsuperscript{93} Ward imagined the worker-controlled firm facing a rising demand for its products, where it can increase its production by hiring new workers, but the pay it can offer the new workers is lower than the pay of the workers already in the firm. Ward observed that if the firm did not have to stick to equal remuneration, it would hire additional workers in such a situation, as long as the new
workers are willing to work for what the firm is offering them, which is lower than the pay of the other workers. If the firm is compelled by the legal system to pay equal remuneration, it could hire additional workers only in case the workers already in the firm agree to a pay cut. Given, however, that the firm must pay equal remuneration and that the workers already in the firm do not agree to a pay cut, the firm would not be able to hire additional workers in the above situation, so it would not be able to increase its production. The occurrence of such a situation, Ward has pointed out, reduces the efficiency of the economy because, using a Pareto conception of efficiency, the economy can produce more of a certain commodity without producing less of any other commodity.94

In a recent issue of *Economics and Philosophy*, N. Scott Arnold raised a challenge to the theory of the worker-control model, by arguing that there is a tension between two of its basic features.95 Arnold's argument involves the claim that there is a tension between workers' rights of participation in managerial decision-making and the pressure to maximize profits that is exerted by the market. Two reasons are given by Arnold in support of this claim. First, worker participation in managerial decision-making is more expensive than the
traditional way because, when more people take part in the process of decision making, more time would be spent, as a rule, in order to reach a decision.  

Second, following Israel Kirzner, Arnold stresses the nature and the importance of managerial talent. He argues that, in a market economy, managerial talent is one of the things that count most in the success of the firm. A good manager is very important to the ability of the firm to survive in the competition. For Arnold, good management involves "correctly anticipating ... changes in conditions of supply of inputs and/or outputs, finding out about and assessing the significance of specific technological developments, and discovering inefficiencies in existing ways of doing business." It also requires the ability to make bold decisions, which other people might not endorse and the ability to take risk where conventional wisdom advises caution. Arnold contends that because managerial skills are very important to the success of the enterprise, much discretion must be given to the manager of the firm which has to compete in the market. According to him, a high degree of managerial discretion must curtail significantly the influence of the workers on the management of the firm.

Arnold assigns an important role to the tension between worker participation in managerial decision-making
and the pressure for profits. He thinks that the tension is acute enough to make coexistence very unlikely for the conflicting elements. One of the elements, according to him, would have to give way, the prevailing commitment across the system being the thing which would determine what this element is. If the economic system is committed to the idea of worker control, the role of the manager would be weakened, indicating firms reluctance to yield to market pressures. But if the commitment is to market and profits across the entire economy, the role of the manager would be strengthened at the expense of the workers.

The same forces, according to Arnold, would curtail the workers' share in the profits of the firm. The firm would have to pay more for workers with scarce talents. This holds especially for managers, who would demand a higher pay for their increased responsibility. Workers' share in the firm's profits would also be hampered because of authority over investment. In market socialism, Arnold contends, this authority is in the hands of the state, which obtains the funds by taxing the profits of firms. Such an investment tax would constitute another claim on the firm's profits, reducing the bie to be divided among workers to no more than what we find in some capitalist firms.
To those who put much weight on the status of workers, the upshot of Arnold's argument is that "market socialism" is an oxymoron. If you want a market, Arnold insists, workers' would fail to command the position prescribed to them in the worker-control model, for they "would tend to lose both effective income rights as well as effective control over the means of production (use rights). The manager-entrepreneurs would begin to function more and more like old-fashioned capitalists and workers would be virtually indistinguishable from proletarians." 98

Market socialism can still be considered a socio-economic experiment, because from an evolutionary perspective, the system is very young. Whether the system survives or not, we want to be able to watch its development intelligently, so we want to know what kind of things we should focus on as we study its evolution. Arnold's argument is worthy because it suggests that, as we watch the evolution of market socialism, we want to see if worker's rights of management and income would survive the pressure of the competition.
CHAPTER I
NOTES


4 Nielsen, p. 688.

5 Friedman, p. 13.


9 In "Socialist Democracy," (James Sterba, ed., Morality in Practice [Belmont, California: Wadsworth, 1984], p. 30), Carl Cohen writes: "There are socialist economies in the world, now, where unemployment is virtually nil—and these are not the communist dictatorships, but socialist democracies. In New Zealand, for example, the number of unemployed workers is reported in the hundreds" etc.

10 I am not discussing the case in which a corporation is jointly owned by the state and private investors.

12 Dalton, p. 168.


14 Dalton, p. 146.

15 Dalton, p. 146.

16 See, for instance, Lindblom, p. 244 and Hayek, p. 119.

17 Cf. Dalton, pp. 127-130.


20 Lindblom, p. 102. Plans which direct enterprise operations are drafted annually.


22 Cf. Montias, p. 112.

23 Montias, p. 113; Rutland, pp. 128-133 and Hewett, p. 73, p. 76, p. 91 and p. 155.

24 Lindblom, p. 69.


27 Rutland, p. 129. But Hewett reports on an illegal, though institutionalized trade of surpluses among enterprises (p. 155).

28 Adapted from Lindblom, p. 71. See also Rutland, p. 135.

29 Though useful, to talk about "the quota" is a gross oversimplification because, as Hewett reports, a large enterprise may have to fulfill between 200 and 300 targets (p. 127).

30 Rutland, pp. 146-149 and Lindblom, p. 75 and p. 298.

31 Rutland, p. 121 and p. 147.


33 Hewett, p. 130.

34 Hewett, p. 32, p. 51 and pp. 80-83.

35 Hewett, pp. 78-81.

36 Hewett, p. 86.


41 Kaneda, pp. 85-88.

Cohen's phrase is is part of the following paragraph. "The effectiveness of rational economic planning has been demonstrated again and again. Many socialist countries, maintaining five- and seven-year economic plans under continual adjustment, have met with phenomenal success. Their rates of economic growth have been markedly greater than that of the unplanned American economy over recent decades. True, percentage growth for the American economy is harder than for some others because of our great size. But other economies, almost the size of our own, have been rapidly overtaking us through planning. Economic planning in Japan, for example, has brought stability, full employment, and security for all citizens."

It is worth adding that the "phenomenal success" of the socialist economies that Cohen refers to has been achieved, at least in the Soviet Union, by a massive reallocation of labor force from agriculture to industry. The decline of the growth rate of the Soviet Economy, (meticulously documented by Hewett, pp. 51-78), has been attributed to the fact that the sources of cheap labor, from which the Soviets have been drawing since the early 1930s, have dried up in the 1960s (Cf. Rutland, p. 110).

Dalton, p. 100 and Fleisher, p. 141.

According to Dalton, (p. 99), the increase of government spending during the Great Depression constituted "a gross departure" from previous government practices. See, however, Fleisher, pp. 234-237, for a different understanding regarding the fiscal and the monetary policies of the federal government during the Great Depression.

Lindblom, p. 67.

Wootton, p. 133.

Dalton, p. 108.
48 Lindblom p. 112.


53 Heilbroner, p. 254.

54 Donald E. Moggridge, John Maynard Keynes (New York: Penguin, 1976), p. 94 and p. 100. See also Heilbroner, p. 263.


56 Moggridge, pp. 103-104 and Dalton, p. 103.

57 Describing the reaction of the European left to the General Theory, Dalton writes that "[i]t was like a child addicted to strawberry jam being told that jam is extraordinarily nutritious and prolongs life" (p. 104).


60 Spencer, p. 407.


"It is highly probable," Tinbergen claims, "that the disappearance of the business cycle after World War II has been obtained with the aid of macroeconomic planning of the type described in this article" (p. 109).

Adapted from Spencer, p. 408.
Spencer, p. 409.
Rutland, p. 29.
Spencer, p. 409.
Dalton, p. 156.

"It is only the prospect of profit," Says Von Mises, "which directs production into those channels in which the demands of the consumer are best satisfied at least cost" (Socialism [Indianapolis: Liberty Classics, 1981], p. 119. This book is the English translation of Von Mises' Gemeinwirtschaft, originally published in Jena in 1922).

Von Mises was not the first to raise the issue, (Weber, Barone and Pareto were some of the people who preceded him), but he is usually credited for having made it a subject of an ongoing debate. For a survey of the history of the issue, see Friedrich Hayek, Individualism and Economic Order (Chicago: University of Chicago Press, 1980), pp. 119-208.

Von Mises, pp. 104-105.
Von Mises, p. 113.
Von Mises, p. 123.
Von Mises, p. 105.
Hayek, p. 182.

The number of commodity types in the Soviet economy is taken from Lindblom, p. 101, but Rutland talks about "10 to 15 million" commodity types (p. 116), and Hewett about 15 to 20 million (pp. 125-126). See also Lindblom, p.
101, for the difficulties surrounding the application of the mathematical methods to a Soviet-size economy. According to Lindblom, this is not a computing problem, so it cannot be solved by computers. Deborah Duff Milenkovitch (in Andrew Zimbalist, ed., *Comparative Economic Systems* [Boston: Kluwer-Nijhoff Publishing, 1984], p. 67), talks about "millions of equations."


81 Rutland, p. 194. See also Buchanan, p. 111, and Lindblom, p. 101: "If the data were in fact available, there are not enough trained operators in any nation for the required ... computations. For certain simplified calculations ... that do not approach in complexity those here in question—a Soviet estimate is that 14,000 computers would be required for the U.S.S.R. instead of the several hundred hundred now available and that it would take a hundred years to train the required technicians at present already rapid rates of training."

82 Cf. Buchanan, pp. 16-17.

83 Quoted in Rutland, p. 49.

84 Unlike Knaack, (p. 114), Lindblom is very clear about the fact that here we have two different sorts of problems (pp. 100-103). See also, Hewett, p. 50.


86 Cf. Buchanan, pp. 110-111.

87 But Milenkovitch idiosyncratically remarks that the Lange-Taylor model "has its counterpart in Hungary" (p. 65).

88 Cf. Buchanan, p. 106.

89 Cf. Rutland, pp. 194-201.

90 But Hewett reports that a new Soviet law allows cooperatives of up to sixty members to run their own businesses (p. 362).


93 Milenkovich (in Zimbalist), pp. 73-75. See also Buchanan, pp. 113-114.

94 Cf. Buchanan, p. 4.


96 Arnold, p. 34. See also Buchanan, p. 114.

97 Arnold, pp. 34-35.

98 Arnold, p. 38.
1. Lindblom's Explanation. In his *Politics and Markets*, Charles E. Lindblom sets out to explain why polyarchies have failed to adopt a socialist economy. The business sector, Lindblom believes, has a major role in the life of the polyarchy, for the standard of living of the people is very much a function of business performance. According to Lindblom, changes in the standard of living bring about corresponding changes in the attitudes of the people towards the government in power. Their standard of living being enhanced, people tend to be supportive of the government and vice versa. Lindblom feels that regardless of their particular program, governments grasp the connection between business success and the support of the public. Every government understands that "Depression, inflation, or other economic distress can bring down a government" (L, 172-173). As a result, governments go out of their way to boost the profits of business, which is how business ends up having "a privileged position."
Because of the privileged position of the business sector, there is a conflict, Lindblom argues, between the business sector and the public. The public wants to restrict the freedom of business corporations, limit their authority and take away their privileges, sometimes to the point where a socialist economy would replace the capitalist. To maintain its privileged position, the business sector, Lindblom claims, subverts the political process, thus preventing the institution of a socialist economy. This is why, according to Lindblom, no polyarchy has adopted a socialist economy.

Lindblom’s book has been admired by the academic community. For Aaron Wildavsky, "Politics and Markets is the most intellectually interesting contribution to American radical thought since ... the first World War."² Alan Wolfe wrote that "Lindblom’s analysis of the power of business in democratic societies is so well argued and so definitive in scope that it will replace Karl Marx among contemporary social scientists."³ Shortly after its publication, Politics and Markets won a prestigious award "as the best U.S. publication dealing with government and politics."⁴

I have already pointed out that Lindblom’s account does not do the whole job that it is supposed to do because, even if true, it doesn’t explain why socialist
countries haven't had polyarchal institutions. In this chapter, however, I will inquire if Lindblom's account correctly explains why no polyarchy has been conjoined with a socialist economy, starting with the claim that the business sector in polyarchies has "a privileged position."

2. The Privileged Position of Business. Lindblom believes that despite the fact that they do not control the economy, polyarchal governments "cannot be indifferent to how well business performs its functions ... [because] jobs, prices, production, growth, the standard of living, and the economic security of everyone all rest ... in the hands of businessmen" (L, 172). Unfortunately, he adds, businesses need inducements, as is shown by the fact that "[i]n the less developed parts of the world, the growth of markets and enterprise is repeatedly hindered by the failure of governments to provide necessary ... supports" (L, 183). Lindblom concludes that governments "must therefore offer benefits to businessmen in order to stimulate the required performance" (L, 173).

In a chapter he calls "The Privileged Position of Business," Lindblom provides a list of such benefits. Firms are protected from foreign competition by customs and quotas on imports (L, 173). They receive financial support in the form of tax-breaks, subsidies, loans and
grants for research and development (L, 177). The legal system protects the interests of business. "In ... market systems, the modern corporation could develop only with the assistance of new corporate law in the mid-nineteenth century that limited stockholders liability" (L, 174). In the United States, utility companies can "veto appointments to regulatory agencies," and they have "the right of eminent domain ... conferring on them compulsory authority to acquire land" (L, 185).

Government is highly accessible to business. "If corporate executives want to consult with government officials, including president or prime minister, they will be accommodated" (L, 174). In addition, business officials participate in public policy-making, "from which ordinary citizens are excluded" (L, 179). Polyarchal governments help business by means of development planning: a system of committees, shared by government and business, guide business to projects that are supported by government. "French planning has ... been applauded as a demonstration of skill in the design of indulgences to business" (L, 183).

Finally, polyarchal governments delegate authority to business executives. In the United States, a Congressional committee criticized officials of the Department of Commerce, by charging that 'their actions in
many instances are but the automatic approval of decisions already made outside the Government in business and industry. In France, "decisions reached by ... industry are ordinarily given ministerial approval." In Britain, "hundreds of business advisory committees confer authority on corporate executives ... 'as if the administrators were no longer able to bear alone the burden of the administrative State and had to pass it along to private individuals'" (L, 188).

3. **On the Meaning of "Privilege."** Because the term "privilege" tends to evoke a certain sort of connotation, it may be one thing to say that the business sector receives many benefits, and quite another thing to say that the business sector has a privileged position. I think that Lindblom has done a good job demonstrating the former, as he showed that business success is high on the agenda of polyarchal governments, who consequently, try to enhance it by granting the business sector a large variety of benefits. I doubt, however, that we should embrace his claim that the business sector has a privileged position.

In one of his shrewd observations on contemporary politics, Irving Kristol says that when the legitimacy of a democratic society "is called into question, this questioning will always take the form of an accusation of
undue privilege." If Kristol is right, then "privilege" is properly used to cast a moral shadow on situations where only a few of the members of society enjoy certain benefits. Therefore, we expect Lindblom to give us more than a list of benefits that governments grant to business: we expect him to argue that there is something unfair or unjust in the granting of the benefits. Lindblom, however, remarks that in using "privilege" he does not suggest "something improper" (L, 172n), but then there is a question as to what he does suggest, because he laboriously counts the benefits given to business, makes a repetitive use of "privileges" and "indulgences," compares the status of modern business to the status of the medieval church (L, 175), and several times makes the charge that business executives blackmail governments by warning that economic performance would decline in case their demands are not met (L, 178-185).

It is not clear that Lindblom's main contention, i.e., that business subverts the democratic process in all the polyarchies, is weakened if it is shown that the way he uses "privilege" is unjustified. "The subversion doctrine" may only depend on the claim that business receives much support, which claim I do not dispute. It is, however, important to focus on the meaning of "privilege," because if the term is morally tainted,
people would think that something is wrong with the business sector if they believed it had a privileged position. Then they would be disposed to accept any allegation that Lindblom levels against the business sector, regardless, perhaps, of the arguments which might be used to support it.

4. Privilege and Conflicts. Lindblom admits that conflicts exist between business and the government, but he offers two arguments to the effect that "evidence, which is abundant, of conflict between business and government--and of business defeats--is not evidence of lack of privilege" (L, 179). In his first argument, Lindblom relates that the business sector has an exclusive role in the running of the economy, so businessmen become the economic leaders--just as politicians are the political leaders--of the "politico-economic order." But as business and government share "the major leadership roles in the politico-economic order," "intense disputes" between them are unavoidable, Lindblom claims, because "[i]nevitably two groups of leaders will show hostility to each other" (L, 179). However, though a privileged group may show hostility to the group that bestows the privileges, it is not clear why this is "inevitable." On the contrary, if "intense disputes" between government and
business are evidence of anything, they are evidence of lack of privilege rather than evidence of privilege.

For his second argument, Lindblom resorts to a distinction between "grand" and "secondary" issues. He does not propose a precise criterion on which the distinction rests, but he gives examples of what he means by each type of issues.

[The grand issues of politico-economic organizations] private enterprise, a high degree of corporate autonomy, protection of the status quo on distribution of income and wealth, close consultations between business and government, and restrictions of union demands to those consistent with business profitability (L, 205).

"Secondary" issues, Lindblom says, have to do with "tax rates and particulars of regulations and promotion of business" (L, 180). Lindblom's examples allow us to have a pretty clear idea of what he has in mind. His "grand" issues seem to depict fundamental arrangements or institutions of private enterprise economies, which are likely to be found in any such economy. The arrangements referred to by "secondary" issues do not belong to the "essence" of capitalism. They often vary from country to country, without, however, changing the whole system.

In his attempt to play down the importance of the "intense disputes" between business and the government,
Lindblom claims that these disputes do not focus on "grand" issues but only on "an ever-shifting category of secondary issues" (L, 180). But Lindblom's retort is grossly inaccurate because polyarchal governments go far beyond determination of tax rates and other "secondary issues." Private enterprise often has only a limited access to health, education, weapons, utilities and public transportation, and in some polyarchies, entrepreneurs have no access to such industries. The French government nationalized an auto company (Renault), and the British government nationalized the coal, railroads and steel industries. In some polyarchies, the state owns one-fourth of the economy. 8

It is not clear that Lindblom tries to defend himself against the above objection, but at one point, after admitting that firms and industries have been nationalized (L, 177), he claims that the business sector has been awarded various new privileges, such as tax credits, fair-trade legislation and loans to failing corporations (L, 177). Perhaps he attempts to defend himself by suggesting that if the business sector has been challenged on one of the "grand" issues, new privileges served as a compensation. Under what conditions should we accept what Lindblom is saying here? Under what conditions should we believe that new privileges have been
granted as compensation in cases in which the pressure on business has exceeded the scope of "secondary" issues? Only, I think, when we are presented with the appropriate data, which, I will argue, Lindblom does not display.

If new privileges have been granted as compensation in cases in which the business sector has been defeated on some "grand" issue, there had to exist a causal connection between events that belong to one of the following sets. First, the set of events where the business sector has been defeated on one of the "grand" issues—events that belong to this set constituted causes. The second set includes the events where the business sector has been awarded some new privilege—events that belong to this set constituted effects.

Causal connections reveal themselves through statistical correlations. If there is a causal connection, we might be able to ascertain a significant correlation between the causes and the effects. But Lindblom provides no data which shows that such correlation existed. This, of course, is not a reason to disbelieve that business was granted tax-credits, measures of fair-trade and other such benefits. It is, however, a reason to doubt that these benefits had been awarded as compensation because, if this was really the case, there would exist a significant correlation between their
of occurrence and the events for which they were given as compensation, and Lindblom provides no data which shows that such correlation exists. It follows, I think, that Lindblom's defense can best be taken as an interesting conjecture, but not as a matter of fact.

5. Summary of Sections 1 Through 4. In my criticism of the claim that the business sector in polyarchies has "a privileged position," I made two arguments. First, "privilege" is not a purely descriptive term, as it tends to evoke connotations of unfairness, injustice or some other sort of moral impropriety. Therefore, if Lindblom wants to establish that the business sector has a privileged position, he cannot be content with merely providing a list of arrangements intended to foster business profitability. He has to take responsibility for what he says and point out what is morally wrong with the making of these arrangements. But despite the fact that his indignation is quite apparent, Lindblom avoids the moral issue and, as a result, his claim is left without the required support.

Second, Lindblom's account is one-dimensional and reflects a distorted picture of the reality of western polyarchy. Yes, the governments of the polyarchies try hard to insure the success of business corporations. They
do it because, as Lindblom knows, they believe that business success would improve the conditions of the common man. But whether conservative or liberal, (where "liberal" may be replaced by "social democrat" or "labor"), these governments take measures which have been considered intrusive by corporations. Though this has been a rare occurrence in the United States, whole sections of the economy have been nationalized. Anti-trust legislation has been aimed against the control which gives corporations unusual rates of profit. Manufacturers have to comply with noise, pollution, health and safety regulations. Governments have enacted price-control regulations, made corporations contribute to social security and health insurance funds, and have imposed on the employer "affirmative action" laws.

To say that the business sector has a privileged position is to promote a flawed understanding of polyarchal reality, one which ignores a crucial aspect of the activity of polyarchal governments. It is to distract people from seeing that the facilitation of business success—being, itself, the focus of vigorous action—is only one of the goals pursued by polyarchal governments. It is to undermine the multifaceted nature of polyarchal governance, that is, that because the ruler has to accommodate diverse and opposing interests, business and
government often are found in antagonistic positions. Lindblom, indeed, has two defenses against the charge that his account conveys a deceptive impression, but, as I have shown, these two defenses fail to maintain the integrity of his view.

6. The Conflict Doctrine. In the Communist Manifesto, Marx wrote that "[capitalist] society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other: Bourgeoisie and Proletariat." Marx believed that in the conflict between the classes government functioned as "a committee for managing the common affairs of the whole Bourgeoisie." As some scholars have pointed out, Politics and Markets contains a doctrine quite similar to the doctrine of Marx. To begin with, Lindblom claims that one implication (or consequence) "for polyarchy of the privileged position of business" is that

The systems we call polyarchies are in fact complex systems in which two forms of control operate on government: those of polyarchy and those exercised by business through their privileged position (L, 189).

Referring to issues from the agendas of a few polyarchies, such as pollution, anti-trust, product-safety, or some
other sort of corporate activity, Lindblom reports that a group that was connected to business was successful in securing favorable legislation (L, 191).

It is not always clear how these cases establish the view that there is "rivalry between business and polyarchal controls" (L, 191). I take it, however, that since such issues tend to elicit conflicting positions from various interest groups, Lindblom is attempting to show that certain issues often led to a conflict between a business group and a non-business group. Such conflicts seem to be the empirical basis for the claim that the polyarchy embodies a conflict between the business sector and the public, a conflict in which the business sector typically has the government on its side.14

Before I present my evaluation of the conflict doctrine, the following comment seems to be in order. Quite often, two major political parties play a role in the modern polyarchy, one appears to be more sympathetic than the other towards the business sector. In the United States, the Republican party seems to be more sympathetic than the Democrats to the business sector. A similar pattern exist in Britain with its Tories and Labor, and the same may be said of the Christian Democrats and the Social Democrats in Germany. This, however, is not the conflict that Lindblom is talking about. The big parties
in the United States, he says, "are positioned closely together on a continuum of possible policy positions" (L, 210). In Europe, he complains, only the communists seem to dissent from mainstream politics, where business interests reign (L, 209, 212). For Lindblom, it seems, either one of the major parties serves as a channel for the advancement of business, the conflict between them is only a superficial one, focusing on "secondary issues" alone.

7. Lindblom. Reagan and Marx. Having ascended to power in 1981, the Reagan administration declared "supply-side economics" as one of the pillars of its economic philosophy, the main idea being that providing incentives to business firms is the high road towards growth and the protection of the welfare of the working man. The theory was that reduced taxes encourage work and stimulate investment, leading to the creation of jobs and thus promoting the economic welfare of the working man.15

My impression is that Lindblom takes supply-side economics seriously. I have already cited his claim that "[i]n the less developed parts of the world, the growth of markets and enterprise is repeatedly hindered by the failure of governments to provide necessary ... supports" (L, 183), which leads him to the conclusion that
governments "must therefore offer benefits to businessmen in order to stimulate the required performance" (L, 173). To cite another example: "When a government official asks himself whether business needs a tax reduction," Lindblom writes on p. 175, "he knows he is asking a question about the welfare of the whole society and not simply about a favor to a segment of the population."16

I did not have a problem with Lindblom's sympathy to supply-side economics, until I got to the pages under discussion here, where Lindblom argues that there is a conflict between the public and the business sector. But here his sympathy to supply-side economics suddenly appears strange, because supply-side economics is deemed a conservative doctrine, while the conflict doctrine constitutes an ostensibly Marxist portrayal of the capitalist system. It is quite strange to put together doctrines belonging to opposite poles of the ideological spectrum. Is Lindblom confused or undecided between incompatible views? Prima facie, the answer seems to be yes, for supply-siders tend to espouse a minimization of government involvement in the economic system, while those who subscribe to some version of the conflict doctrine typically espouse the opposite. There might be a way to reconcile these two approaches, but because it is so rare to see them advanced simultaneously, one feels that the
burden of proof is on Lindblom, so he owes us an explanation of how he succeeds in reconciling what has generally been perceived as incompatible views.

8. Criticism of the Conflict Doctrine. The conflict doctrine seems to be based on observations about the behavior of business interest groups (see section 6), so we want to mention some basic facts before we examine it. Many interest (or "pressure") groups operate in a polyarchy, some that are connected to business and others that are not. Of the groups that are connected to business in the United States, The National Electrical Manufacturers' Association represents the electrical industry, while a number of oil corporations combine to form the American Petroleum Industry. An important organization in France is The Association of Mining and Metallurgical Industries, and in Germany there is the Automobile Industry Association--the names of both organizations describe the business of the organized firms. In a number of polyarchies there are umbrella (or "national peak") associations, which provide an organizational framework for corporations from related industries. The majority of prominent British firms are members of the Confederation of British Industries, and in
Germany, ninety per cent of all manufacturers have representatives in a national association.17

Distinguished among the groups who do not speak for the business sector are labor (or "trade") unions and associations which focus on environmental concerns. Labor unions represent particular occupations, but typically, they form to combine umbrella organizations. The majority of the Swedish unions are members in a national organization, and more than eighty per cent of German unions affiliate with the German Federation of Labor. Over eighty per cent of union members in Britain belong to the Trades Union Congress, but in Italy, France and the Netherlands, unions have a low degree of organizational cohesion, as the national labor organizations are divided along the lines that distinguish among the major political parties.18

The environment is a relatively new concern in the polyarchies, for it captured the attention of the public only in the 1960s. Environmental groups have fought to save animals from extinction, sought to reduce industrial pollution and noise, argued for the elimination of lead from gasoline, staged campaigns against the dumping of toxic wastes in the ocean, and protested against the construction of nuclear power stations. Claiming to have more than three million members, The National Wildlife
Federation is one of the largest environmental groups in the United States, while The Greens and the Friends of the Earth are some of the better known environmental groups in Europe, each having branches in a number of countries. When an issue arises that has a bearing on various interest groups, the relevant groups launch a campaign to promote their point of view, (which might include some vigorous lobbying of legislators and officials of the executive branch). Because there are many issues and many interest groups, it happens that when an issue revolves around the activity of corporations, a business group promotes a view which is opposed by a non-business group. This, indeed, is the type of case Lindblom reports as evidence of the "public-business" antagonism which, he believes, consumes the polyarchal body. But is this evidence good? Does it show that the polyarchy embodies a conflict between the public and the business sector?

I think that the answer is no. In order for us to believe that the conflict doctrine is true, it is not enough for Lindblom to cite a series of clashes in which a business group was standing against a non-business group. He has to show that each of the groups was representative of an entire sector. He has to show that the business group was representing the business sector and that the other group was representing the public.
Unless sufficiently many of the groups in each one of the two sectors do subscribe to a unified stance, it doesn't make much sense to talk about a conflict between the sectors.

Sometimes you get the impression that Lindblom is aware of the problem (L, 193), but it's hard to say that he does something about it. He writes, for instance, "businessmen have successfully protested against many new proposals for government regulations that arise from the public" (L, 190). From this, it seems, we are supposed to conclude that the business sector successfully blocked proposals the public supported. But this conclusion would follow only if (1) the businessmen he is talking about were representing the business sector, and (2) the alleged proposals have expressed the unified stance of the public, and Lindblom does not attempt to substantiate either (1) or (2).

But why should Lindblom try to show that in the cases to which he alludes there was some kind of a unified stance in each of the two sectors? Are there reasons to doubt that the views of the groups in each of the sectors tend to converge when the issue at stake is one of the issues under discussion here?

Often, I think, it is hard to expect the business sector to have a unified stance. Firms compete with each
other over the same market. Firms which sell in domestic markets may seek protectionist ("fair trade") legislation, but firms which mainly export their products may oppose such legislation if they fear that foreign governments would retaliate by taking similar measures.

Wishing to maintain its monopoly over a certain market, one corporation may be opposed by a few corporations seeking investment in the monopolized field. Industrial firms may be opposed to pollution-control legislation, but why should banks and insurance companies join the industrialists, as chemical pollutants are not by-products of their operations? My corporations manufactures rifles, tanks, missiles and fighter planes. You are the owner of a poetry book-store. We are both in "the business sector:" does this mean we should have identical views on business-related issues? The same point was made by Charles E. Andrain.

Lindblom exaggerates the organizational cohesion and attitudinal solidarity of the business sector. Several cleavages split the capitalist class. Large industries compete with each other and with smaller firms. Domestic enterprises have divergent interests from exporters and multinational corporations. Manufacturing industries, financial enterprises (banks, insurance companies), and commercial establishments voice diverse policy preferences and organize different pressure groups."
Someone might try to defend Lindblom by resorting to the distinction between "grand" and "secondary" issues. "Grand" issues have to do with fundamentals of the capitalist system, like the institution of private property in the means of production. "Secondary" issues may be decided this way or another, without seriously changing the nature of the politico-economic system (see section 4). Couldn't one say, in Lindblom's defense, that while the business sector may be divided on many "secondary" issues, it presents a united front regarding the "grand" issues?

The answer, again, is no, for only on pain of inconsistency can such a defense be offered on Lindblom's behalf. Lindblom cannot refer to a case in which the business sector has presented a unified stance against "the public" on any of the "grand" issues, and this for the following reason. According to Lindblom, "grand" issues have been "removed" from polyarchal politics. Because of the power of business, they are not even being discussed (L, 204-206). Through the media and the schools, the business sector seeks "to create a dominant opinion that will remove grand issues from politics" (L, 204). As it succeeds, public opinion in polyarchies "does not much question business enterprise, the corporation, private enterprise, and other fundamentals" (L, 208), and
only "[i]n few of the polyarchies is there serious discussion, even among the politically active, of major alterations in the distribution of wealth and income" (L, 208). If "grand" issues, according to Lindblom, have been removed from polyarchal discussion, it follows for him that they have been removed from the legislative agenda of the polyarchies. He must, then, admit that there is no need for a unified stance against "the public" as it attempts to defeat business on any of the grand issues, for according to him, there couldn't be such an attempt. Lindblom, therefore, could not refer to a case in which a unified stance of the business sector has confronted the public stance on any of the "grand" issues, so he cannot use the above defense.

To the doctrine that the polyarchy embodies a conflict between the public and the business sector, I objected, first, that Lindblom owes us an explanation on how that doctrine goes together with supply-side economics. I also objected that Lindblom fails to furnish evidence of the kind required to show that the business sector tends to adopt a unified stance in its conflict with the public. But the conflict doctrine must not be addressing only the business sector, for it must have something to say about the other side to the conflict, which is occupied by the public. So what are the things
that the doctrine says about the public? Do we find these things to be true? The following sections contain a discussion of Lindblom's response to these and related questions.

9. The Subversion Doctrine. Hostility towards the business sector can be found in each of the polyarchies, more in some than in others. But, as Lindblom notes, if the conflict doctrine were true; if polyarchies were torn in a conflict between the business sector and the public, the business sector would be the target of much more hostility than what we typically see. Therefore, there is room to ask, as Lindblom does, "[w]hy do we not see more frequent ... demands for, say, corporate reform, curbs on monopoly, income redistribution, or even central planning?" (L, 192). Replying to his own question, Lindblom proposes what I will call "the subversion doctrine." The doctrine is that the business sector in polyarchies subverts the political process, which is why we get the (wrong) impression that the public does not support legislation which might abolish the central role of the business sector in the economic system (L, 192-194).

Lindblom has two arguments in support of the subversion doctrine. The first is historical in
character, and based on the premiss that "[s]omewhere in the history of the last two centuries at least one polyarchy should have marched or blundered into an attempt at ... central planning (L, 166)." Central planning can be established either through a violent campaign or by some sort of a peaceful process, e.g., general elections. As Lindblom develops his account, he often refers to the attitudes of the citizens (L, 166, 168), which shows that he is talking about a peaceful transition, based on the attitudes of the voters, from capitalism to central economic planning. I take it, therefore, that Lindblom believes that (at least) one time during the past two centuries, in some polarchy sufficiently many of the voters wanted to establish central economic planning. Lindblom does not name a particular polarchy, nor is he more specific concerning the time when the voters of that anonymous state had taken a liking to central economic planning. He argues, however, that such an event must have happened, because (as we think of the Great Depression, we realize that) there were "periods in which the polyarchies had every reason to doubt the efficacy of [the] regulatory devices [of the private-enterprise system]" (L, 168). Hence, he infers, at least the voters in one polarchy wanted to change the economic system to central economic planning.
But this argument fails, for it is one thing "to doubt the efficacy" of the regulatory devices of the system of private enterprise, and quite another thing to want to have a centrally planned economy. Thousands of Cancer and AIDS patients have every reason to doubt the efficacy of modern medicine, yet they do not appeal to faith healing because they do not believe that faith healing would yield better results. It was only rational to require evidence that central planning was "better" than private enterprise, and, as Lindblom himself admits, no one could know that "central planning ... is in fact ... a better solution ... than the market system" (L, 168).

Gliding, however, over the problem that I have just raised, Lindblom argues that if at one time, in the last two centuries, the voters of some polyarchy wanted to establish central economic planning, then we have to explain why no attempt at central planning has ever been made in any of the polyarchies (L, 166). Central planning, Lindblom suggests, has not been attempted in either the U.S., France, England, Sweden, or another polyarchy. Noting that central planning poses a threat to the interests of the wealthier people in a capitalist system, Lindblom proceeds by claiming that
Only if the wealthy (or persons allied with them) exercise at all times in all polyarchies an extraordinarily disproportionate influence on governmental policy ... can we explain the remarkable uniformity of polyarchal hostility to central planning (L, 168).

Lindblom, then, argues that all the polyarchies, all the time, have been controlled by the wealthy, so when voters wanted to change the economy to central economic planning, the wealthy subverted the execution of the will of the voters. He also argues that this is the only way to explain why no polyarchy has attempted central economic planning, and here, I think, is a problem. If only the voters of one polyarchy wanted to institute central economic planning, and if the wealthy subverted the democratic process only in that polyarchy, this would also explain why no polyarchy has attempted central economic planning, but this explanation would not imply that all the polyarchies have been subjected to the rule of the wealthy. To put it in different words: since Lindblom only insists that one polyarchy had a majority for central economic planning, he only has grounds for claiming that the wealthy subverted the democratic process in one of the polyarchies: the one, that is, where voters allegedly wanted to have central economic planning. Therefore, he
has no grounds for claiming that the wealthy subverted the democratic process in all the polyarchies.

To linger a bit on the subject, Lindblom does not tell us what was the length of the period of time in which central planning was highly regarded among the voters of that unknown polyarchy. So let us suppose that it lasted for three years. During that period of three years, voters were really crazy about central economic planning, but both before and after that period only a few of the voters wanted to change to central economic planning. Now let us suppose that the period that we are talking about had occurred between elections, which means that elections were held before the beginning of the period and after the period has ended. This scenario could also explain why no polyarchy has attempted central economic planning, the explanation being that central planning was simply out of luck, as it peaked at a time where voters did not have a chance to express their volitions regarding the economic system. But this explanation would not entail that the democratic process has been subverted in even one polyarchy.

Except for saying that it happened "[s]omewhere in the history of the last two centuries" (L, 166), Lindblom is silent regarding the time in which central planning was so attractive to voters, and this omission leaves him open
to another attack. For let us assume that the voters of more than one polyarchy wanted to have a centrally planned economy: let us, in fact, assume that voters' support for central planning existed in every polyarchy. And let us accept the explanation that central planning has not been attempted because of the rule of the wealthy—that in each one of the polyarchies the wealthy subverted the execution of the will of the people. But now, since Lindblom requires that these subversions have taken place "somewhere" in the course of the past two centuries, we are free to conjecture that all the subversions have taken place sometimes in the 1920s, (or the 1930s, or the 1940s, etc.). This, however, does not show that today's polyarchies are all controlled by the wealthy, for things may have changed in the last fifty (or forty, or thirty) years, so the wealthy, perhaps, have lost the power they used to have in the past.

10. Planning V. Freedom. Why has no polyarchy tried to adopt a centrally planned economy? Lindblom replies that this is because polyarchies "are dominated by business and property" (L, 169). But I find it awfully hard to say that his argument is convincing, so let me look at the question from a different perspective, starting with a comment about the history of central planning.
Shortly after seizing the power in Russia in 1917, the Bolsheviks began to nationalize the economy. The catastrophic decline in industrial output which ensued forced them, however, in 1921, to return small-scale enterprises to private hands, in what was known at the time as the New Economic Policy (NEP). This continued for a number of years, until the first five-year plan was launched in 1928 under Stalin, in an economic order resembling what we know as central economic planning.

The Soviet State did not possess a high regard for individual liberties, and neither freedom nor democracy were high on its agenda. Its quest to abolish private enterprise was pursued with a terrifying ruthlessness, exhibited on a large scale in the collectivization of agriculture in the early 1930s (L, 265). As a result, many people in the West have started to feel distrust if not hostility towards the Bolsheviks, and because the Bolshevik program was, in a way, encapsulated in the idea of central economic planning, a strong disapproval of central planning must have grown in the West, which is seen from the fact that the European left, in the 1930s, was toning down its nationalization programs.

The Russian experience was part of a history that could only persuade the West to adhere to private enterprise. Following World War II, the Soviet system was
imposed on the countries of Eastern Europe, private enterprise was abolished in China, and Communism took over in North Korea, Vietnam and Cuba. The state of freedom in these countries has not been better than in the Soviet Union, which only strengthened people’s impression that central planning was not conducive to freedom. It is instructive to ask why polyarchies have not been receptive to central economic planning, but there is no need to explain it through some kind of "subversion doctrine." When we recognize the importance of freedom to the West, all that is needed is to say that central planning has been rejected by most of the voters in the West because of the fear that personal freedom would be curtailed in a centrally planned economy.

11. The Second Subversion Argument. In his second attempt to show that the business sector subverts the democratic process, Lindblom points out that business enjoys "a triple advantage" when compared to other interest groups. First, it does not have to spend time and money organizing itself, for every business is an organization. "There is nothing like it in politics, no other category of organization so massively engaged in seeking to influence local, state and national government" (L, 196-197). The second advantage of business people "in polyarchal
activity is their ease of access to government. Because of their privileged position in government and politics, they are already known to government officials, already attentively listened to, already engaged in negotiation" (L, 197). The third advantage has to do with the sums of money that businesses spend attempting to build political influence. In what follows I will focus on this third advantage, for it seems to me that it matters more than the other two advantages.

The relevant data is found in the section "Funds for Businessmen in Polyarchal Politics" (L, 194-196). The section seems to be a comparison of political spending by business and political spending by other interest groups. The main conclusion Lindblom draws is that "the scale of corporate spending dwarfs political spending by all other groups" (L, 195), but there are problems with the way in which he draws this conclusion. Two paragraphs refer to spending in the 1956, 1964 and 1972 presidential elections in the United States. One passage reports on spending in the 1964 general elections in Britain. Lindblom compares business and Unions assets in the United States (L, 196), and he claims that "there are a million corporations in the United States, 40,000 with at least 100 employees" (L, 194-195). It is not clear how all this data figures in one argument, and worse, it is not clear what the argument
is. Lindblom does not apply any of the statistical methods used in the social sciences, and no alternative method can be detected in his provision of figures. It seems, therefore, that numbers are thrown in haphazardly, and the evidence is anecdotal.

In some polyarchies, funding for electoral campaigns is mainly done by the state, and this may reduce the influence that someone could have on politicians by contributing to their campaigns. Lindblom says nothing about the ramifications of state funding on the second subversion argument, a serious flaw I would say.

Granting, however, Lindblom's claim that political spending by business groups greatly outweighs the spending of other groups: how does it support the subversion doctrine? From the fact that political spending by business groups greatly outweighs political spending by other interest groups: how does it follow that the business sector "bend[s] polyarchy to accommodate business"? (L, 192). If the conflict doctrine were true, it would make sense to talk about two types of politicians: those in support of the business sector and those in support of the public. Much more money is spent on behalf of the politicians who represent business. Combined with their other "advantages," these funds enable them to be much more effective than their rivals from the
public in electoral campaigns, lobbying, legislative hearings and other relevant activities. Therefore, they "win—disproportionally—in political competition in polyarchy" (L, 194), which basically amounts to the same thing as the subversion doctrine.

But there are two problems with the attempt to justify the subversion doctrine through the conflict doctrine. First, as I have argued in previous sections, the conflict doctrine is far from substantiated. Lindblom fails to come up with the evidence that it requires, for (a) the business sector is not united on the "secondary issues," and (b) only on pain of inconsistency can Lindblom refer to conflicts between the business sector and the public over the "grand issues" (see sections 6-9). Second, Lindblom invokes the subversion doctrine to save the conflict doctrine. The conflict doctrine requires that the public displays a unified stance against the business sector, and Lindblom, apparently, finds it hard to point out evidence of this hostility. (How many times have we recently heard a demand to abolish the business sector made by a group with legitimate claims to represent "the public?"). The subversion doctrine helps Lindblom to counter this difficulty. According to it, the voice of the people is not heard through the political process, because this process is subverted by the business
sector. As a result of this subversion, "we do not see more frequent demands" to do away with the business sector even though, as a matter of fact, the public desires it. Because the subversion doctrine is invoked to save the conflict doctrine, you cannot invoke the conflict doctrine to save the subversion doctrine. This is a vicious circle.

If we do not assume that the conflict doctrine is true, it is not clear how Lindblom's data about spending by both business and other groups confirms the subversion doctrine. But let us assume that the conflict doctrine is true, and so there is room to talk about a conflict between the public and the business sector. That business spending greatly exceeds its rivals' spending is not sufficient, I will maintain, to prove the subversion doctrine, for there also needs to be an account of the distribution of funds. For suppose that in the elections in some imaginary state, one candidate is elected from each of ten districts. Compared with the $10 million spent by "the public" on all of the ten campaigns, the business sector spends $50 million, a relation of public to business funds resembling some of Lindblom's examples (L, 195). But suppose that most of the funds of the business sector are spent on two campaigns. Because most businesses are located in these two districts, (or because of another reason), $40 million are spent in one of the
two districts, $5 million are spent in the other district, leaving the remaining $5 million to be equally divided among eight districts. If the $10 million of public funds are equally distributed over the ten districts, the public could actually have an edge as far as money is concerned, for its spending exceeds the spending of business in eight of the ten districts.

It seems, of course, that Lindblom has an easy rebuttal. Business can simply divide its money in such a way as to insure its superiority over the public in each of the ten campaigns. I think, however, that Lindblom would be quite reluctant to make this rebuttal. For him, it appears, the subversion of the political process is a result of business activity but not the result of conscious attempts on the part of business to subvert the political system. Business, for him, subverts the process not because it is trying to, but by virtue of what it does. For Lindblom to use the above reply would be to suggest that business engages in overseeing the distribution of its funds over the various districts, and this would come dangerously close to alleging conspiracy, which Lindblom explicitly rejects (L, 183).

Finally, the subversion doctrine can be defended on the grounds that it can explain the enormous funds that are spent by business relative to political spending by
other interest groups. "Why would businesses," Lindblom might ask, "spend so much to acquire political influence, if not because it helps them surmount a hostile electorate?" The subversion doctrine, however, is not the only way to explain why businesses spend large amounts in their attempts to influence legislation. Another explanation is based on a point made in my criticism of the conflict doctrine, where I stressed that the business sector is not united on the "secondary" issues (section 8). Though "secondary" issues do not revolve around the basics of capitalism, each may have a serious effect on the profitability and the survival of particular firms, which might, therefore, be willing to spend a lot of money in order to have the issue decided in some particular way. But whether it is protectionist legislation, anti-trust legislation or changes in corporate tax: corporations are likely to find themselves opposing other corporations, which happen to have opposing views with regard to the issue at stake. This would increase the amount of money that both sides are forced to spend, for each one of the two sides would want to outspend the other. Thus the large sums that are spent by business are chiefly explained by conflicts of interest inside of the business sector, rather than by a conflict of interests between the business sector and the public.
12. Conclusion. By focusing on "the subversion doctrine" we delved into the core of Lindblom's attack on the system of private enterprise, where we found two arguments. The first was built on the claim that we have to explain why no polyarchy has ever attempted a centrally planned economy, which claim, I have argued, Lindblom fails to establish. I also argued that granting the need to explain this, the explanation that Lindblom provides does not lend the required support for "the subversion doctrine." Then, I outlined an alternative explanation, where I argued that the Western nations have been deterred by the lack of freedom in the states which have adopted central economic planning.

In the second subversion argument, the focus is on political spending of business and other groups. Having in mind the standard methods of the social sciences, I think that the argument is sloppy. Because it centers on funds that are spent by various interest groups, it is unfortunate that Lindblom fails to discuss the fact that in some polyarchies, the state primarily allocates funds for electoral campaigns. The subversion doctrine, I further argued, has to be grafted on the conflict doctrine if it is to work, but this is impossible to do without begging the question. And given that grafting is allowed, the mere advantage of business funds over the funds of the
public sector is not enough to make the point, for there has to be an account of the distribution of funds. Finally, I claimed that the subversion doctrine cannot be saved by recourse to its explanatory power, for other ways to explain the data exist.

With the collapse of the subversion doctrine, I will now explore another explanation of the mystery of the empty box.28 This explanation is based on the writings of Milton Friedman and Friedrich Hayek, winners of the Nobel Prize in Economics, who grappled with issues which lie beyond the standard scope of their academic profession.
1 "(L, ___)," where the blank is filled by a number stands for the page number in Charles E. Lindblom, Politics and Markets (New York: Basic Books, 1976).


7 In his review of Politics and Markets, Alan Wolfe says that "businessmen have an effective form of blackmail--not too strong a word for Lindblom's analysis--over policy options" (p. 111).


9 According to Irving Kristol, American corporations spent hundreds of billions of dollars in order to meet government regulations since the early 1970s (pp. 46-50). In reply to the objection that corporations pass these expenses on to their consumers, Kristol argues that "[i]n
the world market of today ... not all corporations can pass on those costs. In those instances, we get declining businesses, declining industries, and a sagging economy" (p. 49).

10 On May 18, 1988, CBS Evening News reported that Exxon was fined $2.1 billion for violation of price-control regulations.


12 McLellan, p. 223.


14 Lindblom asserts that "like many government officials who wish to restrain polyarchal discussion, both President Johnson and President Nixon suppressed the reports of their own committees on antitrust. They did not want to permit polyarchal processes to operate in an area in which they were, as inevitably they must be, subject to controls from businessmen" (p. 191).


16 A similar depiction of Lindblom's approach to supply-side economics can be found in Robert Dahl, A Preface to Economic Democracy (Berkeley: University of California Press, 1985), pp. 102-103.


19 Ball and Millard, pp. 170-172.

20 For evidence of the competition between the nuclear and the oil industries over the energy market in the United States, see the advertisements of the former in The New Republic from March and April of 1989.
21 According to Bruce Catton, (A Short History of the Civil War [New York: Dell Publishers, 1963]), protectionism was one of the causes of the friction between the North and the South before the Civil War, as Northern industrialists demanded protectionist measures, to which the cotton-exporting South was opposed (pp. 10-12). This was a conflict all right, though not between "the business sector" and "the public, but rather between the commercial interests of two regions of the United States.

22 Andrain, p. 658.


27 Dalton, p. 108.

28 In "Circularity in Polyarchy," which is the next relevant chapter of Politics and Markets, Lindblom argues for the claim that "grand issues" have been removed from the legislative agenda of the polyarchies due to the indoctrination of the public carried by business through the media and the schools (L, 201-213). The argument has a number of problems over which I need not dwell, for I already made a reference to it in my criticism of the conflict doctrine (pp. 79-80). Politics and Markets contains two additional relevant chapters, "Circularity in Market Systems" (L, 214-221) and "Socioeconomic Class" (L, 222-233), but in lieu of the failure of the subversion doctrine, there is not enough motivation to discuss them.
CHAPTER III
FRIEDMAN ON THE RELATION BETWEEN
CAPITALISM AND POLITICAL FREEDOM

In the world of professional economists, Milton Friedman is known as a modern perpetrator of monetarism, a view about the effects of changes in the quantity of money on prices and nominal income. To the public, Friedman is a tenacious advocate of the ideal of free market, that is to say, a staunch opponent of government involvement in the capitalist economy. The two positions are not unrelated for, as we shall see below, Friedman has turned monetarism into a powerful weapon in his campaign to liberate the market system from the fetters of Keynesianism, the welfare state and special-interest groups. Before examining Friedman's account of the relation between capitalism and political freedom, I will, therefore, spend some time on his advocacy of monetarism and a free market.

1. Monetarism. As the following discussion focuses on ways to attain economic stability, let me say that what is at stake is not the prevention of economic collapses like
the Great Depression. We are talking about the attempt to "fine tune" the economy, that is, to keep the economy stable with low unemployment, high investment, stable prices, etc., by countering relatively mild changes in undesired directions. In its attempts to fine tune the economy, a government may use either monetary or fiscal measures. Monetary measures affect the quantity of money in the economy, through (1) selling or buying government bonds on the open market, (2) prescribing the ratio of cash reserves to checking and savings accounts that banks must not fall below and (3) changes in the rate of interest on government loans to commercial banks, known as the discount rate. In the private enterprise economies of today, the government (through the central bank) has discretion over the use of monetary measures. It would let the quantity of money grow in order to foster expansion, or reduce the money supply to cool the economy down. Fiscal measures may also be used with a view to stabilization. Through either its budget or the tax system, the government can increase spending in an attempt to compensate for a decrease of private spending and vice versa.

Friedman advances a number of arguments against the use of fiscal measures to fine tune the economy. First, because of political considerations, increases of
government spending are not matched by cuts. Second, there are problems with both the Keynesian-type analysis which purports to show that government spending can substitute for a decrease of private spending, and with the claim that a tax increase is bound to curb inflation. Third, even if fiscal measures could, in principle, be employed to fine tune the economy, "we simply do not know enough to be able to use deliberate changes in taxation or expenditure as a sensitive stabilizing mechanism. In the process of trying to do so, we almost surely make matters worse." Fourth, "the widespread faith in the potency of fiscal policy ... rests on no evidence whatsoever. It's based on pure assumption. It's based on a priori reasoning."

Friedman opposes government discretion over the use of monetary measures. The U.S. economy, he argues, was "clearly ... more unstable" after the establishment, in 1913, of the Federal Reserve, the government body in charge of monetary policy, and "the difference in economic stability ... is in fact attributable to the difference in monetary institutions." In an analysis that has been incorporated into macroeconomics textbooks, Friedman charges that "the severity of each of the major contractions--1920-21, 1929-33, and 1937-38--is directly attributable to acts of commission and omission by the
Reserve authorities and would not have occurred under earlier monetary and banking arrangements.\(^8\) Having in mind the Federal Reserve (and similar institutions in other countries), Friedman concludes that a "system which gives so much power and so much discretion to a few men that mistakes—excusable or not—can have such far reaching effects is a bad system."\(^9\)

Rather than letting the government open or close the monetary faucets as it sees fit, Friedman proposes "a legislated rule instructing the monetary authority to achieve a specified rate of growth in the stock of money .... the Reserve System shall see to it that the total stock of money ... rises month by month ... at an annual rate of X percent, where X is some number between 3 and 5."\(^10\)

2. Free Market. Friedman opposes social security, rent and price control, public housing, minimum wage, graduated income-tax and subsidies for farmers.\(^11\) Because these measures are often perceived as beneficial to working people, it has been inferred that Friedman opposes the working class and stands on the side of business. But this is a crude inference, for it tells us nothing about the important features of Friedman's social philosophy, nothing about the considerations he brings to bear when he
forms an opinion about economic legislation. Friedman's picture of society has no role for the distinction between business and working people. Unlike people of Lindblom's ilk, his understanding of society is not in terms of a conflict between "business" and "the public," rich and poor or employers and employees. This is why, though he has opposed some legislation which has been demanded by working people, it would be unwise to classify him as an advocate of the business sector against the working class.

Friedman has a clear view of how society should be, and he opposes any measure which to him is incompatible with it, regardless of who benefits from the measure. Friedman believes that the scope of the issues over which government has responsibility should be narrowed as much as possible. He is opposed to government regulation of the electronic media, government monopoly in the delivery of certain kinds of mail, and government ownership of national parks and toll roads. He also opposes tariffs and quotas on imports, regulation of the exchange rate and prohibitions on individual ownership of gold.

He is always clear, in his criticism, on how such measures, laws or arrangements might be ways to protect the interest of some group at the expense of the public. Of special interest in this context is his attack on the capital gains tax, which according to him, serves to
As a key to understanding his world view, especially enlightening is his analysis of occupational licensure. In a frontal attack on the American Medical Association, he says in effect that limiting the number of admissions to medical schools is a way of securing the income level of physicians at the expense of the medical care available to the public.15

Whatever particular arrangement Friedman criticizes, the bottom line of his criticism is invariably the same. The targeted arrangements are ineffective and "constitute arbitrary limitations on the ability of individuals to enter into voluntary exchange with one another. They simultaneously restrict freedom and promote the waste of resources."16 The man has a philosophy, which he applies to specific issues with remarkable consistency.

But this consistency sometimes has counterintuitive results. To see this, consider, for instance, Friedman's approach to what has been called "fair employment practices." If the customers of a grocery store are biased against blacks, it is unjust, Freedman would say, to subject the owner of the store to a law that prohibits the use of racial distinctions as a hiring criterion. Friedman assures us he doesn't approve of racial stereotypes, but he insists that "in a society based on
free discussion, the appropriate recourse is for me to seek to persuade ... [the customers] that their tastes are bad and that they should change their views and their behavior," not "to impose losses on the owner," who is only "transmitting the preferences of" his customers.17

Friedman suggests that the need to protect the profits of business can be used to legitimize racial discrimination. Adopted across the board, this position means that not only employers have the right to discriminate on racial grounds, but both producers and service-providers should be given that right. A producer, therefore, may not be forced, by means of the law, to sell to someone whose skin color his customers don't like, if this may impose losses on him, and the same should be true of someone who sells a service. But suppose that a person whose life is in danger is brought to a doctor's clinic. His color of skin is disliked by the clients, who threaten to leave if the doctor treats the person, bringing about a financial loss to the doctor. Should the doctor have the legal right to refuse treatment on the grounds that treating the patient would cause him to lose income? This seems to me to run against our deepest intuitions.

3. Employment and Dissent. Despite the fact that it unduly restricts economic freedom, the welfare state,
according to Friedman, is much better than a socialist one. This is because it supports fundamentally capitalist economic arrangements without which, Friedman maintains, political freedom would be denied to the people of the state. Friedman's position in this regard is motivated by the old-liberal almost-instinctive distrust of government. "Our minds tell us," he writes, "and history confirms, that the great threat to freedom is the concentration of power ... in political hands,"¹⁸ "be it ... a monarch, a dictator, an oligarchy, or a momentary majority."¹⁹ Therefore, he maintains, the protection of freedom requires that government power be reduced. This should be done by stripping government of roles or functions that can be entrusted to others in the society, markedly those that constitute sources of much power, like organization of economic activity. "By removing the organization of economic activity from the control of political authority,"²⁰ Friedman writes, capitalism provides "an indispensable means towards the achievement of political freedoms."²¹

Friedman's position offers a basis for solving the mystery of the empty box. His view is that without a capitalist economy, a full use of political freedom would not be made by the citizens of the state. As full use of political freedom constitutes the essence of polyarchy, it
follows from Friedman's view that a polyarchy would not exist without a capitalist economy. If Friedman is right, then any existing polyarchy must be capitalist. This explains the nonexistence of socialist polyarchies, a fact to which I referred above as "the mystery of the empty box." Let us, therefore, take a look at the details of Friedman's account.

Friedman seems to be holding that no government would permit "its employees to advocate" anti-government policies.22 He clearly states that this is the case with regard to socialist governments: "It would be an act of self-denial for a socialist government to permit its employees to advocate policies directly contrary to official doctrine."23 But citing a case where the United States government apparently restricted the freedom of speech of its employees, he clearly suggests that restrictions on the political freedom of government employees are not unique to socialist governments. His position, then, is that regardless of the type of the economy, government employees would not be permitted to advocate anti-government policies.

Though this may seem to be a sweeping generalization, it is not clear to me that Friedman is off the mark. For he does not say that in every country, government employees have no political freedoms. Careful
as always about his words, he only says they are not allowed to advocate anti-government policies. In our context, to advocate is to speak in places where people meet to discuss political issues, publish articles in the press, and, in general, be involved in publicized action with the intent of converting others to your point of view. Though in polyarchies, a wide range of political freedoms is enjoyed by government employees, including the freedom to vote against the government, typically, they are not allowed to attack the government in a public debate, lead an opposition election-campaign and engage in other activities where they can be properly said to advocate anti-government policies.

Friedman, next, points out a crucial difference between a socialist and a capitalist economy. In a capitalist economy, only a fraction of the labor force would be employed by the government. But in a socialist system, the entire labor force may be viewed as employed by the government.24 This fact is what we need to reconstruct Friedman's account as an attempt of explanation of the mystery of the empty box. Having in mind Hempel's deductive-nomological model of scientific explanation,25 Friedman's account can be presented as follows.
At least on two accounts, Friedman seems to me to be on the right track. First, he does not say that government officials in socialist states are inherently less tolerant than their western counterparts. From Friedman we get the impression that, in some very basic respect, all governments are the same. They can all be expected to be reluctant to let opponents criticize them, regardless of the specific culture in which they are instituted. Second, the role of government in the economy is the key to understanding the mystery of the empty box. A socialist government oversees the coordination of the economy down to its trivial details. This role bestows on it an inordinate amount of power, which is the thing we need to stress to explain the absence of the conjunction of polyarchy and a socialist economy.

Yet Friedman's account has a number of problems. First, accepting everything that he says, Friedman only
establishes that there would be restrictions on the freedom of members of the labor force. But many people in socialist states are not part of the labor force, notably, homemakers, students and disabled individuals. Even if Friedman properly explains why members of the labor force are not permitted in socialism to advocate anti-government policies, he still has to explain why the same restrictions are imposed on the freedom of those who are not members of the labor force. Second, as we have seen in Chapter One, it is not always true that in a socialist state, all the members of the labor force are employed by the government, for a small private sector has existed in some socialist states. As a result, Friedman fails to explain why there are restrictions on the freedom of the people who do not work for the government.

The third difficulty has to do with the type of restrictions Friedman is talking about. According to him, members of the labor force would not be allowed in socialist states to advocate anti-government policies. This may be true and still fall short of explaining the range of restrictions that are imposed on them. For to advocate in the relevant sense is to speak in places where people meet to discuss political issues, publish articles in the press, and, in general, be involved in publicized action with the intent of converting others to your point
of view. Though the freedom to advocate anti-government policies is one of the most important political freedoms, it is not the only one. Other freedoms have to do with being (an inactive) members of an active opposition party and voting in elections in which the ruling group and its program may be replaced. These freedoms are also denied to the people of the socialist state, and Friedman has nothing to say to explain the denial of these freedoms in a socialist state.

That Friedman's account is seriously lacking can be seen from the fact that, granting everything he said so far, there still could exist a polyarchy in a socialist state. People not employed by the government would be the ones to go around advocating all sorts of anti-government policies. (Since the government doesn't employ them, Friedman has no reason to say that they would be forbidden from advocating anti-government policies). Most of the people could, indeed, be government employees, and they, of course, would not be allowed in the business of advocacy. But since they would only be deprived of the freedom of advocacy, they should be able to go to the polls and choose their favorite program, in elections capable of bringing about a real change of government.

It might be thought that I am missing the main point of Friedman's account. The main point, it might be said,
has to do with the power of socialist governments, due to which they can impose damaging sanctions on any person in the society who doesn't follow their line, regardless of whether the person involved is an employee of the government, and regardless of the exact sort of political activity he is engaging in. But rather than being a rebuttal to my criticism of Friedman, this only points out the sort of analysis without which Friedman's account has no chance of success. If we want to explain why real polyarchal institutions are absent from socialist states, we have to delve into the details of the dynamics of ruling. We should be able to give an account of how precisely economic means are brought to bear in the consolidation of the power of a socialist regime. As long as Friedman does not engage in this sort of analysis, as long, that is, as he doesn't account for the forces preventing opposition from being effective against a socialist government, there is no such thing as a main point to be missed in his account. What he has is a law-like statement which prescribes that certain things are not permitted to government employees, and a dubious statement asserting that the labor force in a socialist state is fully employed by the government. All I can do in my criticism is to show that if one attempts to explain the absence of polyarchy in a socialist state, these elements by themselves will not do the job.
4. Economic Means and Effective Opposition. Friedman seems to feel that a strong case for the dependence of political freedom on capitalism requires more than what he has said so far, for he goes on to develop his account. Even if groups in socialist states could freely compete against the government over voters' support, it is highly unlikely, Friedman argues, that they would be able to launch an effective electoral campaign, something which could culminate in the overthrow of the ruling group and its political program. Briefly stated, his argument is the following.

An effective campaign requires funds which may be obtained either from a few wealthy individuals or from a large number of small contributors. But wealthy people in socialist states would have to be close to the ruling group, so "it strains credulity to imagine" them giving money to an anti-government campaign. Very substantive difficulties would also encounter opposition groups who wished to rely for sufficient funds on small donations of many people. Therefore, even when given political freedom, an opposition group in a socialist state would not be able to bring about the downfall of the government, for it would not have the funds that are needed to launch an effective campaign.
Clearly, there is a strong connection between economic power and political power, between the ability to challenge the ruling group and access to economic means, and Friedman has to be commended for underscoring this connection. As he points out that groups opposing a socialist government would find it hard to obtain funds to finance their campaigns, he zeroes in on a serious impediment to a free society. Yet his argument does not work, which I think is the lesson of recent events in socialist states, starting from the rise in Poland of Solidarity in the late 1970s, through this year’s elections in both the Soviet Union and Poland.

Though I have not assembled all the data which may be needed to back me up, I think there is room to claim that, in a significant number of cases in the above elections, opposition candidates did well with relatively small funds. They succeeded because they were given the freedom to advocate their programs, by standing in a public park or a street corner, talking to people or handing leaflets reporting about their political views, without fear of government retaliation. They did not have much money and they could not conduct all the activities they would have conducted if they possessed the money. But they could announce their political views and get some media exposure, and this was enough for many people to vote for them in the polls.
Friedman's argument fails because he overestimates the importance of funds to one's ability to win an electoral race. Friedman ignores the possibility that people would vote for a candidate without being subjected to direct propaganda by him, and thus that a candidate would win a race with relatively small spending. But in certain sorts of situations, people would clearly do so, if only they had some information about the contending parties. Therefore, when given the freedom to run for office, a candidate could win a race with relatively small funds, for inexpensive activities, together, perhaps, with whatever exposure the media has given him, could draw the support of many people who weren't exposed to propaganda designed by his campaign.

Let me stress I am not saying that either Poland or the Soviet Union have become polyarchal. What happened in them looked like polyarchy, chiefly because voters had the freedom to vote against the ruling group. But polyarchy has conditions that weren't fulfilled by the arrangements of the elections in either one of the countries. One condition is that election results, and nothing else, determine the legislature. In polyarchy, no party is guaranteed a certain amount of seats in the legislative body, thus a certain amount of influence over the making of the law, prior to and regardless of the results of the
elections. This, however, was not the case in either one of these countries, where in this way or another, election returns played a limited role in the determination of the seats in the legislature. Therefore, without saying that what happened in these countries had no relation to polyarchy, I don’t think we can say that they have become polyarchal.

Nevertheless, election results in either country can be used against Friedman. They can be used as inductive evidence that the ruling group in a socialist state could be overthrown if challenged to a real polyarchal competition over voters' support. In neither case was the ruling group overthrown, but neither country has experienced real polyarchal elections. The events, however, strongly suggest that, contrary to Friedman’s claim, the ruling group could be overthrown if real polyarchal competition had been taking place.

Friedman’s analysis is on the right track, but his argument does not work. He focuses on the connection between economic power and political power, but his interpretation of the connection is far from satisfactory. Lack of control over means of production makes it hard for the opposition to challenge a socialist government, but this is not merely a problem of raising campaign funds. Though Friedman has the right intuition
of where he has to dig, he only scratches the surface. The mystery of the empty box is a manifestation of undercurrents that Friedman’s inquiry, I am afraid, is too superficial to reach.

We will next examine some relevant writings of Friedrich Hayek, an economist, philosopher and a leading critic of the theory and practice of socialism. As far as the mystery of the empty box is concerned, Hayek and Friedman tell us a similar story. Capitalism must exist to protect political freedom, for only when the control of capital is dispersed among proponents of different political programs, which condition only obtains in a capitalist economy, can political freedom be protected from the encroachment of government. It is, however, important for us to address Hayek’s account, for he differs from Friedman in two significant ways. First, he emphasizes different dimensions of the connection between economic power and political power. A different story is told by him as to how control of the economy is translated by a socialist government into political control, as to how opposition groups in a socialist state are ineffective because of lack of access to the means of production. Second, his account shows the need for a theory of government, which focuses on the considerations that guide governments in their approach to political opposition.
CHAPTER III
NOTES


3 Friedman, pp. 79-84.


5 Friedman, p. 78. See also Friedman and Heller, pp. 48-50.

6 Friedman and Heller, pp. 52-53.

7 "The Control of Money," in Friedman, p. 44 and p. 45.

8 Friedman, p. 45. See also Fleisher, Ray and Kniesner, pp. 234-237.

9 Friedman, p. 50.

10 Friedman, p. 54.

11 See, for instance, Friedman, pp. 35-36.

12 Friedman, pp. 35-36.

13 See, for instance, Friedman, pp. 35-36, p. 38, pp. 59-60 and p. 65.

14 Friedman, p. 130.

15 "Occupational Licensure," in Friedman, pp. 149-160.
16 Friedman, P. 127.
17 Friedman, pp. 111-112.
18 Friedman, p. 2.
19 Friedman, p. 15.
20 Friedman, p. 15.
21 Friedman, p. 15.
22 Friedman, p. 17.
23 Friedman, p. 17.
24 Friedman, p. 16.
26 Friedman, p. 17.
CHAPTER IV
HAYEK ON THE PSYCHOPATHOLOGY OF
THE SOCIALIST ELITE

1. The Expansion of Controls. Abolishing the market, according to Hayek, leads the government into establishing strict control over people's lives. The government starts by committing itself to a production plan, where it specifies the types and quantities of goods and services that will be produced. (For an account of central planning, see especially Section Three of Chapter One: "Central Planning and the Problem of Information.") A commitment to a production plan requires the government to take measures to insure that the plan is implemented. If the plan, for instance, calls for the production of, say, W tons of steel, meeting the target may require the labor of X engineers, Y technicians and Z assembly-line workers. In fact, for every production target, there must be certain types of skilled labor and a sufficient number of people trained in each skill. Thus, to facilitate the execution of its production plan, a socialist government would have to determine the skills and occupations that
would be available, and the number of people to be admitted to each one of them.¹

The scope of control that a socialist government has over the economy, however, does not end with the structuring of the labor market. "The close interdependence of all economic phenomena," Hayek asserts, "makes it difficult to stop planning just where we wish ... once the free working of the market is impeded beyond a certain degree, the planner will be forced to extend his controls until they become all comprehensive."² Thus, the planning authorities would have to determine the remuneration of each occupation as a means of regulating the number of people in each of the occupations.³

Economic control, According to Hayek, is further developed into other forms of control. Work and income constitute substantive elements of our life plans, as they often determine the range of choice open for us to do other things. For Hayek it means that if the government controls the jobs we hold and the income which we receive, it would have the power to determine much of what we do. Thus, according to Hayek, individual freedom in socialism is jeopardized because of the expansionist nature of economic control. From a seemingly limited task of prescribing production targets, the government has to extend its control to other dimensions of the economic
system. Then, it can monitor both the work and income of most of the citizens, a position in which it has the power to oversee much of what they do. "If all the means of production are vested in a single hand," Hayek sums it up, "whoever exercises this control has complete power over us." 4

There is something strange in saying that as the labor market is designed by the government, individuals somehow become subjected to economic control. Notice that, as a general rule in a socialist economy, people are not ordered to take a particular job, in particular places and times, and remunerations are not, as a rule, assigned individually. People are mostly free to choose their own occupation, go to places where it is offered and receive the standard remuneration. It is true that their choice of a job and remuneration is constrained by forces beyond their reach, but it seems strange for Hayek to say that this means they are subject to economic control, for similar choices are also constrained in a capitalist economy.

Except for entrepreneurs, who constitute a minority, the choice of work is clearly constrained in a capitalist economy. Many have to accept a job they would not have accepted had the choice been utterly up to them. Choice of work is constrained by the available range of skills
and occupations, and by the number of people that can be employed in each one of them, where "the market" determines both types of constraints. It is true that in a socialist economy, the field of employment and remuneration is designed by the government, while left to "the market" in a capitalist system. But this seems to be irrelevant for the individual, whose choice of work and remuneration, in either type of economic system, is constrained by forces over which he has no control.\(^5\)

One may accept Hayek's warning that from a comprehensive central control over the economic sphere, it is but a short step to the abolition of judicial, cultural or political freedoms. In her 1945 *Freedom and Planning*, which continues to command attention as a "careful and measured rebuttal of the major arguments of the *The Road to Serfdom*,"\(^6\) Barbara Wootton demonstrated how this might work. The exercise of political freedom she notes, requires

a building in which an audience can be gathered, or a microphone to reach them in their own homes, or a paper on which to write what they can read ... It follows that any government with absolute power to plan the use of the community's resources down to the last detail can make effective freedom ... impossible for any body, person, or society, of whom it disapproves, merely by withholding such essential materials.\(^7\)
Wootton, however, points out that political freedom and other freedoms can survive in a system in which the economic system is controlled by the government. The question, she tells us, "turns on the behavior of the actual men and woman who have the responsibility of planning." Surely they can use their immense economic power to curtail and diminish the freedom of others to do various things. "'Can', however," Wootton insists, "is not, and must not be, the same word as 'will'." "Power," she claims, "can be exercised in different ways and in different degrees," so socialism would allow for freedom if only "positions of power are filled by men and women who care for the freedom of others." Other people seemed to agree with Wootton's objection to Hayek, and the attempt to anticipate this objection motivated Hayek to propose the theory of the character of the socialist rulers expounded in Chapters Five and Ten of The Road to Sefdom. On the basis of socio-political analysis, Hayek there develops an account of the personality of the people who would constitute the ruling group of a socialist state. These people, he argues, are bound to be "the worst elements of society," undeterred by the prospect of "intolerance and brutal suppression of dissent, the complete disregard of the life and happiness of the individual," uninhibited in the
face of "acts which revolt all our feeling, such as the ... killing of the old or sick ... the compulsory uprooting and transportation of hundreds of thousands ... [and the] 'conscription of women for breeding purposes'."15 Needless to say, if Hayek is right then socialism is, indeed, the abdication of freedom, for the people in charge of a socialist state are not the type who "care for the freedom of others" or would resist the temptation to use their power to crush all opposition.

2. Parliament and the Plan. Before we begin its detailed examination, let us consider a brief summation of the argument to the effect that in a socialist state, "the worst" will get on top. A representative parliament, of the type that exists in the Western polyarchies, would not be able to adopt a socialist-type production-plan for no particular plan would attract the support of sufficiently many members. Therefore, if a socialist-type production-plan is to be carried out, it would have to be the achievement of non-democratic forces. A "strong man," backed by a quasi-military organization, would assume dictatorial powers in his quest to implement the plan. The organization would be composed of "the worst elements of society," who would consequently occupy the positions of power in the new regime.
Hayek, then, starts by arguing that a parliament, or a similar sort of representative body, would not be able to reach an agreement on a plan of the sort that is relevant here, and his reasoning is as follows. Because of the exclusive role the plan has in the allocation of economic resources, the well being of any occupation, industry, geographical region and particular plant is dependent on it. As a result, any one of numerous groups might want to direct the plan to channels that are conducive to its interests. The claims of many of those groups would unavoidably be incompatible, and this could obstruct the possibility that the majority would agree to any specific plan. If legislators were to be guided only by the conflicting claims of all the different groups, they would never be able to reach an agreement on a particular plan, as many would fail to promote the claims of the groups they represent.

According to Hayek, only by using what he calls "a complete ethical code," could legislators form a majority in support of a plan. The code would involve a system of evaluation of human activities and needs, "which must be complete enough to make it possible to decide among all the different courses which the planner has to choose."16 The code would assigning a certain value to each one of the numerous claims that various groups have laid down, thus
yielding a ranking of the claims according to relative value. This would enable legislators to sort out a particular pattern of allocation of the resources among the various claims, by giving preference to the claims whose values are higher than the values of others.

But Hayek insists that "the essential point for us is that no such complete ethical code exists."17 Parliament members have no system of evaluation which is comprehensive enough to assign a value to every human activity or need that must be evaluated. As a result, Hayek contends, "[t]he attempt to direct all economic activity according to a single plan would raise innumerable questions ... where there exists no agreed view on what ought to be done. People will have either no definite views or conflicting views on such questions."18 Thus, he concludes,

There is no reason why there should be a majority in favor of any one of the different possible courses of positive action if their number is a legion. Every member of the legislative assembly might prefer some particular plan for the direction of the economic activity to no plan, yet no plan may appear preferable to a majority to no plan at all.19

In the picture of the legislative process that is presupposed in Hayek's argument, legislators encounter only choices between major alternatives. For such
choices, Hayek believes, a parliament member resorts to his ideology or political program, whose function is to furnish criteria for choosing among major policy options. According to Hayek, a political program may be viewed as a sort of ethical code, for it heavily draws on claims about what is right or valuable.20

But as an ethical code, a political program, according to Hayek, is "incomplete" for it only allows for choices among major policy alternatives, not specific issues. Therefore, when faced with the need to make decisions about a socialist plan, a parliament member, Hayek believes, would only be able to choose from among the major alternative courses that the plan can take, but not from among numerous options that have to do with details of place and time. For instance, he might be able to choose an increase in the production of goods over an increase in the production of services, but he won't be able to choose between an increase in the quota of plant A or an increase in the quota of plant B, because his political program does not furnish the sort of criteria one needs in order to make this choice. For this and similar choices, where what is at stake is nothing but the conflicting interests of relatively small groups, what is needed, Hayek seems to believe, is "a complete ethical code." Unlike a political program, which only helps in
the choice between major policy options, a "complete ethical code" would make it possible to choose between any competing options, for it would permit an evaluation of human activities and needs under a wide spectrum of specific conditions. But as "a complete ethical code" is not available, Hayek believes that legislators trying to adopt a socialist production plan, would not be able to make a choice on any one of numerous issues the plan has to address.

One problem with Hayek's account immediately suggests itself. As a matter of fact, legislation does not exclusively involve a choice between major policy options. Notably when a number of options exist as to how to appropriate money, the legislature may choose between very particular causes, such as a highway in district A or a bridge in county B. Hayek is probably right in that this kind of choices is not informed by the legislator's political program, his "ethical code" as it were. It is not the moral principles embedded in his political program which the legislator consults when casting a vote on such particular, non-policy matters. But he does make a decision, and to the extent that that decision is not random, it must be explained through a process which Hayek has overlooked.
Commonly known as "logrolling," the process I have in mind is one in which legislators engage in trading support for mutual benefit. In return for a promise of future support for his favorite bill, a parliament member commits his vote for a bill sought by the parliament member who has made the promise. For instance, "[v]otes from the arid south for flood control in the North may be exchanged for New England's support for massive irrigation projects in the South," one author says, adding that "[l]egislators who are not willing to make deals are not likely to get very far in promoting constituents' interests." 21 Thus, through delivering current support for a promise of future support, logrolling majorities form on non-policy issues, where legislators cannot be guided by their political programs.

I can only speculate on why Hayek has overlooked the process of logrolling, starting with a comment on the concept of "coordination." In the political arena, coordination may be said to be based on rules and is established, more or less, when the residents of the state follow the same rules. In the marketplace, coordination has to do with prices and flow of goods, and can be said to exist when price levels and flows of goods achieve certain stability. As some economists try to depict the uniqueness of the market, they tend to stress how
different it is from the political arena, the main difference to which they allude is in the way of achieving coordination. They assert that in the political arena, coordination is the result of deliberate action, an attempt to plan or to regulate the whole realm of activity, for the rules or laws that it presupposes must be consciously made, with a view to controlling the relevant agents' behavior.

But through phrases such as "order without design" or "unanimity without conformity," these people stress that coordination in the market does not depend on this sort of deliberate action. The coordination of the market is said to be "a spontaneous order" as no one plans the coordination achieved among the numerous independent actions of producers and consumers. "One of the achievements of economic theory," Hayek writes, "has been to explain how ... [the market achieves] an effective co-ordination of human activities without deliberate organization by a commanding intelligence."22 Echoing Hayek's views, John Gray asserts that "[w]hen it is unhampered, the process of exchange between competitive firms itself yields a coordination of men's activities more intricate and balanced than any that could be forced (or even conceived) by a central planner."23
Because the market is contrasted with the political arena, it might be thought that market-type processes do not operate in the political arena. Then, it might be inferred that if we want to study the process in which the laws of the state are made, which is one process that can be found in the political arena, we should not look for something resembling a market-type process. This might be the reason why logrolling is overlooked. For logrolling, so aptly characterized by Hirshleifer as an "injection of market considerations into the political process," works like a market transaction by enhancing the interests of both parties to the exchange, and thus is probably best understood as a type of a market process.

It is one thing to criticize Hayek's view of legislation, and another thing to say that logrolling can be used to form a majority on a production plan. A socialist plan may prove to be an extremely complex matter, where in order to secure the interests of the groups he represents, a legislator needs to consider a huge number of deals, so he might be completely lost as to what route to take. It turns out that this does not significantly strengthen Hayek's point of view, for neither a practice of logrolling nor the thing that Hayek calls "a complete ethical code" is required for a representative legislature to pass a production plan. But
before arguing for this claim, I will consider the second part of Hayek's argument to the effect that the establishment of socialist planning requires "the worst" to get on top.

3. Why the Worst Get on Top. In the infamous Chapter Ten of *The Road to Serfdom*, Hayek's tells us how the failure of parliament to agree on a comprehensive production plan could trigger a process culminating in "the worst" getting on top. Frustrated because of "the slow and cumbersome course of democratic procedure,"25 the public demands that the job of planning be delegated to those who are not bound by the limitations of the parliamentary system, who would not bother to get the endorsement of the legislative body. This is the "cry for the economic dictator."26

It is then the man ... who seems strong and resolute enough "to get things done" who exercises the greatest appeal. ... [because] it is the ineffectiveness of parliamentary majorities with which people are dissatisfied ... [w]hat they will seek is somebody with such solid support as to inspire confidence that he can carry out whatever he wants.27

Thus the pressure for central planning, accompanied by a legislature which can't bring it about, would bring to power "a strong man," who would exploit the widespread demand for central planning to carry it out by
circumventing the law-making body. To facilitate his rise to power, that "strong man" has to be backed by "a new type of party, organized on military lines," the great majority of whose members would come from the groups where "the more primitive and 'common' instincts and tastes prevail ... who form the 'mass' in the derogatory sense of the term, [of] the least original and independent ... whose passions and emotions are readily aroused." These people would be adhering to a very extreme ideology, according to which rival parties and ideologies represent "the enemy," which one should fight like a soldier in a war, unconditionally obligated to obey his leader's commands, licensed to do whatever is done in a war. With the rise to power of their party, these people would take over the machinery of the state. Carrying the message of socialist planning, the worst has gotten on top.

Let me start my evaluation with the following comment. In Hayek's account, "the worst" are people who have accepted a one-dimensional, extreme and distorted political ideology, because they have, what Hayek refers to as, "low intellectual standards." In the name of their ideology, these people are willing to do horrible things, a disposition which Hayek attributes to "low moral standards." If these people consist of the force behind the dictator who would establish central planning, there
have to be sufficiently many of them. They do not have to constitute the largest political party, but, as Hayek acknowledges, their party has to be fairly large. Now Hayek's account is not just about certain places and times, but rather, it seems, about the conditions which must prevail whenever there is a rise to power of forces promoting central economic planning. There is, therefore, something alarming about it. For unless we assume that central planning could only arise in some specific societies, (not in any society), Hayek's account seems to imply that people possessing extremely dangerous character traits can be found in large numbers in any society.

4. **Must the Worst Get on Top?** In my next comment, I focus on Hayek's description of the disintegration of the parliamentary system, for I think that things can certainly develop in ways other than the one he describes. In Hayek's account, the process which "gets the worst on top" starts because of a widespread public demand for central economic planning, as the people "have been convinced that it will produce great prosperity." The legislature is unable to satisfy this demand, and consequently, it loses the trust of the people.
The inability of democratic assemblies to carry out what seems to be a clear mandate of the people will inevitably cause dissatisfaction with democratic institutions. Parliaments come to be regarded as ineffective "talking shops," unable or incompetent to carry out the tasks for which they have been chosen.\textsuperscript{34}

By capitalizing on the diminishing authority of parliament and by posing as the only body capable of carrying out the will of the people, the leaders of the party of "the worst" take over the power.

The problem with this scenario is that it attributes to the legislators unintelligent behavior. For if public pressure for central planning is such a dominant factor in the political developments, (as it is clearly in Hayek's account), it must be acknowledged by the members of the law-making body. They must be aware of the fact that their failure to come up with a plan causes discontent. They could ignore this discontent and let things deteriorate, but they do not have to act so unintelligently. Knowing that it is very important for the people to have an economic plan, many of them may choose to forsake their own opinion on what the plan should be, and make sure that some plan is drafted, so as not to anger the public.

The job of planning may be entrusted to a special committee, whose plan is approved in advance.
Disagreement about a plan does not mean that parliament members should not be able to agree on the people in the committee, for they can appoint respected persons whose views on the subject are not known, so no one has a reason to think that the views of other members are going to be preferred. And the will to satisfy public opinion should not be the only factor pressing upon the legislators the need to appoint a special committee. Faced with a growing public conviction that if planning is to be carried out, "some single individual should be given powers to act on their own responsibility" and the formation of anti-democratic, violent forces, legislators must understand that if they fail to act, the democratic system could collapse with the whole nation falling prey to an uninhibited dictator. With this understanding, it would be utterly irrational for them not to appoint a planning committee whose plan is endorsed in advance. All this does not mean that something resembling Hayek's scenario could never take place. But it leaves open the possibility and makes it even plausible that things develop in a different way.

5. Socialism and "the Worst." Even if Hayek was not explicit about it, there could have been no doubt that when he talks about the rise of "the worst" to the top, he
has in mind the rise to power of the Nazi regime. The Nazis, for him, are "the worst" who erected a socialist economy after the failure of parliament to meet the demand of public opinion in favor of a plan.

The nature of the Nazi economy had apparently been the subject of a long debate, between socialists, who typically argued that Nazi Germany had a capitalist system, and those sympathetic to capitalism who tended, like Hayek, to argue that Nazi Germany had a socialist economy. This is quite understandable, because in the light of the monstrous character of the Nazi regime, nobody wants to accept that the Nazi economy had been a token of his preferred economic type. There are, however, good reasons for the controversy, for clearly, the extent of government intervention in the economy was unprecedented in Nazi Germany relative to capitalist economies.

The economy was said to be directed by a "four year plan," and the government initiated the creation of massive industrial concerns, famous among them was the "Hermann Goering Works," which dealt with mining and shipping apart from its obvious role in the manufacture of arms. Every enterprise had to belong to an organization which sought to encompass a whole branch of the economy, such as commerce and industry, agriculture, banking and
finance, etc., the head of which was appointed by the government. Certain materials could not have been purchased without government permission, while investment and prices were placed under control. If it was spared confiscation, the small farm could not have been legally sold, and many workers were not permitted to change their place of employment.

This can be used to support the view that the Nazi economy was a socialist one, but it does not settle the question, for government intervention in the economy is not the same as socialist economic planning. A great deal of intervention may not change the basic structure of a market economy, because it does not have to eradicate the entrepreneur as the main generator of productive activity. (For Keynesians, of course, certain types of intervention would only provide for a more robust capitalism). But barring the small private sector, the entrepreneur, in socialist planning, does not exist as a generator of productive activity, as the government assumes full responsibility for economic initiative. It is one thing for an enterprise not to do certain things because of government action, which is what happens in the market when government interferes, and quite another thing to function as an extension of the government, which is the position of enterprises under central planning.
Therefore, to show that the Nazi economy had been subject to a great deal of interference is not, by itself, sufficient to show that it was a socialist economy.

It might be claimed that the German economy had been completely harnessed to the demands of the Nazi war machine, and so it was no longer operating on the principle of "consumer sovereignty." Decisions on what and how much to produce were not in effect made by the enterprises, but rather by government officials. If this is true, there is one more reason not to consider the German economy under the Nazis "capitalist," but I can't say to what extent it is true. There is no doubt that the Nazis directed a disproportionately high level of the resources of the economy into the armament effort, administratively shaping the economy to fit their war plans, so enterprises were manufacturing what the government commanded. It is not clear, however, to what extent the end result approximated the dominant pattern of a socialist system, where all production--the quotas system--is a response to direct government orders.

Apart from the problems of the arguments to the effect that the Nazi economy was a socialist one, there is, I think, a compelling reason not to accept their conclusion. The Nazis apparently thought that it was easier to control the economy when it consisted mainly of
large units. Therefore, they channelled production into large units, by making laws that effectively drove small enterprises out of the market in both agriculture and industry.42

Never facing a shortage of orders for more of their products, large enterprises did so well that solid profits during those years were practically guaranteed.43 Profits, however, have not been nationalized, but rather considered the property of the shareholders of the enterprises.44 This is why it is common for writers to talk about the Nazi economy as geared towards "big business," Krupp, IG Farben and Siemens being mentioned as some of the big concerns that flourished under the Nazis.45 The important point for us is that, as profits in the German economy were taken to be the property of shareholders, the economy had an unambiguously strong element of private property in the means of production, which one should think is inconceivable in a socialist system.

What was the Nazi economy? Keeping in mind the categorizing system that we have used in Chapter One, the Nazi economy may be described as "planned capitalism," for going along with the institution of private property in the means of production, the Nazis imposed a sort of plan on the productive system. This conclusion bears directly
on the strength of Hayek's argument to the effect that the worst would get on top of any socialist regime. For Hayek's argument is inductive in the sense that its conclusion pertains to the future while its premisses deal with the past. More precisely, the claim that the establishment of a socialist economy would coincide with the rise of "the worst" is made by Hayek on the basis of his understanding of the Nazi regime. If the conclusion is to be supported by the evidence, what happened in Germany in the 1930s must be a case where a socialist system has been established by the worst people. I have no problem with the view that the Nazis were the worst, but a serious problem exists for the view that they ran a socialist economy. For while "planned capitalism" is very different from capitalism as we know it, it seems to me to be very different from socialism as well. Thus, the rise of the Nazis is not the case for Hayek to use as evidence for the claim that the worst are bound to get on top of a socialist regime, which means the same as saying that the evidence on which he relies does not support his conclusion.

2 Hayek, p. 105.

3 Hayek, p. 95. And cf. Milton Friedman, Capitalism and Freedom (Chicago: The University of Chicago Press, 1962), for an amazingly short analysis leading to the conclusion that "Price controls, whether legal or voluntary, if effectively enforced would lead to the destruction of the free enterprise system and its replacement by a centrally controlled system" (p. 135).

4 Hayek, p. 104.


6 Cf. Hindess, p. 147.


8 Wootton, p. 159.

9 Wootton, p. 27.

10 Wootton, p. 28.

11 Wootton, p. 159.

12 Cf. the letter which Keynes wrote to Hayek after the publication of The Road to Serfdom, the relevant portion of which is quoted in Hindess, p. 147.

13 Hayek, p. 138.
14 Hayek, pp. 149.
15 Hayek, p. 150.
16 Hayek, p. 57.
17 Hayek, p. 58.
18 Hayek, p. 58.
19 Hayek, p. 64.
20 Cf. Barbara Wootton, pp. 140-142.
26 Hayek, p. 67.
27 Hayek, p. 136.
28 Hayek, p. 136.
29 Hayek, pp. 138-139.
30 Hayek, p. 138.
31 Hayek, p. 138.
32 Hayek, p. 138.
33 Hayek, p. 61.
34 Hayek, p. 62.
35 Hayek, p. 67.

36 Hayek, pp. 67-68.

37 For Hayek's view, see The Road to Serfdom, p. 8, Chapter Two, Chapter Eight, especially pp. 113-118 and Chapter Twelve. For the views of the members of the Frankfurt School, who generally subscribed to the notion that "the turn from the liberalist to the total-authoritarian state occurs within the framework of a single order," see David Held, Introduction to Critical Theory (Berkeley: University of California Press, 1980), p. 52.


43 Ebenstein, p. 259.

44 Ebenstein, pp. 257-258.

CHAPTER V
PRIVATE ENTERPRISE, EQUALITY AND POLITICAL LIBERTY

1. The Balance of Powers Theory. My solution to the mystery of the empty box is provided through a theory about the economic conditions of political liberty, which I named "the balance-of-powers theory." The theory says that political liberty requires a balance of powers, in turn dependent upon two conditions. The first condition is that private enterprise constitutes the basis of the economy. The second condition is that there is a limit on the degree of inequality in the control over productive resources. Let me say a few words on each of the two conditions.

A private-enterprise based economy exists, for instance, in the United States, England, France and Japan. In this type of economy, the major part of the total product is the work of entrepreneurs seeking profit with a wide scope of property rights over productive resources. But the state may have a prominent role in the provision of national defense, law enforcement and highway and sewer systems. The state may also provide services in health, education, utilities and transportation, and
central involvement in the economy may be found in heavy and military industries.

Clearly alligned with the Hayek-Friedman approach, the first condition can be used to explain the mystery of the empty box, that is, why polyarchy has never existed in a socialist state. In this explanation, polyarchy is taken to mean an extensive use of political freedom by opponents of the ruling group, including the freedom to work for the replacement of its political program, and the freedom to take part in elections in which the legislature is determined by the results of the popular vote. But the first condition postulates that political freedom on such a scale requires a system of private enterprise, which socialist states did not have because they had a centrally-planned economy. It follows from the above that an extensive use of political freedom could not have been made in the socialist states, and consequently, that socialism and polyarchy could not have been found together.

Highlighted by the mystery of the empty box, the dismal condition of political freedom in socialist states is an intriguing phenomenon. But it should be remembered that capitalism and polyarchy by no means are always found together, as political freedom may be suppressed in a state that has a capitalist economy. Therefore, we strive for a theory which could explain the suppression of
political freedom in states having a system of private enterprise, though not merely as an appendix to the first condition, but rather within the same conceptual framework. Noting that in this we move beyond the opinions of Hayek or Friedman, we now turn to the second condition of the balance of powers theory, which points out the relevance of equality.

According to the second condition, political freedom presupposes limited inequality, and so forbids the existence of certain ranges of inequality in the control of wealth. The second condition does not require equal access to the control over the means of production, so political freedom allows for significant differences in the amounts of control that individuals exercise over productive resources. But granting that it is difficult to say exactly what "sufficiently" means, we propose that political freedom in capitalism is highly likely to be extinct if the control of capital is not sufficiently dispersed.

I will now attempt a systematic exposition of the balance-of-powers theory, showing as we go along how it explains, for a given state, the existence of political liberty or the absence thereof. My point of departure has to do with the threat to political freedom that is posed by "him that has the executive power," as John Locke has put it.1
2. **Executive Power: its Sources and its Danger.** We find it useful to distinguish among three branches of government: the executive branch, the legislature and the judicial branch. This division seems to be based on the position that each of the branches has towards the law. The legislature is the branch whose job is to make the law. The judiciary gets involved when someone claims that the law has been violated. But between the phase where the law is made and the phase in which it is said to have been broken, there is a phase where the law is transformed from phrases on paper into social reality. In this phase, where the law directs the construction of social arrangements and institutions, the law is executed, so the branch in charge of this function is called "the executive branch."

The executive branch is a concentration of much more material resources than the other two. To see this, simply compare, in your own mind, Congress and the judicial branch with the relevant departments of the executive branch, including defense, education, welfare, health and exploration of space. It is not hard to sense that, in terms of material resources used in the operation, the executive branch is immensely bigger than the other two. Statistical data unequivocally confirms this observation, showing that expenditure on the
executive branch constituted in some years somewhere around 90% of the Federal budget. With so many resources at their disposal, officials of the executive branch are capable of affecting changes in the society to a significant extent. The power they have, in that regard, is more fundamental and more efficacious than legislative power, for they hold the means without which the law is nothing but words. The power of the executive branch is further augmented because of its organization. Unlike the other two, the executive branch itself is a hierarchy, where the whole operation is controlled by the people at the top. This is a small group, comprised mostly of the heads of the various departments of the executive branch, a cabinet, a council of ministers or simply "the government" as they are called in the European tradition, in recognition of the power they wield.

The people who work for the various departments of the executive branch are not, as a rule, elected. They are appointed by their chiefs from whom they receive their orders. Their job is to implement the decisions of their superiors, for to them they owe their allegiance. In terms of the power to generate social change, this hierarchy with all its resources is a powerful machine, geared towards the implementation of the decisions of the people who lead the executive branch.
A unique combination of circumstances determines the fact that executive power constitutes a threat to political freedom. The council that leads the executive branch has a political program, which is a set of policies regarding political matters. This is not to say that the officials have identical views on what they want to accomplish. But it means that a sort of agreement exists among them as to their orientation, their goals and the ideas which give to a wide array of policies some unitary conception. And one should not think that the executive council has a political program only when all its members belong to the same party. For the truth is that coalition governments—where the members of the executive council come from a number of parties—also form their own political programs, though these may not be as ideologically tight and well-defined as a program expressing the world view of one political party.

To achieve its political program, the executive council has to transform its policies into law, and here there might be a problem. For the making of laws is the function of the legislative branch, the members of which may represent diverse political programs, and many may have no inclination to help promote the political program of the executive council. The executive council is thus disposed to use its power to take control of the
legislature by dismantling the institutions that enable its opponents to be represented in it. This entails the elimination of a cluster of freedoms, the so-called political ones: the freedom to form an opposition party, the freedom to work for the replacement of the ruling political program and the freedom to run for office, to name a few from the cluster of freedoms which constitute the essence of polyarchy.

3. Examination of the Claim that Executive Power Constitutes a Threat to Political Freedom. Let me discuss a number of comments that might be made in response to the claim that executive power constitutes a threat to political freedom. First, the threat is said to be generated in virtue of a tension between legislators' views and the political program of the executive council. This threat, thus, would disappear in the absence of a political program to which the council subscribes. It seems, therefore, that political freedom would be enhanced by a reduction in the chance of the council subscribing to one political program. This could be done by requiring that members of the executive council belong to different parties, in a combination which minimizes the chance of agreement among them on any political program. Alternatively, lack of a political program could be made a
precondition of membership in the council. It seems, therefore, that, by taking such measures, we would be able to minimize the threat to political freedom.

The problem with this solution is that it fails to acknowledge a crucial aspect of the function of the executive council. If the council was only supposed to be a group of administrators, its members would probably have been chosen through an examination of the sort that is used in the selection of lower-level employees. But the function of the executive council is more than administrative. The executive council constitutes the leadership of the state, which is why the election of its head is a major event in the politics of polyarchies. To perform its leadership role, the executive council must subscribe to some political program, which tells the people what it will do and how it intends to do this. It does not, therefore, make much sense to try to prevent the executive council from subscribing to a political program.

The second comment deals with the sort of control the executive council has over the entire executive branch. To dismantle a free--polyarchal--system, the executive council has to use the power of the executive branch, by ordering people who work in it to do various things. Such orders may be resisted by employees who cherish political freedom, which fact would diminish the universality and severity of the threat to freedom.
In reply I should say it is unrealistic to expect that resistance within the executive branch would save political freedom. The crucial thing in this regard is the structure of the executive branch. Because it is a hierarchy, the official in charge would simply replace any employee who refused to carry an order. Employees, therefore, must organize to have an effective resistance, but organization takes time, so department heads could fire the leaders of the resistance before they have enough time to complete the organization.

The third comment takes us back to Wootton's discussion of Hayek's claims about the threat to political freedom inherent in a system in which the state controls the economy. In her attempt to undermine the seriousness of the threat to freedom posed by the executive branch, Wootton argued that this involves an alarmist conception of the character of the people in the ruling group. They would suppress political liberty, Wootton seemed to be saying, only if they did not care for the freedom of opposition groups. But "power," she wrote, "can be exercised in different ways and in different degrees," so political freedom would survive when the state controlled the means of production, given that "positions of power are filled by men and women who care for the freedom of others."3
John Maynard Keynes had a similar view. In a letter to Hayek in which he defended planning against the claims of *The Road to Serfdom*, he argued that there was no threat to political freedom provided that the leaders of the executive branch were "rightly oriented in their hearts and minds to the moral issue."\(^4\) I do not believe that, as Wootton and Keynes have argued, there is no threat to political freedom provided that the executive power is upheld by individuals who "care for the freedom of others." But even if this is true, it is scarcely sufficient to undermine the seriousness of the threat to freedom posed by the executive branch. The reason it is not sufficient has to do with the fact that we have no method of making sure that the leaders of the executive branch "care for the freedom of others," or are "rightly oriented in their hearts and minds to the moral issue," as J. M. Keynes put it. For even if Wootton and Keynes are right, and political freedom, as they assert, is really secured when the leaders of the executive branch care for the freedom of others: if we have no method of making sure that the leaders of the executive branch are the kind of people who care for the freedom of opposition groups, there is plenty of room for the wrong people to find their way to the top.
The main point, however, is this. It is not true that political freedom is made secure by the mere fact that members of the executive council care for the freedom of opposition groups. For absence of care for the freedom of opposition groups is not required for them to decide to suppress such groups. What they need is to feel that promoting their own political program is more important than the freedom of opposition groups.

And this is not just a cynical way to circumvent an objection. I have not assumed that members of the executive council are ruthless, dangerous individuals whose main motivation is to stay in power, the kind of people that Hayek envisions when he writes of "the worst" getting on top. In the picture I have in mind, these can be responsible individuals honestly working for the promotion of some political program, which centers on truly social aims in national defense or education or economic development, to name a few possibilities. Nothing about them, in my conception, indicates that they fail to care for the freedom of the opposition. But the fact that they care for the freedom of others is not enough to sway them away from a disposition against political freedom, because they may care more about the promotion of their political program than about the freedom of the opposition.
To put the matter in a larger perspective, let us recall a commonly discussed ethical issue. In his "Utilitarianism and Integrity," Bernard Williams describes a case where the only way to save the lives of twenty people is to kill one person. If the lives of twenty people carry more utility than the life of one person, the consistent utilitarian, Williams claims, would have to kill the one person in that situation, for this action would maximize utility. The utilitarian in Williams's story may decide to kill a person, but this by no means entails that he does not care for the life he would destroy, as his reason for acting in this way is his desire to maximize utility.

Now consider a ruler deliberating on whether to allow political freedom or run the risk of having his political program defeated. Like the utilitarian in Williams's story, who really cares for the life of the person he is going to kill, the ruler in our situation may care much for the freedom of the opposition. But just as Williams's utilitarian, who may decide to kill one person to maximize utility, our ruler may decide to suppress freedom if he feels it is not as important as the promotion of his political program.

My aim, of course, is not to say that rulers or executive councils act as utilitarians, and clearly not to
justify the elimination of political freedom. I am saying, though, that the position of the executive council resembles that of Williams's utilitarian. We may disagree with the utilitarian's decision to kill one person in order to save twenty, but we cannot blame him for disregarding the life of the person he kills. Consequently, we may disapprove of a decision to disallow political freedom by an executive council, but we cannot regard it merely as a manifestation of disregard for the freedom of opposition groups, as it may be a case where the freedom of others is overridden by other considerations.

Let me add the following comment to my discussion of Hayek's argument to the effect that "the worst get on top." Hayek had no problem showing that "if all the means of production are vested in a single hand ... whoever exercises this control has complete power over us." But he had to show that the group in control of the means of production would invariably use its power against political freedom, so he came up with the argument about "the worst" getting on top. I criticized his argument in the preceding chapter, but this is the time to point out an additional difficulty. The executive council does not have to be "the worst" in order for it to be disposed against political freedom. It can be composed of people who have much regard for political freedom, but who
nevertheless believe that the promotion of their political program is more important than political freedom. Therefore, the case against central planning does not require one to show that "the worst" will get on top. Hayek, then, stumbled not only because his argument did not work, but mainly because he did not have to make it.8

Let us consider a fourth possible response to the view that executive power constitutes a threat to political freedom. It may be suggested that executive power would not pose a threat to political freedom when the executive council "cares for" political freedom more than it cares for its whole political program. When this occurs, the executive council would not be disposed to sacrifice political freedom for the sake of its political program, so it wouldn't abolish political freedom even when the legislature refuses to turn its policies into law.

Something like this may happen, but I will conduct my inquiry assuming that it is highly unlikely to happen. One argument for this assumption capitalizes on the historical lesson, from which we learn, again and again, that rulers would try to prevent opponents from having a say in the making of the law. Only a short time ago, the Chinese government used force to crush a demand for democratizing the country's political system. The white rulers of South Africa staunchly oppose the granting of
political freedoms to black opposition groups. In South Korea, opposition parties only recently obtained the freedom to challenge the ruling group to a contest over the power, but not before decades of suppression and a campaign which put the government under pressure it evidently could not withstand. A similar description may account for the events in the Philippines that culminated in the overthrow of Marcos.

Referring to the history of the West in the last several centuries, we can unfortunately only mention a very small number of the relevant events. That political freedom was at the heart of the American Revolution can be seen from one of its main slogans. "No taxation without representation" clearly expressed the sentiment of the rebels, who felt that they should have been given representation in the body which made the law that governed their territory. From the days of the Magna Carta to The Glorious Revolution of 1688, a central theme of British history was the struggle to force the King to surrender his power over the making of laws. The French Revolution was prompted by "The Oath of the Tennis Court," where the assembly of "The Third Estate" declared its intention to write a new constitution. Much more can be said on the issue, but what I have said might convey the idea that history is full of struggles which have erupted
because the ruler was unwilling to grant groups with opposing programs a role in the making of laws.

We should not, I suggest, expect that, in deliberating on whether or not to acknowledge the freedom of an opposition group, the executive council would decide to acknowledge the freedom of the group on the grounds that political freedom is more valuable than the promotion of its political program. This conclusion can also be established by appeal to considerations typically used in the philosophy of science. Suppose that there is a theory we want to accept because it makes successful predictions, explains the phenomena or provides a research program, to mention some of the criteria for the acceptance of scientific theories. A proposition of this theory seems to lack independent support, so we might be inclined to reject it if we had considered the proposition irrespective of the theory. But because the theory as a whole is something we want to accept, we commit ourselves to the proposition on the grounds that it has a role in the theory.

It might be the case that we want to accept the balance-of-powers theory, as it can explain the mystery of the empty box. In order to accept the balance of powers theory, we need to accept the claim that, in deliberating on whether or not to acknowledge the freedom of an
opposition group, the executive council would not decide to acknowledge the freedom of the group on the grounds that political freedom is more valuable than the promotion of its political program. The latter claim, therefore, may be one we want to accept.

4. Potential Political Power and Extra-Political Power. In its central assertion, the balance-of-powers theory says that political freedom requires a balance of powers. In light of what we have said so far, it should not be hard to see that this main assertion is motivated by a simple consideration. As executive power constitutes a threat to political freedom, the protection of political freedom requires power that will balance the power of the executive branch. Opponents of the executive council must have something on which to rely to deter the executive branch from taking their liberties away. I take seriously the view that this "something" is private property in the means of production, a view I will now try to develop in a gradual manner, starting with a comment about the term "balance of powers."

Traditionally, people have been talking about a "balance of powers between King and Parliament, between executive and legislative," having in mind some kind of division of constitutional powers between the two
This, however, is not the thing I am talking about by the phrase "balance of powers." Nor am I suggesting, in saying that political freedom requires a balance of powers, that in order to have political freedom, an opposition group must have as much power as the executive branch. I am saying, instead, that in order for an opposition group to have political freedom, there has to exist a balance between the potential political power of the group and its extra-political power.

Underlying talk of "potential political power" and "extra-political power," there is the idea that two methods of active opposition are typically open for a group whose political program differs from the political program of the executive council. This idea was expressed by Robert P. Wolff, when he talked about "two general sorts of opposition which a government may face." Wolff distinguished between constitutional and violent methods, listing "the right periodically to vote the government out of office" as a constitutional method, and "insurrections, revolutions, military coups [and] assasinations" as examples of violent methods of active opposition.

There is something appealing about Wolff's distinction, but it has to be modified. For when we talk about constitutional methods, we seem to refer to methods which are endorsed by a constitution. Now different
countries around the world have different constitutions, so different methods of opposition might be endorsed by different constitutions. I see no reason to exclude in advance the possibility that some constitution might approve of violent opposition, as a form of reaction to unconstitutional action by the executive council. Some constitutions may forbid opposition groups from using funds in their campaigns above a certain amount, or from using funds imported from abroad. This would entail the existence of unconstitutional but non-violent methods of opposition.

In the place of Wolff's distinction, let us consider a distinction between potential political power and extra-political power. What I mean by "potential political power" can be explained by reference to the term "political power." Imagine a party which has supporters who would have voted for it in the polls, provided they were allowed to vote in polyarchal elections. If, in such elections, the party were to capture a number of seats in the law-making body, we would say that the party acquired some political power. If, however, those people had no political freedoms, they would not be able to vote or gain any seats in the legislature through the electoral process. With no seats in the legislative body, we would find it hard to say that the party had political power.
But because it would have acquired the seats in case the people who supported it had political freedom, we can say that it has potential political power. Even where no party has been formed, we can see that a large group of people without political freedom would form a party if they somehow managed to gain political freedom. In that case we can say that the group of people also has potential political power.

Accordingly, we can talk about the potential political power of blacks in South Africa. Blacks in South Africa have no political freedom and so they cannot vote. As a result, they are not represented in the legislature, and so it is hard to say that they have political power. But if black people in South African had been given political freedoms, many of them would rally behind a political program which would capture many seats in the law-making body. Therefore, we can talk about the potential political power of the blacks.

Finally, to say that a party or a group of people has potential political power is not to deny that it has political power. The Democratic party in the United States has potential political power because of the large number of people inclined to support it. Since the party in fact has a large delegation in the legislature, it also has political power. The bottom line is that to talk
about the potential political power of a party or a group is to make a statement about the influence that it would possess if it were to have political freedom.

If a group is denied political freedoms by the executive council, it cannot make use of its potential political power. Often, then, it would try to promote its political program through extra-political power. The extra-political power of a group is its ability to work for the promotion of its political program through such methods as economic sanctions or military resistance. The use of extra-political power was demonstrated by the Americans in the stages leading to the revolution. They imposed economic sanctions on the British Crown, by stopping the importation of various British goods. These sanctions reduced the revenues of the "royal coffers" by more than seven million pounds, a loss that was taken quite seriously by the British Cabinet. 17

Under certain conditions, the extra-political power of a party may exceed its potential political power. Such conditions obtain when the group's political program fails to attract voters' support, but the group controls wealth or has a supply of arms. In this condition, the promotion of its political program may be done through a combination of economic and military pressure more effectively than by the use of the party's political freedom. (Why do the
rebels in El Salvador refuse to join the electoral process? Perhaps because they estimate that they would not get the support of the voters, but also know that they can rely on economic and military assistance from outside to help promote their political program through a violent revolt).

In its attempt to promote its political program, a group may prefer to use its potential political power, which is the case of black opposition to the South African government. Blacks, as a rule, are not wealthy and hardly have any control over productive resources. As a result, there is not much that they can do to put pressure on the government by way of economic sanctions. There was an attempt on the part of blacks to stop paying rent to their white landlords, and there was an ambitious attempt to strike against a major mining firm. But these attempts failed to compel the white government to make concessions to the demands of blacks. Economic means are necessary to build military force, so due to their economic inferiority, the blacks are not in a position to threaten the government with military insurrection. Consequently, the extra-political power of blacks is not sufficient to force the government to make concessions to their demands.

Now the number of blacks in South Africa is much larger than the number of whites. If blacks could enjoy
political freedoms, no one doubts that they would be able to take over through the electoral process, which is to say that they have much potential political power. This is why, in its attempt to promote its political program, the black opposition would rather use its potential political power, and also why the potential political power of blacks is greatly feared by the government.

5. Political Freedom as a Result of the Balance of Powers. The relation between its potential political power and its extra-political power is the element which determines whether or not an opposition group has political freedom. This can be partly demonstrated by considering black opposition from the point of view of the South African government.

If the government let the black opposition practice political freedoms, the black opposition would use its potential political power and take over the state. This would cause serious damage to the political program of the white government. By denying political freedom to the black opposition, the government runs the risk of riots, acts of terror, and other extra-political measures the black opposition might take. In reality the South African government need not be frightened by these extra-political measures. As the blacks have little access to economic
resources, their extra-political measures could not be very effective. From the point of view of the government, the damage to its political program that these measures would bring about is much less harmful than the damage it would incur if the black opposition used its potential political power. Thus, the government would rather encounter the extra-political power of blacks than their potential political power. Hence all the government has to do is to disallow the practice of political freedom by the black opposition, for no group without political freedom can use its potential political power.

Because its potential political power greatly exceeds its extra-political power, the political freedom of the black opposition has been eradicated. The balance of powers— the relation of its potential political power to its extra-political power— has been broken in such a way as to bring about the elimination of its political freedom. If this experience is to be generalized, our principle is the following. In deciding whether or not to let an opposition group practice political freedoms, the executive council estimates both the potential political power and the extra-political power of the group. If this estimation shows that the potential political power of the group is sizably greater than its extra-political power, then unless the amount of potential political power is
negligible in itself, the executive council would decide not to allow the opposition group to practice political freedom.

We may better grasp the nature of the situation with the following analogy. To enhance its political program, the executive council has to win its match with the opposition, and it has the option of choosing the rules by which the match will be played. These may be the rules of potential political power, where ultimately the winner is the side who would make the better use of its political freedoms. Or these may be the rules of extra-political power, where the winner is likely to be the side with more control over economic resources. If the government thinks that the opposition is likely to win when the game is played by the rules of potential political power, but likely to lose if the game is played by the rules of extra-political power, it would decide to play by the rules of extra-political power.

Political freedom is also endangered when the extra-political power of a group is clearly in excess of its potential political power. For this situation means that the group can promote its political program through its extra-political power much more effectively than by using its potential political power. Though the government may be willing to grant the political freedom
of the group, it is highly unlikely that the group would use its political freedom, for this would mean a clear reduction in the effectiveness of the promotion of its political program.

Political freedom is jeopardized when the balance of powers is broken; let us see how it can survive when the balance of powers is maintained by accounting for the existence of political freedom in the United States. It is commonly said that in the United States, political freedom is secure because of the Constitution. The Constitution prohibits the violation of political freedom, so the reasoning goes, and this is why the executive council cannot afford to take away the political freedom of opposition groups.

This explanation can be interpreted in a number of ways, but I will only address one interpretation. According to this interpretation, the explanation involves the assumption that, as a matter of universal law, an executive council would always do what the constitution says, and since the United States Constitution protects political freedom, the executive council in this country would leave freedom intact. But this is inadmissible, because very plausibly, in the history of various countries, there are examples where the executive council violated what the constitution said. It is not even clear
to me that in the United States, the executive council always followed the word of the Constitution. Therefore, in order to take seriously the view that political freedom in this country owes its existence to the Constitution, another interpretation has to be formulated.

I am leaving this job to others, for I believe that, in searching for the origin of institutions, we should concentrate on the real forces which operate in the society, rather than on the documents where official doctrine appears. Let me, therefore, lay down my understanding of the existence of political freedom in the United States.

Let us consider a case in which the executive council is in the hands of one of the big parties, the Republican or the Democratic. Consequently, the opposition is simply the other party, whose main contribution revolves around its legislative activity. Being in charge of the power of the executive branch, why should not the executive council try to annul the political freedom of the opposition? This would mean that the opposition has been barred from an active legislative role, so the making of laws is entirely up to the party to which the executive council belongs.

Whether Republican or Democratic, the executive council must be aware of the extra-political power of the
opposition. The backbone of this power is the vast economic resources owned or controlled by individuals who are associated with the opposition party. Their political freedom being suppressed, many of them would be prepared to employ their wealth in the fight against the oppressor. They might stop paying taxes, refrain from signing commercial contracts with the executive branch, refuse to abide by its regulations and turn down its requests for loans. With all the resources that these people control, such sanctions might bring about an enormous damage to the executive council, by breaking the foundations of its ability to rule. To such a revolt, the executive council might respond with all the power it has, but it should understand that the opposition may not stop until it regains its freedom; even when this requires that the opposition raises arms against the executive council.

The executive council may decide to fight the opposition through political means, that is, to use the polyarchal apparatus of free press and free assembly to get the people to vote for it in the polls. Success is not guaranteed, for the opposition might be effective in the political game. But it still leaves the executive council and the party to which it belongs with a manageable situation, for electoral losses are mitigated by the following factors. First, it is quite rare that
one party gets to control the presidency and both Chambers of Congress. So, even if the opposition does well in the polls, the party of the executive council would most likely continue to have a major role in shaping the laws of the country. Second, the gap between the political programs of the two major parties is not too wide, mainly because of agreement about the basic features of the economic system. This is not to deny that a real difference exists between the programs. The existence of two distinct political parties seems to me the best indication for the existence of real disagreement about substantive issues. Yet it is probably fair to say that the difference between the two programs is not so wide as to make it unacceptable for the members of one party to live under the program of the other. Third, a loss in the polls is not a terminal thing, for assuming that political freedom is going to be preserved, there seems to be a good chance that the party of the executive council, sooner or later, would be back in the saddle.

To put it all together: the executive council has compared two courses of action. One where it takes away the political freedom of the opposition, the other where it leaves this freedom intact. If it is to deny political freedom to the opposition, the executive council has to prepare for a confrontation with the extra-political power
of the opposition. Mainly because of access to vast sources of wealth, the opposition has a great amount of extra-political power, so a confrontation would have to result in a serious setback to the political program of the executive council. If the opposition is allowed to use its political freedoms, the executive council would have to be ready for a political match. The opposition has a considerable amount of potential political power, which can retard the promotion of the political program of the executive council. But the damage stemming from such retardation does not seem to be unacceptable for the executive council.

In terms of the balance-of-powers theory, the executive council has compared the potential political power and the extra-political power of the opposition. The result was that the potential political power of the opposition was not substantially greater than its extra-political power. A balance of powers obtains: the executive council would acknowledge the freedom of the opposition.

6. The Importance of Equality. I analyzed the factors supporting political freedom in the United States, but I think that my analysis can be applied to other polyarchies. This is because in all of them, there is a
system of private property in the means of production, so the opposition is able to have a great amount of extra-political power. This is when the executive council would acknowledge political freedom of opposition groups, realizing that it is better to lose legislative power in a peaceful and prosperous state than to control the legislature during a civil war. A precondition for the existence of political freedom, this realization would not occur without a balance of powers, attainable only in the presence of private property in the means of production.

While political freedom is realized in a number of capitalist states, including the United States and Canada, it does not exist in other capitalist states, like South Africa and Chile. What accounts for the difference? What determines whether or not a free society would prevail within a capitalist economy? According to the balance-of-powers theory, equality in the control of wealth has a crucial role in the matter. This is because when the means of production are controlled by a small group, the executive council is bound to be in its hands. Whoever is then the opposition would be left with little control of economic resources, and consequently, with little amounts of extra-political power. But in an economy that is infused with extreme inequality, the ranks of the opposition party would be filled with numerous
people who have come from the lower classes and who fervently oppose the government. This is exactly the case in which the opposition has much potential political power, a case we find in South Africa and in Latin American states. The potential political power of the opposition greatly outweighs its extra-political power, so the balance of powers has been upset in a way that induces the government to abolish political freedom.

The prospects of freedom are clearly improved when wealth is distributed equally. As various groups have equal access to the means of production, the opposition controls its sources of wealth whoever the government is. This might give the opposition sufficient amounts of extra-political power, helping prevent encroachment on its political freedom by the executive council.

In The Social Contract, Rousseau briefly addressed the connection between political freedom and economic equality. Because of his flashy style, Rousseau's comments do not lend themselves easily to interpretation. My feeling, however, is that a careful analysis could show that Rousseau's view is a predecessor of the view I promote. My view may also be endorsed by Lindblom's colleague, Robert Dahl, who thinks that democracy requires that "somehow economic resources ... be distributed more or less evenly--evenly enough at any rate to avoid
significant numbers of poor and rich."\textsuperscript{19} But it could be opposed by Hayek for whom "equality before the law ... is the only equality conducive to liberty."\textsuperscript{20} Let us, therefore, test it against the data.

\textbf{THE DISTRIBUTION OF INCOME IN TWO GROUPS OF COUNTRIES}\textsuperscript{21}

<table>
<thead>
<tr>
<th>Per Capita Income*</th>
<th>Income Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bottom 20%</td>
</tr>
<tr>
<td>-------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>\textbf{Equador}</td>
<td>313</td>
</tr>
<tr>
<td>\textbf{Kenya}</td>
<td>153</td>
</tr>
<tr>
<td>\textbf{Brazil}</td>
<td>457</td>
</tr>
<tr>
<td>\textbf{Philippines}</td>
<td>328</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>\textbf{UK}</td>
</tr>
<tr>
<td>\textbf{Australia}</td>
</tr>
<tr>
<td>\textbf{Sweden}</td>
</tr>
<tr>
<td>\textbf{U.S.}</td>
</tr>
</tbody>
</table>

* 1970 U.S. Dollars

In trying to extract law-like statements from the above data, we notice, first that political freedom in the countries of group 2, Britain, Australia, Sweden and the United States is evidently more secure and stable than in the countries of group 1: Equador, Kenya, Brazil and the Philippines. Hence, the balance-of-powers theory predicts that in the countries of group 2, we should find a lower degree of economic inequality.

The data can be analyzed in a number of ways, but here I will only point out the following. Among the free
countries, the income share of the upper quintile ranges from 38.7 percent (in Australia) to 42.5 percent (in Sweden). In the countries in which political freedom is in a fragile condition, the income share of the upper quintile ranges from 57.2 percent (in the Philippines) to 73.5 percent (in Equador). On the other side of the spectrum, the income share of the lowest quintile in the countries of group 2 ranges from 5.4 percent (in Sweden) to 6.7 percent in the United States. In the countries of group 1, the respective range spreads from 2.5 percent (in Equador) to 3.9 (in the Philippines). It seems, therefore, that compared with the established polyarchies, the other countries give their wealthy a larger share of the national pie while a smaller portion of that pie is granted to the poor. The chances of political freedom seem to improve upon the advancement of economic equality.22

"Economic equality" can be understood in two different ways. One, in the context of a system of private enterprise, as some degree of similarity across the bundles that people privately own. Second, in the context of a non-capitalist economy, as the abolition of private property in the means of production. Since the latter understanding has dominated social philosophy discussions, or at least was very prevalent, talk of
equality may be understood as a recommendation to take steps against the institution of private property in the means of production. I have, therefore, to emphasize that this is not what I have in mind, as the type of equality I am recommending presupposes a firm basis of property rights in the means of production.

7. The Suppression of Political Freedom in Centrally Planned Economies. The suppression of freedom in states that have a centrally-planned economy has been attributed to the characteristics of the ruling ideology. "Socialism," Michael Novak writes, having in mind the ideology behind central planning,

"has an inherent tendency to impose one set of moral injunctions upon all, even at the expense of other moral injunctions. To be sure, socialist thought assumes that its goals are in harmony with what humans universally desire, and thus does not think of itself as coercive. Yet it does tend to define its opponents as greedy, selfish, oppressive, and hostile to the poor. Such moralism fuels its historical tendency toward coercive behavior and sectarian schism."23

Novak is right to point out "the moralism" of socialism, its tendency to perceive its opponents as bad or as unaware of their own interests and not merely as people who hold inadequate points of view. It is hard, therefore, to deny that the moralism of socialism was
responsible for the suppression which existed under central planning.

Yet the moralism of socialism should not be considered the only thing which accounts for the suppression of political freedom under central planning. For this would be to divert attention from the threat to political freedom inherent in a system in which the state controls the economy. If we do not see how dangerous it is to let the state control the economy, our freedoms may be abolished by people whose ideology is not moralistic, if we gave them enough control over the economic system. For political freedom would be suppressed by people who have nothing against the moral aptitude of the opposition, as long as they feel that political freedom is not as important as the promotion of their political program.

I will now use the balance-of-powers theory to explain the suppression of political freedom under central planning. Let us consider one of the states that has central planning, and let us imagine its government deliberating about whether or not to allow the practice of political freedoms. The government has to know that political freedom would result in one or more opposition parties gaining a sizable delegation to the legislature. One reason for this belief is the simple fact that large opposition parties almost without exception exist in
polyarchal systems. Does the government has good reason to believe that strong opposition would not emerge with the institution of political freedom, as its popularity among its people greatly exceed the popularity of most polyarchal governments? Research shows that the governments of the socialist states have only been backed by a small part of the public, so the government we are talking about should be able to predict that, just as in other polyarchies, political freedom would bring about strong opposition in the legislature.

Recent events strengthen the claim that the opposition might be victorious if allowed, under central planning, to challenge the government in a free competition. Non-government candidates were very successful in recent elections in both Poland and the Soviet Union. They might have captured the legislature in free and fair elections. Thus, the government might expect a serious, if not lethal, setback to its program as a result of the institution of political freedom.

Fearing for its political program, the government may decide to prevent the practice of political freedom from opposition groups. Should such a decision bring about serious damage to its political program? This depends on the range of extra-political means which can be used effectively by the opposition.
Consider a tax revolt, where people refuse to pay taxes owed to the government. A massive refusal to pay taxes can deal a serious blow to a government, but this weapon is hardly effective in centrally-planned economies. For the relevant taxes are income tax and taxes on profits of firms. But as the government is the employer of almost all of the labor force, it can deduct the income tax before it pays the wage. Refusal to pay the tax on profits only applies to privately owned firms. Privately owned firms comprise of a small part of the total number of firms, and all of them are small. Thus, the revenues of the government would hardly be affected by a refusal to pay the tax on profits by the private sector.

In order to raise arms against the government, people have to be trained and supported and weapons have to be purchased. This requires sizeable funds if the goal is to defeat the troops of the government. Funds may be obtained from firms that opposition members control, wealthy people and ordinary individuals. But because of the negligible scope of the private sector, it cannot donate sizeable funds to the opposition. Wealthy people in central planning are bound to be associated with the planning apparatus, so they should have no motivation to donate money to the opposition. Perhaps an extraordinary effort would solicit sufficient funds from
ordinary people, but serious obstacles would be encountered in the attempt to publicize the effort, for the government owns the entire range of means of communication: the printing presses, parks, public halls and the media. Thus, the government would not be deterred by the response of the opposition to its decision not to allow the practice of political freedom.

All in all, compared with its ability to gain power through the electoral process, the opposition has little to offer by way of economic sanctions or military revolt. In terms of the balance-of-powers theory, its potential political power clearly exceeds its extra-political power, which is just the kind of situation that would lead the government to abolish political freedom.

It might be claimed that if central planning were to be established in the United States, something like the above analysis could be used to show that the potential political power of the opposition greatly exceeds its extra-political power. It might be asked if this would entail that, after 200 years of continuity, political freedom would be abolished in the United States. In response I would say that in the first stages of the new regime, the administration may not even think about abolishing freedom. But gradually, with the passage of time, little incidents here and there, would make it
sense its enormous power and give it the feeling that it is able to get away with various actions against the tradition of freedom. Then the president might decide to crack down on the opposition, but first, he would want to make sure that the power of the executive branch is totally in his hands. Like James II, the King of England, who wanted to push his country back to the lap of Catholicism, and thus loaded his administration with faithful individuals, the president starts to install his people in key positions of the executive branch. The King was eventually overthrown in the Glorious Revolution, as his opponents were not "prepared to consent to ... the policy pursued by James for three years, with ever-increasing violence and illegality, with no assignable object but to prepare the way for the forcible reconversion of England." But unlike its English counterpart, the opposition to the president would not have the necessary means to resist executive power, as the means of production would be controlled by the state. And once the president has insured the obedience of the executive branch, it is hard to see how political freedom would survive in the face of his attack.

8. Political Freedom and Market Socialism. Would political freedom be attained in market socialism? This
question cannot be answered with a simple "yes" or "no," for we have to know more about the particular pattern of distribution of property rights in productive resources that would be involved. Let me elaborate.

When we talk about the concept of "ownership," we have in mind a combination of property rights in material things that has included the right to use, the right to dispose, the right to sell and the right to the profits which accrue as a result of use. Capitalism and central planning differ in what they emphasize as the holder of this combination of rights in productive resources. Mainly the state is the holder of these rights in central planning, while individuals hold these rights over much of the productive resources in systems of private enterprise. Yet both systems make use of a very similar combination of property rights in the means of production.

Market socialism introduces a breakup of the traditional mixture of property rights in productive resources. In the Lange-Taylor model, management is entrusted with very substantial use rights over the enterprise, but the state maintains the rights to the profits. In the worker-control model, the workers are given both use and profit rights in the means of production.28
The assignment of profit rights should have a significant impact on the chance of political freedom in market socialism. If workers have full rights to the profits of the firm, there might develop an accumulation of capital comparable, though not as robust, as what we have in systems of private enterprise. This capital can enhance the extra-political power of opposition groups, giving rise to a balance between their potential political power and their extra-political power, a balance which would increase the chance of their gaining political freedom.

It is still, however, too early to say that political freedom would be attained in market socialism. For first, even when the workers obtain full profit rights, there are many ways to curtail their potential for economic enhancement. If the state, for instance, maintains the right to make investment decisions, as it actually does in the main models of market socialism,\textsuperscript{29} it could impose a rate of taxation which would practically eliminate the possibility of capital accumulation by the workers of the firm. There are endless possible ways to assign property rights in the means of production, so before we say that political freedom can be attained in market socialism, we have to have a pretty detailed picture of the way that these rights are assigned.
Second, market socialism has existed in Yugoslavia since the early 1950's, and with Perestroika and its derivatives, it is going to be attempted in additional countries. Yet the system is very young, and we do not really know that it will survive in the long run. This is in the twofold sense that we do not know if any non-traditional mixture of property rights in productive resources would prove viable, and we do not know the particular mixture which will survive if any mixture will. As in other cases involving complex social institutions, the last word on this issue will be spoken by the process of evolution.

9. Conclusion: a New Perspective on the Mystery of the Empty Box. According to the balance-of-powers theory, there has to be a balance between the potential political power and the extra-political power of a group or a party for it to practice the full range of political liberty needed for polyarchy. The theory says that if the potential political power of the group significantly outweighs its extra-political power, the political liberty of the group would be denied by the government. These propositions can be used to explain the mystery of the empty box in the following way. As central planning gives the government full economic control, opposition groups
are left with virtually no extra-political power, which means they can cause no damage to the government through the use of economic sanctions or military resistance. Therefore, if a group's political program appeals to sufficiently many of the people of the socialist state, its potential political power greatly outweighs its extra-political power. This breaks the balance of powers in a way that drives the government towards the suppression of the liberties of the opposition group.

In addition to explaining to us the mystery of the empty box, the balance-of-powers theory provides a new perspective on this mystery, by shedding light on the whole table in which the empty box is embedded.

<table>
<thead>
<tr>
<th>Political Systems</th>
<th>Polyarchal</th>
<th>Authoritarian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Enterprise</td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Economic Systems</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>Socialist</td>
<td>Empty</td>
<td></td>
</tr>
</tbody>
</table>

The theory explains not only why the socialist states have all been found in box #4, leaving box #3 empty. It also explains the distribution of private-enterprise based economies between box #1 and box #2. According to the
theory, this distribution is determined in accordance with the degree of economic inequality that is allowed in the system. Having surpassed a certain degree of economic inequality, a private enterprise based economy would be authoritarian and, thus, belong to box #2. As long as it does not surpass that degree of economic inequality, it would belong in box #1.

The balance-of-powers theory tells us that if we are concerned about the economics of political freedom, we should not focus primarily on whether or not a state has a socialist economy. What counts most is the degree of inequality in the control of economic resources. From the point of view of political freedom, it does not matter how the government gets control of the economic system, the socialist way, by nationalizing the means of production and getting rid of the market, or through the backing of individuals with private control over means of production, the way it is done in non-polyarchal capitalism. For if the economy is controlled by the government, opposition groups have no basis on which to build their extra-political power. Consequently, they have no means of resisting government suppression or, what amounts to the same thing, no means with which to protect their political freedom.
If political freedom is to prevail, the economic system must not be controlled by the government. I don't think that this means that state intervention in the economy should be reduced to a minimum, but it does strongly indicate that a centrally planned economic system is incompatible with political freedom. In order to have political freedom, we must have a system of private enterprise, but having this system does not insure political freedom for opposition groups. A highly unequal distribution of wealth together with what naturally follows, namely, a government of the wealthy, is likely to leave opposition groups with no control over economic resources, a condition in which their political freedom is doomed. Thus, a system of private enterprise, ameliorated or moderated by limited inequality, is the surest path to a free society.
CHAPTER V
NOTES


3 Barbara Wootton, Freedom Under Planning (Chapel Hill: University of North Carolina Press: 1945), p. 28 and p. 159. For a previous reference to Wootton's view, see Section 1 of Chapter IV.


8 The central doctrines of The Road to Serfdom are further developed in later writings of Hayek, e.g., The Constitution of Liberty. This, however, is not the case with the doctrine about "the worst" who get on top, perhaps because it has been abandoned by Hayek.

According to George Macaulay Trevelyan, [A Shortened History of England (Harmondsworth, Middlesex: Penguin, 1979), p. 146], the great influence of the Magna Carta was due to the fact that "A King had been brought to order ... a tyrant had been subjected to the laws which hitherto it had been his private privilege to administer and to modify at will." Trevelyan writes that at the center of the Civil War of 1642 was the quarrel between the king and parliament over the legal power to command the armed forces (p. 293, p. 299 and p. 334). The Glorious Revolution of 1668, according to the same author, was prompted by James II's dismissal of laws which prohibited the appointment of Roman Catholic individuals to posts in the government (pp. 344-346).


In the introduction to Principia Mathematica (Cambridge: Cambridge University Press, 1950), Russell and Whitehead write that "In mathematics, the greatest degree of self-evidence is usually not to be found quite at the beginning, but at some later point; hence the early deductions, until they reach this point, give reasons rather for believing the premisses because true consequences follow from them, than for believing the consequences because they follow from the premisses" (p. v). It seems that the Theory of Logical Types was one of the "premisses" to which they referred in the above quotation because, as they explain later, (p. 37), they accepted it not so much because it had independent evidence, but because of its "consequences:" it helped solve certain "contradictions," like Burali-Forti's.

Trevelyan, p. 272.


Wolff, p. 105.


22 Novak, p. 201.


26 Cf. Wootton, p. 27.

27 Cf. Trevelyan, pp. 345-347.


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