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2014

## Marx's Democratic Critique of Capitalism and Its Implications for a Viable Socialism

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### Recommended Citation

Schweickart, C. David. Marx's Democratic Critique of Capitalism and Its Implications for a Viable Socialism. *Owl of Minerva*, 46, 1: 67-77, 2014. Retrieved from Loyola eCommons, Philosophy: Faculty Publications and Other Works, <http://dx.doi.org/10.5840/owl20156813>

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## **Marx's Democratic Critique of Capitalism, and Its Implications for China's Developmental Strategy**

Presentation to the Fifth Forum of Humanities and Social Sciences of China  
Renmin University, Beijing  
June 18, 2005

### Introduction

As we all know, Marx's powerful and compelling critique of capitalism provided no explicit model for a viable alternative to capitalism, no "recipes for cookshops of the future," in his disdainful phrase.<sup>1</sup> Marx shouldn't be faulted for this omission. He was a "scientific" socialist. Although there were sufficient data available to him to ground his critique of capitalism, there was little upon which to draw regarding alternative economic institutions. No "experiments" had been performed. We no longer have that excuse.

Lacking any blueprint, successful socialist revolutionaries have had to improvise. Mistakes have been made. Lessons have been learned. Let us reflect for a moment on the economic history of the two most important revolutions of the past century:

When the Bolsheviks seized power in 1917, they immediately issued a decree nationalizing all land, while giving the peasants to right to use. This decree essentially legitimized what was already taking place in the countryside, as landlords fled. But giving land to the peasants is one thing; requisitioning agricultural surplus to feed the cities and the Bolshevik armies during the ensuing civil war is quite another. Giving factory committees control over production--another early decree--is one thing; ensuring that factories are well managed is another. Soon enough grain and other foodstuffs had to be seized by force, while Lenin called for strict discipline and order in the factories. Attempts were made at wholesale

nationalization, the banning of all market exchanges, centralized planning, even the abolition of money, but wartime conditions were so chaotic that none of these measures had much effect.

The Bolsheviks won the Civil War. (The Russian peasantry did not want the landlords back.) But the economy lay in ruins. Famine stalked the land. Uncounted millions died. "War communism," as an economic model, had failed.

In 1921 Lenin changed course. The New Economic Policy (NEP) was introduced. The ban on private enterprise was lifted. Attempts were made at securing foreign investment. (Little was forthcoming.) Forced requisition of grain was halted. (After payment of tax, peasants were free to market their produce.) Bukharin, in 1925, proclaimed the slogan, "Get rich!" (but was forced to retract it.) Price controls remained in effect, and the government continued to own and to manage most large and medium-sized enterprises. During this period, Lenin died; Stalin consolidated his power; the economy gradually recovered.

But there was a problem. The economy had recovered, but the Soviet Union remained a poor, underdeveloped country, encircled by enemies. The hoped-for socialist revolutions in Europe had failed to materialize. How could the Soviet Union develop into a major industrial power? Whence would come the surplus to make industrialization possible?

Intense debates raged among the Soviet leadership, but all agreed that it would have to come from the peasantry. The small peasant plots would have to be consolidated. Modern agricultural techniques would have to be introduced. Could this be done gradually, through example and persuasion, or were more drastic measures called for? There was also the issue of class strata in the countryside. If agricultural surpluses were to be forthcoming non-coercively, the wealthier peasants (middle-income peasants and kulaks) would have to cooperate. But these classes were the least sympathetic to the Bolsheviks and to socialism in general.

We all know what happened. Suddenly and without warning, Stalin launched a massive campaign to collectivize agriculture and to liquidate the kulaks as a class. Soviet society was convulsed from top to bottom. Peasants were terrorized into joining the collective farms--but the urban cadre dispatched to run them knew little about agriculture. Indeed, no one had any experience with large-scale, mechanized agriculture. Many of the most skilled peasants--the richer ones-- were killed or deported to Siberia. Those who survived were bitter and demoralized. Agricultural production once again slumped, setting the stage for the great famine of 1933.

This "great leap forward" in agriculture was accompanied by a similar "great leap" in industry. The first Five-Year Plan was drawn up and put into effect. Market exchanges were abolished. Centralized planning was introduced. The principle of one-man management was established at the enterprise level. Consumption was kept low. All surplus went to industrializing the country.

Workplace discipline was enforced by punishing absenteeism and providing material incentives. (Stalin declared that egalitarianism was "petty-bourgeois" until full communism arrived.) Moral incentives were also employed, and with success. After all, a new world was being build while the old one was experiencing in the worst economic crisis that capitalism has ever seen.

It cannot be denied--this effort succeeded. The human costs were horrific, particularly in the countryside, but at a time when the Western economies were mired in the Great Depression, (a seeming vindication of Marx's prediction), the Soviet Union laid the basis for its eventual role as one of the world's two "superpowers." It then survived the German onslaught, broke the back of the German army, rebuilt itself with minimal foreign aid (unlike Western Europe), launched

the first space satellite, and seemed poised to, in Premier Khrushchev's memorable phrase, "bury" the West with its economic accomplishments.

This, of course, was not to be. In the 1980s Soviet growth ground to a halt, whereas the West, following the deep recession of 1980-82, surged ahead. The Soviet system underwent a severe "legitimation crisis," abandoned its socialist heritage--and promptly collapsed.

There are, of course, many parallels between the Soviet and Chinese experiments--as well as dissimilarities. The Chinese Communist Party came to power after its civil war, not before, and so did not have face the challenge of building a socialist economy under wartime conditions. The Chinese Communist Party had far more experience with the peasantry than did its Russian counterpart. China was not as isolated as was Russia at the dawn of its revolution. It received moral support from its ally, and some material and technical assistance. These were advantages--to be set against the fact that China was poorer in 1949 than Russia had been in 1917, with less infrastructure and almost no industrial base.

To oversimplify a history that this audience knows better than I, the Chinese Communist Party began its rule with its own "NEP"--land to the peasants, nationalization of the "commanding heights" of the economy, toleration of market relations and even of "national capitalists" (as opposed to the "bureaucratic capitalists" who had actively opposed the revolution). Like those of the Soviet NEP, the policies of this period (1949-52) brought about a rehabilitation of a war-devastated economy.

The first Five-Year Plan (1953-57) was less drastic than its Soviet counterpart. Agricultural collectives were formed, but without the trauma and violence of the Soviet experience. Basic industries were developed, giving China a significant and stable modern industrial base. A mix of material and moral incentives was employed.

Then came the Chinese "Great Leap Forward" (1958-60). Agricultural collectives were amalgamated into much larger "communes" at an extraordinary rate. The central planning apparatus was partially dismantled in favor of regional decentralization and small-scale, labor-intensive technologies ("backyard blast furnaces"). Moral appeals replaced material incentives as the locus of motivation.

The overall effect was disastrous--agricultural collapse, terrible famine--which prompted a second NEP (1961-65) that encouraged petty capitalism in the countryside, reorganized industry along more conventional (Soviet) lines, and shifted emphasis to material incentives and technical expertise. Agricultural and industrial production revived markedly.

The Cultural Revolution soon followed. The focus this time was not on economic policy per se, but on character, ethics and motivation. It was believed that the economy would function better, in human terms, if people were motivated, not by narrow, potentially counter-revolutionary "bourgeois" economic interests, but by a proletarian consciousness that kept the well-being of the masses ever in view.

The experiment did not succeed. It was followed by a set of reforms, introduced first in the countryside, that was to transform yet China again, more profoundly, perhaps, than ever before. Agriculture was decollectivized. Market mechanisms were reintroduced, and gradually extended from rural areas to urban. Foreign capital was invited in. Large numbers of public enterprises were privatized. It was proclaimed, "To get rich is glorious!"

A period of stability exceptional in the history of modern China ensued that endures to this day, accompanied by astonishing economic growth, material improvements that have affected every layer of society, as well as rising inequality, unemployment, and environmental degradation.

What conclusions can be drawn from the history I have briefly surveyed? Looking at the history of the great socialist experiments of the twentieth century, we see that two controversies dominated much of the theoretical debate, not only in the Soviet Union and China, but in all the other socialist experiments that have been undertaken: plan versus market and moral versus material incentives. To what degree could centralized planning replace market exchanges? To what extent could worker and peasant enthusiasm for egalitarian, collectivist values motivate productive activity? In Marx's day these questions were unanswerable. The relevant experiments had not been attempted. I'm inclined to say, they had to be undertaken.

In the twentieth century various combinations of plan and market, material and moral incentives were tried. We have surveyed the results. Market won out in the plan/market controversy. Material incentives won out in the material/moral controversy. We now know what we couldn't have known a century ago: modern industrial economies are simply too complicated to organize under a detailed central plan; material incentives cannot be abandoned in a world of on-going scarcity. These are two of the great lessons of twentieth century economic history.

### Marx's Critique as a Democratic Critique

What would Marx say to all this? This issue has been much debated. Some argue that Marx would be aghast. He maintained, did he not, that markets are fundamentally irrational, and that markets pervert human sensibility, rewarding greed and duplicity? Others argue that Marx would endorse these developments. After all, Marx did not think that society could pass quickly from capitalism to a society regulated by the principle, "from each according to his ability, to each according to his need." In his Critique of the Gotha Program, he stated clearly that society

would have to pass through a "lower stage of communism" (now commonly called "socialism") which would be "stamped with the birthmarks of the old society from whose womb it emerges."<sup>2</sup> His brief remarks on this "lower stage" explicitly endorse material incentives. Payment, he said, would be according to contribution.

I submit that a careful reading of Marx's critique of capitalism suggests a different perspective on this debate. The central issue is neither plan versus market nor material versus moral incentives, but something else. Something important.

Although Marx offers us no blueprint for a socialist economy, much of his critique of capitalism focuses on the workplace--his early writings, particularly his 1844 manuscript on "Alienated Labor," but also volume 1 of Capital, both in its theoretical solution to the "riddle of capital" (How is profit possible when equals always exchange for equals in the market?) and in its detailed description of the actual conditions of work in mid-nineteenth century Britain.

But what might be the solution to "alienated labor"? The product of labor, the embodiment of a worker's energy and skill, does not belong to her. Nor does she have any control over what is produced, how it is produced, or her conditions of work. All of those decisions reside with he who owns the means of production--the capitalist.

"If the product of labor is alien to me, confronts me as an alien power, to whom then does it belong?

If my own activity does not belong to me, if it is an alien and forced activity, to whom then does it belong?

To a being other than myself.

Who is this being?



The alien being who owns labor and the product of labor, whom labor serves and whom the product of labor satisfies can only be man himself.

That the product of labor does not belong to the worker and an alien power confronts him is possible only because it belongs to a man who is other than the worker. If his activity is torment for him, it must be the pleasure and life-enjoyment of another. Not gods, not nature, but only man himself can be this alien power over man."<sup>3</sup>

So what might be the solution to "alienated labor"? The answer would seem to be obvious--although not stated explicitly by Marx. The workplace should be democratized! Not that democratization would solve all the problems of psychological alienation. Democratic decision-making is no panacea. Bad decisions are sometime made. The losers in democratic debate can become embittered, especially if they consistently lose. But still, democratizing the workplace responds directly to Marx's critique. The product now belongs to those who produce it. They have control over the conditions of its production. Scope for collective action emerges that is far wider than that which exists under capitalism.

Another part of Marx's critique has a different emphasis. At the theoretical heart of Capital is Marx's solution to the above-mentioned riddle. Profit is possible because workers are required to work more than the labor-time necessary for their own reproduction. This surplus labor produces surplus value--the source of capitalist profit.

It might be supposed that the resolution of this "injustice" would be for workers to work only long enough to give back to society the equivalent of what they consume, i.e. the labor-time embodied in the objects they purchase with their wages. But this tempting solution cannot be correct, for an economy that produced no surplus would be a stagnant economy, with no means

available for enhancing the quality of life of its citizens. There would be no surplus for research and development, no surplus to be directed to those parts of the economy that may have lagged behind the general level development, no surplus to be used for "free" goods, such as education, health care, state pensions.

Indeed, Marx makes it very clear, not in *Capital*, but in his later *Critique of the Gotha Program*, that a socialist society would still need to generate a social surplus. It is not true, Marx argues, that every worker in a communist society should receive the full proceeds of his labor. From the "collective proceeds of labor" must be deducted funds for the expansion of production, insurance funds against accidents and natural disturbances, funds to cover the general costs of administration not pertaining directly to production, as well as "that which pertains to the general satisfaction of needs, such as schools, health services, etc." a part which "grows considerably in comparison with present day society, and grows in proportion as the new society develops."<sup>4</sup>

In short, Marx's critique pertains not to the fact that surplus value is produced, but to the fact that the producers, collectively, do not have control over the disposition of that surplus.

Thus we see that Marx's critique of capitalism is in essence a democratic critique. Workers have no democratic control over their conditions of work. Society lacks democratic control over the social surplus, the disposition of which determines the general developmental trajectory of society.

Marx and the Market

There is something else about Marx's critique of capitalism that should be noticed, something Marx himself seems not have realized. Marx's critique is not really a critique of the market. Generations of Marxists have assumed that it is, but I think this is wrong.

It is true that *Capital* begins with "the commodity," and then traces, in rather abstract, Hegelian fashion, the development of the market, from barter (C--C), to money-mediated exchange (C--M--C), to money-initiated exchange: money being advanced for the purpose of making more money (M--C--M). But that brings Marx to his paradox: how can money produce more money, when equals are being exchanged for equals? How can M become M', where  $M' > M$ ?

His solution, as we know, is to focus on a very special commodity: labor-power, the capacity a worker has to work, which is all she has to bring to market. But notice: something has changed. We are no longer talking about the standard commodity market (the market for goods and services) but a different sort of market--a labor market. Moreover, as this market develops, it gives rise to yet a third market: a market controlling the disposition of surplus value, i.e. a capital market.

Thus we see that "the market" in a capitalist society is in not unitary. It is a triple market: a market for goods and services, a labor market and a capital market. Marx's critique is in fact not a critique of the market per se, but of the labor and capital markets. Suddenly theoretical space opens up, in the heart of Marx's critique of capitalism, for market socialism.<sup>5</sup>

## Economic Democracy: the Model

From these considerations a theoretical model comes into view, a socialist alternative to capitalism quite different from the Soviet model. I call it "Economic Democracy." It consists of three defining institutions:

1. A market for goods and services, which is essentially the same as under capitalism.
2. Workplace democracy, which replaces the capitalist institution of wage labor.
3. Democratic control of investment, which replaces the capital markets of capitalism.

But would such a system work? Would it be efficient? Would it be dynamic? Would it continue to embody socialist values? These are the fundamental questions upon which my research over the past several decades has focused.<sup>6</sup>

First of all, there is the theoretical issue. Much effort has been expended by economists in capitalist countries to demonstrate that, at least in theory, capitalism is optimally efficient. Highly stylized models have been developed. Sophisticated mathematical techniques have been applied. Nobel prizes have been awarded for these efforts. The conclusion: with sufficiently restrictive assumptions, laissez-faire capitalism is Pareto-optimal. That is to say, with sufficiently restrictive assumptions, an unregulated, perfectly-competitive capitalism will allocate resources in such a way that no one can be made better off without making someone else worse off. Whether this allocation is a just allocation is a separate matter, to be settled by philosophers and politicians. The point is, the system is efficient.

The question naturally arises. Might a market socialist economy with enterprises democratically controlled achieve the same degree of efficiency? This question was settled in 1970 with the publication of Jaroslav Vanek's *The General Theory of Labor-Managed Market Economies*. The answer is yes.<sup>7</sup>

Yes, Economic Democracy can work in theory, but what about in practice? The assumptions one must make to prove economic theorems about socialism (or about capitalism, for that matter) do not hold in the real world. Would Economic Democracy really work?

This question is addressed in some detail in my published work. It is important to realize that the past century is replete with economic experiments, not only the massive experiments recounted in the first part of this essay, but also small-scale experiments in individual enterprises. I argue that the empirical data now available to us strongly support the claim that an economy structured along the lines suggested by the model presented above would work better than capitalism. There is a vast literature now extant on worker-owned or worker-managed enterprises. There have been many attempts at macro-economic planning, often involving the allocation of investment resources. We can now assert, with a high degree of scientific confidence, that an economy structured as an Economic Democracy (the theoretical structures suitable modified to take into account certain practical contingencies) will be at least as efficient as capitalism, more rational in its development, and more democratic. It will also be less susceptible to the glaring defects of capitalism: excessive inequality, unemployment, poverty in the midst of plenty, overwork, and environmental degradation.

## The Yugoslav Counterexample

It is sometimes said that worker-self-management of enterprises on a broad scale is unworkable. Yugoslavia is cited as proof. This assertion was heard repeatedly, post-1989, at the time when Eastern European societies were attempting to restructure their economies. I have been told that this is the view of many Chinese economists.

Yugoslavia's bold experiment in worker self-management, begun in the early 1950s, motivated renewed theoretical interest in market socialism, and focused theoretical attention on the possibility of a feasible worker-self-managed economy. The positive theoretical conclusions drawn by Vanek and others were given empirical support by Yugoslavia's exceptional economic success during the 1950s, 1960s and 1970s. For thirty years the economy grew more than 6%/year on average (slower than China's post-reform rate, but very impressive nonetheless). Between 1952 and 1960 the Yugoslav rate of growth was the highest in the world. Between 1960 and 1980, Yugoslavia's rate of per-capita growth was third among all low- and middle-income nations.

But in the 1980s the Yugoslav experiment--and the country itself--unraveled. Why? It is natural for uninformed opinion to blame worker-self-management, for this was the feature of the Yugoslav economy that was so different from all other models, capitalist or socialist. However, there are no serious studies that support this contention. Not even Harold Lydell, a pro-capitalist economist who has written extensively and critically about the Yugoslav economic system sees worker-self-management as the problem. Quite the contrary.

It is evident that the principle cause of failure was the unwillingness of the Yugoslav Party and government to implement a policy of macro-economic restriction--especially restriction of the money supply--in combination with microeconomic policy designed to expand opportunities and incentives for enterprise and efficient work. What was needed was more freedom for independent decision-making by genuinely self-managed enterprises within a free market, combined with tight controls on the supply of domestic currency.<sup>8</sup>

Lydell rightly exonerates worker-self-management as the problem. What then was the principal cause of Yugoslavia's demise? The theoretical perspective underlying Economic Democracy suggests that the fault lay with another feature of the Yugoslav model--its allocation of investments. It is quite clear that Yugoslavia did not exercise the control over investment correctly. Yugoslavia, like many other low- and middle-income countries, was enticed into borrowing large amounts of the low-interest petro-dollars that had accumulated in the late 1970s as a result of the OPEC price increases, so as to avoid confronting difficult domestic choices. It thus found itself, like so many other countries, in a financial crisis when the low interest rates turned sharply upward in the early 1980s.

This policy mistake was greatly compounded by the central government's allowing republics excessive autonomy in generating and allocating investment. The richer regions got richer still, the poorer regions lagged further behind. This widening gap was the economic basis for the regional and ethnic tensions that soon exploded. As Dijana Plestina's careful, painful study makes clear, "most often the primary cause [for a lack of governmental consensus

concerning appropriate policies] was not ethno-nationalism per se but economic interest."<sup>9</sup>

Surveying the history of Communist Yugoslavia, she observes:

Despite generally "good intentions" and a relatively favorable domestic and international environment, when regional economic interests conflicted, as they did most often, the priority of enhancing one's own region's economic interests won out.<sup>10</sup>

The Yugoslav debacle does not refute the claim that Economic Democracy is a viable economic order. The Yugoslav experience may well contain lessons of importance for China-- but among them is not the unworkability of workplace democracy.

### The Relevance of China for Economic Democracy

The economic reforms initiated by Deng Xiaoping began one year after I had completed my Ph.D. dissertation, "Capitalism: A Utilitarian Analysis." Since the fundamental principle of utilitarian ethics is "the greatest happiness for the greatest number," a utilitarian critique of capitalism requires that one provide a plausible model of a non-capitalist alternative that would promote more happiness for more people than would capitalism. Hence, I was compelled to set out in my dissertation the basic institutional features of one such alternative. This became the first presentation of what I now call "Economic Democracy." (At the time I called it "worker-self-managed market socialism"--still an apt description.)

The Chinese agricultural reforms bore striking resemblance to this model. Capital assets (land in the case of the Chinese reform) remained the property of the state, but workers (peasants



in the Chinese case) were free to manage them as they saw fit, selling their proceeds on the market.

I held my breath as the Chinese experiment unfolded, and was immensely gratified to see that it worked--astonishingly well. The experiments with township and village enterprises also proved successful, and provided further support for the theoretical perspective I had taken. The early Deng reforms did not conform precisely to the model of Economic Democracy, but they clearly demonstrated that the market could be utilized creatively and effectively without abandoning public ownership of productive forces or public control over resource allocation. "Market socialism" was not, as it was fashionable to assert at the time, a contradiction in terms.

It is sad, even tragic, that so many Soviet and Eastern European economists gave up on market socialism in the late 1980s, early 1990s, bowing slavishly to the Western experts who were so certain as to what must be done to reform their economies. The Hungarian economist Janos Kornai is typical:

Classical socialist is a coherent system . . . . Capitalism is a coherent system. . . . The attempt to realize market socialism, on the other hand, produces an incoherent system. . . . The dominance of public ownership and the operation of the market are not compatible.<sup>11</sup>

Their countries might have been spared much needless pain had they looked East instead of West for advice, and been a little more cautious in plunging ahead with the massive restructuring that was being urged on them by Western "experts." It is now evident that these experts were driven far more by ideology than by science. Little concern was shown for the

people who would pay the price, if the reform schemes failed--which they did, almost everywhere. (Russia, in particular, suffered the greatest economic collapse of any country during peacetime in modern history.)

### The Relevance of Economic Democracy for China

If the success of certain Chinese reforms vindicated certain claims made on behalf of Economic Democracy, might the theory of Economic Democracy have something to offer China in return? At the risk of sounding presumptuous, I wish to assert that it does. To be sure, Economic Democracy is but a theoretical model, whereas China is a huge and complicated practical reality. But the theoretical perspective offered by Economic Democracy, although not developed with China in mind, has implications for China.

First of all, the model, when situated within the context of historical materialism, provides a theoretical framework for understanding the Chinese experiment. Historical materialism is a theory of history resting on a particular conception of the human species. We are regarded as a pragmatic, problem-solving species that is creative in ways that other species are not. As Marx observed, we, alone among the species of our planet, are capable of conscious, collective action. We are not determined by our immediate circumstances the way other species are. We are capable not only of understanding the world, but of changing it.

Historical materialism regards an economic system as the outcome of pragmatic attempts at solving the pressing problems associated with material scarcity. It sees the practices and institutions that constitute an economic system as evolving over time. Those practices and institutions put in place to resolve certain problems subsequently create new ones. Over time the

negative elements of the system can come to dominate the progressive elements, to the point that human beings must search for a new system, building on what they have, but reconstructing institutions in more or less radical fashion.

In both *Against Capitalism* and *After Capitalism* I argue that contemporary capitalism is precisely such a system, one in which the negative elements now overshadow the positive. Moreover, I claim that we can now see what (radical) reforms are necessary to take us to the next stage of socioeconomic development. We can also see that there are objective forces at work within most societies pushing, consciously or unconsciously, for these reforms.

China, of course, is not an advanced capitalist country. China is a still poor, still relatively underdeveloped country in a world dominated by advanced capitalist countries. How might an historical materialist view the future of China? Two theoretical imperatives present themselves, with conflicting policy implications:

- China, to advance, must pass through a stage of capitalism.
- China, to advance, must bypass the stage of capitalism.

Of course there remains a third possibility. Marx allows that class struggle can result in the mutual ruination of contending classes. China might self-destruct. (Indeed, our world might self-destruct.)

It is precisely this third possibility that gives the Chinese experiment such existential urgency. A choice will have to be made between the first two options. Which choice offers the best hope of avoiding the third?

The theoretical perspective offered by Economic Democracy suggests that the second choice is the more promising.

China, now more than ever, is part of the world capitalist system--but not all the parts of the world capitalist system are capitalist. China should strive to avoid becoming capitalist, but it should study the capitalist system carefully, so as to take over what is best about the system while rejecting what is destructive. This is no easy task, since the progressive elements of capitalism are often deeply entwined with the destructive elements.

China should strive to avoid becoming capitalist for one paramount reason. Capitalism cannot solve the most pressing problems facing China today, namely unemployment, personal and regional inequalities and environmental degradation. These problems are endemic to capitalism. At least one Nobel laureate in economics would seem to agree:

The big challenges that capitalism now faces in the contemporary world include issues of inequality (especially that of grinding poverty in a world of unprecedented prosperity) and of "public goods" (that is, goods people share together, like the environment). The solution to these problems will almost certainly call for institutions that take us beyond the capitalist market economy.<sup>12</sup>

In addition to providing a conceptual framework for understanding the broad contours of the Chinese experiment, some programmatic theses are also suggested by the theory of Economic Democracy.

Thesis 1: China was right to embark on a course of market reforms.

The theory of Economic Democracy holds to the principle that a viable socialism must be a market socialism. Although there remain socialists who dispute this claim, I consider this issue settled. The socialist opponents of market socialism are often eloquent in their critique of the market--but they are unable to articulate a plausible alternative.<sup>13</sup>

Thesis 2: China is not wrong in allowing a capitalist sector to develop, although this sector represents a clear and present danger to China's long-term development as an emancipated socialist society.

I have noted that, although Marx offers a powerful critique of capitalism, he says almost nothing about alternatives. There is something else missing in Marx's analysis. Marx calls our attention to the passive function of the capitalist, the capitalist as supplier of capital. This capital, he correctly observes, is simply the accumulated, unpaid labor of past workers, and hence (I have argued) should be under society's democratic control. But Marx pays virtually no attention to the active function of at least some capitalists, the entrepreneurial function: setting up businesses, developing new products, championing new technologies of production and distribution.

This too is labor, but labor of a particular sort, often involving exceptional skill as well as a penchant for risk. Neither Marx nor the earlier socialist experiments paid sufficient attention to the importance of the entrepreneurial function in society, and hence failed to develop institutional structures that would assure a sufficient supply of this most valuable resource.

We can see now that sector of small petty-capitalist enterprises is indispensable to a viable socialist society, certainly in its early stages of development, perhaps indefinitely. Small businesses offer a flexibility and sensitivity to consumer demand in many sectors that large enterprises, whether managed by state-appointed managers or even democratically-elected ones, cannot match. Moreover, the historical evidence strongly suggests that the entrepreneurial talent, energy and sense of responsibility necessary to insure an adequate supply of small businesses require economic incentives of the petty-bourgeois type. Worker cooperatives may also play an important role in the small business sector, but these are not likely to be sufficient in number. It is difficult to set up a successful small business. It is even more difficult to set up a successful cooperative.

The existence of a petty-bourgeois sector of owner-operated small businesses need not threaten the basic socialist character of a socialist market economy. To the contrary, to the extent that there also exists a vibrant cooperative sector in the economy and relatively full employment, petty-capitalist enterprises will be under competitive pressure to become more like cooperatives. To attract and hold the best workers, they will have to institute profit sharing and some participatory mechanisms.

Although a petty-bourgeois sector may well be important for job creation and for meeting certain forms of consumer demand, this sector will not supply much in the way of large-scale innovation. In capitalist countries there exists a certain mythology concerning the innovative potential of small businesses, but in point of fact not much productive innovation comes from this sector. Successful small business owners are adept at copying what other successful small business owners do, but few have the time or resources to devote to major innovation.

Hence it may be prudent for a socialist society to have a sector of large capitalist enterprises as well. If the socialist sector of the economy proves to be insufficiently entrepreneurial, or in need of serious competition to compel it to be so, then a genuinely capitalist sector might fill that role. Of course this represents a danger. Marx is hardly wrong in stressing that class struggle is a feature of all class-societies. It is not inconceivable (to put it mildly) that the capitalist class might ally with the petty-capitalist class in an attempt to establish itself as the ruling class.

But one should not conflate "not inconceivable" with "inevitable." If we carefully distinguish the active entrepreneurial function of the capitalist from the passive capitalist function, i.e., the function of providing capital, it is not so hard to envisage institutional arrangements that would at once encourage the former while blocking the latter, thus providing a barrier against the capitalist class becoming the ruling class (or vice versa). For example, it could be required that, when an entrepreneurial capitalist decides to retire or wishes to sell his business, he must sell his business to the state. No passing it on to heirs. The state can then turn it into a democratic enterprise.

Thesis 3: China should encourage and develop forms of workplace democracy.

As I have already noted, workplace democracy accords with basic Marxian socialist values. I have also noted that there is considerable evidence, much of it cited in *Against Capitalism and After Capitalism*, that, properly structured, democratic firms often outperform conventional capitalist firms. Apart from the evidence concerning workplace democracy, there is additional evidence that enhancing worker participation and control in Western firms, even

when this falls well short of full worker control, often results in "high-performance" workplaces, superior to conventional capitalist workplaces.<sup>14</sup>

There is some evidence that the same is true for Chinese firms. A recently-published pilot study of seventy-five firms in eastern Shangong Province undertaken to examine the phenomenon of Chinese state-owned-enterprise reform concludes that the move to employee-ownership had a significantly positive effect on firm profitability, as did shop-floor participation. The authors note that "interestingly, many of the employee-owned firms and state-owned-firms sampled had in place all the major components of advanced western systems (employee ownership, employee participation in management and financial information sharing). They simply lack systematic integration."<sup>15</sup> Indeed, they speculate that given the precarious circumstances of state-owned-firm workers, the impact of employee-ownership reform and profit sharing in China might be more significant than similar reforms in the West. "It would seem that during this interval when workers' circumstances naturally predispose them to employee-ownership systems, an historic opportunity may be at hand."<sup>16</sup>

A larger study of some 275 enterprises in Henan province by York University political scientist Li Minqi also comes to a similar conclusion. Collectively owned enterprises, shareholding cooperatives, and shareholding companies all seem to be more productive than state-owned enterprises. Moreover,

my survey results find that workers' participation in management has large positive effects on productivity performance of state-owned enterprises. . . . These results suggest that the existing distrust among economic reformers toward participatory management is not well founded, and a more open-minded approach of economic change that promotes



workers' participation in state-owned enterprises may be desirable in social as well as economic terms.<sup>17</sup>

Thesis 4: The Chinese government should not relinquish major control over the allocation of investment funds.

A fundamental contention of my research is that the market, for all its strengths as an allocational and distributional mechanism, will not allocate investment funds optimally. Competition among existing firms for customers is a healthy competition. It motivates firms to use their resources efficiently, to produce what consumers want and to adopt appropriate technologies. Competition among regions for access to investment funds is not a healthy competition. Neoclassical economic theory suggests that capital will flow from areas where it is plentiful to areas where it is scarce, but this comforting hypothesis is contradicted by actual experience. Left to market forces, rich regions become richer, poor regions poorer. The invisible hand is far from benign in its allocation of those funds so essential for development. (This is the correct lesson to be drawn from the Yugoslav tragedy.)

Balanced, sustainable development requires the government to play a major role in both generating the investment fund (ideally, by relying on taxation, not private savings) and in overseeing its allocation. To be sure, the market has a role to play here also, but it is a secondary role. Governments must dominate, not be subservient to, investment flows.

Fortunately, investment remains far more controlled in China than it is in capitalist countries. This control, at present, is far from optimal, but reforms should aim at rationalizing

this control and making it more accountable. The goal should not be to relinquish this control to market forces.

## Toward Democracy

The theory of Economic Democracy is concerned primarily on the economic structure of society. It advocates a "democratization" of capitalism--with respect to the workplace and with respect to the allocation of investment. The latter implies some form of political democracy, since it is political institutions that allocate the investment fund.

The theory does not specify the precise form of this political democracy. But whatever the form, it cannot be, in substance, what passes for democracy in the West today. I argue in both *Against Capitalism* and *After Capitalism* that capitalism is incompatible with genuine "rule of the people."

Those of us living in the West, certainly those of us living in the United States, do not live in a "democracy." The near total domination of the capitalist class over the political process is inconsistent with the basic meaning of the term. The capitalist class--that upper 1% of the population of the United States that owns 40% of all the wealth of the United States--is the major source of funding for almost all political candidates. This class funds an army of "lobbyists" to insure that its interests are well represented to all government officials, particularly our elected representatives. It also funds an array of private foundations whose business it is to construct and gather support for "model legislation" that will protect and enhance the interests of this class.

Of course, the capitalist class owns virtually all organs of mass media: television, radio, mass-circulation newspapers and magazines, thus insuring that its interests will be portrayed

unfailingly as the general interests of society. Moreover, if all else fails, this class can always engage in an "investment strike," a near-spontaneous reaction to economic policies perceived to be "bad for business." Since a capitalist society relies on the private savings of its citizenry to finance investment, and since owners of these private savings are free to dispose of them as they see fit, unhappiness with governmental policy can trigger an exodus of capital, which will throw the economy into recession and thus guarantee that a recalcitrant administration be removed from office.

Such is the nature of our Western "democracies"--which are more properly designated "polyarchies," not democracies.<sup>18</sup> Things could be worse. We do have relatively honest elections on a regular basis that are not meaningless. But as the Indian novelist and social critic Arundhati Roy has so trenchantly observed:

Modern democracies have been around long enough for neo-liberal capitalists to learn how to subvert them. They have mastered the techniques of infiltrating the instruments of democracy--the "independent" judiciary, the "free" press, the parliament--and molding them to their purpose. The project of corporate globalization has cracked the code.<sup>19</sup>

As China struggles to find an optimal economic system, it must also create an optimal political system--"optimal" meaning that which maximizes human freedom and well-being, given existing material and cultural constraints. The economic system, if it approaches optimality, will be a socialist system. The political system, if it approaches optimality, will be a democratic system. Achieving this twin optimality, for itself and as an example to struggling countries everywhere, may well be China's world-historic task at this time.

## Notes

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1. Karl Marx, "Afterward to the Second German Edition, "Capital, v.1 (New York: International Publishers, 1967), p. 26.
  2. Karl Marx, Critique of the Gotha Program, in Karl Marx, Selected Writings (Indianapolis: Hackett, 1994), p. 320.
  3. Karl Marx, "Alienated Labor," in Karl Marx, Selected Writings (Indianapolis: Hackett, 1994), p. 65.
  4. For additional evidence that Marx might endorse market socialism, see philosopher James Lawler's "Marx as Market Socialist," in Market Socialism: The Debate Among Socialists, ed. Bertell Ollman (New York: Routledge, 1998; Chinese translation, Xinhua Publishing House, 2000).
  5. Marx, Critique of the Gotha Program, p. 319.
  6. The most recent presentation of the results of my research can be found in David Schweickart, After Capitalism (Lanham, MD: Rowman and Littlefield, 2002; Chinese translation: Chinese Academy of Social Sciences, forthcoming). A more technical treatment can be found in my Against Capitalism (Cambridge: Cambridge University Press, 1993; Chinese translation: Renmin University Press, 2003).
  7. Jaroslav Vanek, The General Theory of Labor-Managed Market Economies (Ithaca, NY: Cornell University Press, 1970). For a more detailed treatment of the theoretical debates surrounding this issue see Chapter Three of my Against Capitalism (Cambridge: Cambridge University Press, 1993) [Chinese translation, Renmin University Press, 2003.]
  8. Harold Lydell, Yugoslavia in Crisis (Oxford: Clarendon Press, 1989), p. 69.

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9. Dijana Plestina, *Regional Development in Communist Yugoslavia: Success, Failure, and Consequences* (Boulder, CO: Westview Press, 1992), p. xxvii.
  10. *Ibid.* p. 178.
  11. Janos Kornai, *The Socialist System: the Political Economy of Communism* (Oxford: Princeton University Press, 1992), p. 500. It might be noted that Kornai's research was underwritten by the Sloane Foundation, and Ford Foundation, and the McDonnell Foundations.
  12. Amartya Sen, *Development as Freedom* (New York: Random House, 1999), p. 167.
  13. For a presentation of both sides of this issue, Ollman, ed., *Market Socialism: The Debate Among Socialists*. In this work James Lawler and I defend market socialism, while Hillel Ticktin and Bertell Ollman take the opposite position. For a recent critique of market socialism which centers on the Chinese experience, see Martin Hart-Lansberg and Paul Burkett, *China and Socialism: Market Reforms and Class Struggle* (New York: Monthly Review Press, 2005).
  14. See Eileen Appelbaum, Thomas Bailey, Peter Berg, Arne L. Kalleberg, *Manufacturing Advantage: Why High-Performance Work Systems Pay Off* (Ithaca, NY: Cornell University Press, 2000) for an in-depth study of forty-four U.S. manufacturing firms. See also, Gregor Murray, Jacques Belanger, Anthony Giles and Paul-Andre Lapointe (eds.), *Work and Employment Relations in the High-Performance Workplace* (New York: Continuum, 2002).
  15. Tseo, George K.Y., Hou Gui Sheng, Zhang Peng-zhu and Zhang Lihai, "Employee Ownership and Profit Sharing as Positive Factors in the Reform of Chinese State-Owned Enterprises" *Economic and Industrial Democracy* 25(1) (2004): 171.

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16. Tseo et. al., "Employee Ownership," p. 172. It should be noted that the EO firms being studied are by no means equally owned, nor are they governed by the principle one-person, one-vote, as in the model of Economic Democracy. It should also be noted that Tseo et. al. find that the presence of empowered worker assemblies or worker congresses had a somewhat negative correlation with profitability. The authors speculate that this may be due to either inexperience or lack of real authority.
17. Li Minqi, "Workers' Participation in Management and Firm Performance: Evidence from Large and Medium-Sized Chinese Industrial Enterprises," *Review of Radical Political Economics*, v. 36 (Summer 2004): 377.
18. Yale University political scientists Robert Dahl and Charles Lindblom coined this useful term. See their jointly-authored *Politics, Economics and Welfare* (New York: Harper and Brothers, 1953), as well as Charles Lindblom, *Politics and Markets* (New York: Basic Books, 1977) and Robert Dahl, *Democracy and Its Critics* (New Haven: Yale University Press, 1989).
19. Arundhati Roy, *An Ordinary Person's Guide to Empire* (Boston: South End Press, 2004), p. 3.

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