

THE CONCEPT OF THE OWNERSHIP IN THE LATE 'SOCIALIST' POLITICAL ECONOMY

*This paper investigates the collision between the unquestionable requirement to preserve and maintain the solitary existence of the **all-people socialist ownership** and the need to provide a certain, though limited, **independence** for the enterprises. The seemingly simple practical issue, eventually appeared as a complex contradictory knot of both theoretical and practical problems, which implicated a lot of attempts for their overcoming in the different socialist countries, continuing up to the end of 1980s, i.e. to the last days before the system break-down. The paper here focuses on the experience in Soviet Union and, particularly, in Bulgaria.*

JEL: B14; B24; G34; L22; P26; P31

1. Introduction

The reasons for break-down of the socialism as a political and economic system is an interesting and revealing problem, and its analysis might help for a better understanding the fundamentals an economic system is built upon. However, the ongoing research on the matter concentrates more or less, in the circle of functional problems – the economic inefficiency, the lack of political freedom, the exhausted resources in the military contest with the West, the technological gap and so on. Limited attention is paid on the institutional problems encountered by the socialist system. Such an approach is understandable, provided its coherency with the general institutional neglect, rooted in the mainstream economics. Nevertheless, though less visible, the problems created by institutional controversies of the socialist economic system were not less damaging. And, what is worse, the system runs into them, virtually, at every stage of its development. In the centre of those controversies lays the dogma of the *all-people socialist ownership* – an institution, brought to life in order to crowd out and overcome the 'exploitative' forms of the ownership, and first of all – the capitalist one. Once the dogma has been implemented, its promulgators started to face various practical and theoretical problems.

The paper presented investigates the collision between the unquestionable requirement to preserve and maintain the solitary existence of the single approved form of ownership and the need to provide a certain independence of management of the socialist enterprises. The

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collision initially seeming quite simple, practical issue, eventually appeared as a complex contradictory knot of both theoretical and practical problems. A lot of attempts were initiated for their overcoming in the various socialist countries, continuing up to the end of 80's of the last century, i.e. virtually to the very last days before the system broke down. This paper focuses on the experience in Soviet Union and, particularly, in Bulgaria.

2. The dogma

Socialist Political Economy (SPE) emerged with the development of the new economy and society after the socialist revolution. Though, the societies differed from country to country and the theory tends to reveal certain country-specifics, it was deeply rooted in the Marxian writings and predictions for the socialist society. They were scarce, even sketchy in many aspects, which imposed the necessity to develop many theoretical and practical problems *ad hoc*. Nevertheless, the main aspects remained more or less unchanged, becoming later even unchangeable and establishing this way the core of the socialist theory.

Marxian labour value theory drove its author to the point of rejection the capitalist ownership, and even the private ownership in general, in a search of a society of an economic equality for everybody. Marx's reasoning is not much sophisticated – private appropriation of the results from the labour creates exploitation of one part of the society by another one. That contradicts the gross *socialization* of the modern production, a process involving complex participation of large masses of people. The core of that contradiction is the institute of the private capitalist property. Hence, its ultimate resolution must be abolishment of the private property on the means of production or, rather, its *socialization* – making it available to the whole society.

That is an oversimplified interpretation, of course, but it represents correctly, on my opinion, the origins of the concept of the '*most-socialised*', *single socialist 'all-people' ownership*, installed as a cornerstone of the *Socialist Political Economy (SPE)*. Later, a great number of *socialist* economic categories, laws, principles, practical approaches and mechanisms were developed from this fundamental principle. Fortunately, they were derived secondarily from it, which secured for them a chance for further precision. For example, this was the case of some economic laws which were *adopted* to refer just to the first ('*lower*') stage of the socialism, and differed from others – specific for to the second ('*higher*') one.

But, that was not the case for the concept of *socialist ownership*, the first pillar of the Socialist Political Economy. It obtained a sacred status and was dogmatized. More precisely, the fundamental dogma in SPE was not the all-people ownership itself, but rather the unacceptability and incompatibility of the private property with the socialist economic system. In fact, the Socialist Political Economy offered a lot of discussions and 'developments' about the forms of manifestation, 'totality' and 'maturity' of the single all-people property. What was not to be questioned, was the denial of the right of existence of the private property on the means of production.

With few exceptions, almost everything was supposed to belong to the ultimate sovereign, *The People* – all production means, the land, the natural resources etc. In the few cases when some "privacy" was undeniable e.g. over the personal belongings, cars, homes (the last two not everywhere in the socialist world) – it was referred as to a "personal", but not private, property and could not be used in any economic way, i.e. for production, by its owners.

The only (partial) exception was done for the collective or so-called co-operative property, which has been tolerated in the agriculture, again, not in an equal degree, in all the socialist countries. Even where it was applied on a large scale, it has not any specific economic significance, since its principal, the collective, could not sell the land, liquidate or change the sort of production. Thus, the *ultimate owner* of the collective property, practically, was no different than the one of all-people property.

The second pillar of socialist political economy, the abolishment of the so-called *commodity-monetary* relations (a euphemism for market)² was not that successful in obtaining the sacred, or dogmatic, status. It is, also, rooted in Marx writings. Since, the capitalist production process is broken into a myriad of private processes along the private ownership over the production means used in those processes, the products turn into commodities, through the arbitration of money. Said in other words, while being privately produced, the products need a socialising assessment, and the latter is possible through a monetary evaluation of their commodity form. Once the society abolishes the private property, the products of everybody becomes directly socialised and do not need the commodity-monetary form for its recognition. Shortly, the socialist society requires *abolishment of the money* too.

As it is well known, that point was not dogmatised, simply, because it could not be realised, though attempts were made in the 20's of the last century. More precisely, what was dogmatised was that the commodity-monetary relations will be preserved under the *lower (socialist)* stage of the system, temporarily, and with serious qualifications. Qualifications concerned the limited field of application and the specific way of manifestation within the socialist economy, i.e. they were subordinated to the ultimate rule of the plan etc. Nevertheless, the monetary relations were involved in, and played not the last role in the "systemic" problems of the socialism.

3. Dogma confronts the reality

As mentioned, both pillars in the socialist political economy dogma originated in Marx. As a matter of fact he concentrated on the critiques of the existent society and outlined very scarcely what was supposed to be the next, 'socialist', society. This becomes apparent soon after the revolution in Russia when the capitalist ownership was cancelled, and the problem

² The English terms referring to the socialist economics categories are those offered by *A Dictionary of Political Economy*, an official issue of the Progress Publishers, Moscow, 1985, and seldom meet the modern economics terms, but they keep the original ideological meaning, which is necessary for the correct historical understanding of the analyzed system of economic thought.

of how to get out from the anarchy emerged. The "Red-Army attack on the capital", according to Lenin terminology, "expropriating landlords and bourgeoisie... is accepted as a beginning of the restriction and 'overcoming' of the money in Russia", (World history, 1990: vol. 4, p.36). The process achieves full scale during the time of so-called *war-communism*. Its economic policy³ includes confiscation of the agricultural products, their direct distribution, para-military organisation of labour and this is *de factò* a large scale attempt to abandon the use of the money. The disastrous results arrived soon. Almost full destruction of the trade, drastic fall in the production, famine in the rural areas, shrinking of the population etc., were the major 'visible hand' changing first the practice and then the theory of socialist economy about the role of the money.

The New Economic Policy (NEP) proclaimed in 1920's in Russia recognised, among the other things, the unavoidability of the monetary connection in the socialist economy, at least for a period; trade, banks, even private initiative become important elements of this policy. However, this was always seen as a practical, temporary solution and nothing else: "Commodity-monetary relations, capitalist economic forms are *just means* for achieving of certain goals" (World history, 1990, vol. 4: p. 75) (*italics mine P.T.*). The irony here is that the goals were development of the production and raising the living standard, but that is a different story.

Recognition of the unavoidability of the money lays down the starting point of the most serious contradiction of the socialist societies. It emerges as a practical solution, which immediately confronts with the theoretical dogma creating subsequently contradictions in the theory itself. This clash could be traced over the whole history of all socialist societies and one can say that the latter is a history of the attempts to solve this problem. Although, the true nature of this contradiction is not in the theory. In fact, the theory, at least as presented by Marx, correctly predicts that destruction of the private property needs abolishment of the money as well. The problem is an ontological one and may be described as an *institutional incompatibility*. On the one hand, destroying the institute of the private property is destroying of the discrete organisation of the production. If all the production processes in an economy have a single (ultimate) owner there is only one residual claimant, i.e. only one profit centre in the whole economy. On the other hand, if one wants to have each production process measured by its efficiency, i.e. by the prices of produced commodities, or, to say it other way, if one wants to have benefits compared with costs, (s)he needs autonomous, economically discrete production processes and hence, multiple residual claimants and profit-centres.

The controversy revealed here, may seem unimportant, but this perception is misleading. Further below, the practical problems created by this contradiction are shown, and it is pointed out how far they were reaching sometimes, causing ideological threats for the ruling '*nomenklatura*'.

³ It is important to note that it is not just a wrong practice, led under war pressure by Lenin, but a process finding ideological and theoretical support in the writings of the whole Soviet leadership of that time – N. Bukharin, J. Larin, V. Smirnov, Osinskij among the famous ones (World history, 1990: vol. 4. p. 45) – and which, eventually, was fixed in the Russian Communist Party Program from 1919.

Given the dilemma, the socialist theory had a complicated problem, which needed a serious re-examination of the original assumptions, if it is to be resolved. Failing to recognise the problem, theory loses its explanative power and becomes dogma. This was, the actual case, with the *socialist political economy*. It failed to rethink its postulates, thus masking the real nature of the ontological problems, creating sophistic theoretical problems and fake solutions.

Nonetheless, the very process of fruitless search is interesting and may be instructive, if the orthodox economics is being revised from a non-orthodox economic point of view.

4. Practical Dimensions of the Problem and the Attempts for its Resolving

In practice, the problem manifests by the magnitude and forms of control over the economic agents. If the monetary relations are restricted beyond of a certain point, the economic incentives get so weaken that this threatens the very functioning of the system. When they are released as a necessary reactive measure, the economic incentive allows the local economic agents to sneak out of the grip of the centralised control of the bureaucrats, playing a role of the principals of the all-people ownership. Then comes another tightening of the policy, followed by another release and so on.

That model might be seen functioning in the most clear way after launching the NEP. It gave a strong chance to the capitalist economic forms and the elite soon realised that through releasing, even partially, the monetary relations they lose the economic control. "... (NEP) led to the rebirth of the capitalist tendencies, activating the old one and emerging of a new bourgeoisie in both the cities and villages", (World history, 1990: vol.4 p.76).

Perhaps the lack of experience how to deal with this problem allowed the private initiative to go so far away under the NEP, and maybe this made the followed reaction so sharp. Stalin's repressions not only to the capitalists, but also to the peasants, are a striking example of that reaction. Those are the times of the most direct control over the industry, of the most restricted monetary relations, i.e. of the most need of non-economic pressure over the economic agents in order to make them complying with the central plan. The WWII might be responsible, this period of rigid restrictions to be so long, though the reasons are much more perplex.

Either way, at the beginning of the 1960's, another period of slight liberalisation of the economic life followed. Thereafter, the paper focuses on the Bulgarian experience, but the historical turns in all major European socialist counties follow generally the same pattern.

Without much theoretical trouble, after taking some party decision in the 1960's begins an experiment providing the socialist enterprises with relatively large rights for economic action. They are required to take care about the expenditures in production and are allowed to strive for profit (and even to retain part of it). Also, directors of the units are authorised with a certain number of competencies for taking economic decisions, which go even beyond the limited framework of the operational management. In Bulgaria, this process went that far, that one of the companies grew quickly, diversified its commercial activities strongly and with an aggressive and free policy, effectively resembled the corporations of

western type. The followed reaction, coincided with the Czechoslovakian intervention, thus disguising somehow its economical nature. However, the severity of the punishment imposed to the persons involved, indicates on the real reason.

Nevertheless, that attempt to restrict the economic freedom of the units, and the role of the money and price mechanism, was not so rigid and comprehensive. In fact, a new wave of reforms started in the 1970's. This time the efforts to increase economic incentives in the socialist companies aimed to raise the *profit-centre* higher in the corporate hierarchy – from the single enterprises or companies to a kind of conglomerate formations, called sometimes associations, corporations, productive complexes, trusts (in Soviet Union) or combines (in GDR). Sometimes they approximated, in size, the whole industries, e.g. *National Transport Complex* in Bulgaria. It was then, when the biggest Bulgarian forklift producer *Balkancar* acquired larger size in production and capital than the General Motors.

The reasoning for these experiments, also, seems quite simple. At that time, it was apparent that the direct management based just on the numbers set in the central plan and the complete ignorance of the price mechanism is already impossible. There were, also, some attempts, for theoretical justification of those practices. Since, softening the control over the companies was still unacceptable (at least, beyond a certain point), allowance of larger freedom for the *commodity-monetary relations* at high hierarchy level seemed the correct decision, since the number of the real *profit-centres* were so few, that a direct party control over their managers was quite feasible.

Not surprisingly, this policy failed again – simply because the objective, economically justified profit-centres were to be set at a much lower level in the structure of corporate hierarchy and the economic units, which were supposed to play this role, needed much more larger bunch of rights to perform successfully.

What followed was the most serious attempt to find a way to ensure economically efficient production at a company level and to preserve at the same time the all-people ownership dogma. An attempt to preserve the right for the government to determine what is produced, who produces it, how it is distributed, how high to be the profit, how it to be allocated etc. In the first half of the 1980's in Bulgaria, again with the communist party decision, it was launched the so-called, "*new economic approach and mechanism*" for governance of the national economy. By the time, they were applied several different approaches for theoretical reasoning, and a serious amount of experience was accumulated on the system for workers self-management in Yugoslavia.

The process, again, involved providing more freedom for the companies, and after a point, it included also, a creation of diversified banking system, introducing legal forms of the economic agents analogous, or resembling, those in the market economies. The process had never been finished, or actually, it founded its final form in the real market structures, after the political breakdown of the socialist system. The analysis of this process is interesting by itself and a lot of instructive points could be found in it, concerning the economic consequences of the *transition period*. Particularly, it might shed light on the transfer of political into economic power of the governing elite in those countries etc., but this is beyond our analysis here.

At a certain stage in this wave of reforms, the company's employees, including the management (named the labour collective) were proclaimed to be '*stopanin*' of the company's property. The term, lacking a particular scientific meaning, could be translated roughly in English as '*a steward*', but latter must be used with a number of qualifications. The idea here is, the identification and assignment to the term, a bunch of economic rights resembling those usually associated with the ownership. Although, the real purpose of such a peculiar definition of property rights, was to limit and scale down the scope of rights associated usually with the ownership. At that point of the analysis, it is necessary to track the historical development of the theoretical views about the socialist ownership.

5. Theoretical Aspect of the Institutional Contradiction

As mentioned, the original belief of founding fathers of *socialism* was, that in a society without private property on means of production, there is no room for monetary connection between the separate production units. The system was supposed to be regulated directly by the central planning. When it appeared impossible and money becomes tolerated, (but never fully accepted), the autonomy *needed* by the economic agents, became a major issue of the Socialist Political Economy. As revealed above, the practice never hesitated to try and find different solutions, i.e. to grant more or less authority to the enterprises or companies for taking economic decisions. Although, the less efficient were the attempts, the more needed become some theoretical background for those experiments.

5.1. *Khozraschet*

This concept never got a single meaning. It was changing all the time according to the changes in the economic views of the governing elite, though there was a set of features generally associated with it. And they were very different from the original meaning. Originally, the concept was launched in 1921 by Lenin in his projects on New Economic Policy (Lenin, 1970, vol. 44). There, the concept carries out the willingness to overcome the economic crises at any price, and its definition is derived from the opposite option – to make the socialist companies working as capitalist, though keeping their socialistic nature. "The state enterprises have to transfer to so-called *khozraschet*, i.e. in essence, to a great extent on commercial and capitalist principles" (Lenin, 1970, vol. 44: p. 342). Accordingly, the concept is associated mostly with control and accountability of the political power over the managers of the enterprises, in order to ensure them complying with the directives. Hence, the economic rights assigned to the production units at the first stage had not an elaborate specific meaning. Permitted was everything, which was not forbidden exclusively and the monetary relations were free to develop as much as they can.

It was much later, during the second wave of the 1960's, when the concept was elaborated further. By that time, it was clear that there were specific functions and rights which must be assigned to the company, if it is to take use of the monetary relations.

According to some authors, it should include: '1) autonomy of the socialist enterprise, managerial and operational, 2) material incentive and responsibility, 3) monetary control'

(Dictionary, 1985: p.69). Others were more specific – '*khozraschet*' includes self-payment and self-financing, i.e. the company is supposed to have such a pricing of its products, that to be able to pay the expenditure and even to get some profit for financing its development and enlargement (Abalkin, 1971).

At the same time, it was emphasised that the autonomy is 'accepted' (Kozlov, 1985: p.514), and that the company has an *immediate* goal (profit), and an *ultimate* one (satisfying the needs of the people); the latter higher than the former, of course, (Arroyo, 1985). If this is to be understood correctly – the company is allowed to make profit as long as it is approved by the plan, if the plan sets the prices of its products lower than needed for profit, the company shall take those prices and work on loss; the plan will take care for it, at the next stage.

Of course, those economic functions of the company were accepted by some and opposed by others. Sometimes profit was allowed partially, sometimes it was excluded completely depending on the views how deep and how far should the companies' autonomy go.

The problems with such a 'theory' are obvious – it is very often arbitrary, and follows the turns of the policy. Having these obstacles, the theory made an attempt for a *different approach*, during the next period of softening of the governance of economic enterprises.

5.2. *The duality ownership-possession*

Somewhere in the 1980's a group of scholars, mainly Bulgarian, tried another approach for resolving the contradiction between the all-people ownership over the economic units and the need for their independence, caused by the *monetary* form of their production process. Disappointed from the impossibility to outline correctly and definitely the circle of economic rights inherent to the socialist enterprises they tried **to revise** the ownership dogma. Of course, not directly, and of course, not generally – just what was needed to make the system working, without abandoning of the socialist paradigm.

The idea was, while keeping untouched the dogmatic principle that all producing assets should stay in the domain of the state, i.e. of the party and governmental bureaucrats, to identify a set of rights *inherent* to the economic units by their very nature. This way it will provide for assignment those rights, once and forever, to the companies and will place the latter out of the subjective, political, intrusion. Essentially, this was an attempt to keep for the owner just the ultimate right for strategic decisions, and to entrust all the other functions to the management.

One may notice, that behind the idea hides the old Roman principle of decomposing the ownership to three rights – right to use the object (*ius utendi*), right to use its fruits (*ius fruendi*) and the power of the alienation (*ius abutendi*). Shortly, that principle was summarized that way: "According to the Roman concept of the ownership, a person can give away some of his rights without giving up legal ownership..." (Furobotn and Richter, 1997: p. 79).

However, there was a serious difficulty with this principle. While, it is applicable for a rights over private (dispersed) ownership, the *Socialist Political Economy* had to deal with

a single subject of the ownership; thus, the right alienation was simply unthinkable within this system. This way the real analogue of that system, could be found in the systems with the all-mighty sovereigns – *the feudalism*. According to common understanding, the land, there, is owned ultimately by the king, who makes parts of it available to his tenants, granting them just possession over a certain pitch of the land.

Another origin of this idea could be found in Marx, who analysing the early forms of common ownership concludes that where all the ownership belongs to the whole society (*the commune*), the individuals are just *possessors* of it, and even further they might possess, as long as they are *members* of the commune and vice versa, by becoming such a member he obtains the right of possession, Marx, (1975, vol. 46 (1)).

Within this framework, the *late* Socialist Political economy postulated the concept about *the owner and the 'stopanin'*. As noted above the latter could widely be translated with the English steward, but the real economic function assigned to is as of *possessor* of certain means of production.

Thus, according to the stated reasoning, the socialist ownership may exist just as an ultimate right of the state, the separate enterprises function like *possessors* of the means of production and the labour collective is a socialistic subject of this possession (Arroyo, 1986).

Unfortunately, here another inconsistency could be found – who actually is the subject of the possession, the collective or the company itself? The fact is, that this question was not resolved. On the one hand, proclaiming the labour collective as *possessor*, i.e. not only the workers but the managers as well, meant to introduce the Yugoslav model indirectly.

Though the latter was practically successful, (at least in 1960'-70'), it was ideologically unacceptable at that time in most of the European socialist countries. On the other hand, the enterprise within the socialist economy hardly could obtain the needed full independent status in order to function as an active economic subject. Indeed, proclaiming them as *possessors* does not mean anything different from saying that they should work on *khozraschet*, thus closing the circle. The history did not provide time to see the actual resolution of this inconsistency, but undoubtedly it would be in favor of the collective. In fact, in Bulgaria a number of laws were changed and the process of entrusting the rights of possessors to the various collectives had begun.

Conclusion

What is important here, is that at a certain level of development of the contradiction, more or less openly was recognised that the dogma of the *single, inseparable, all-people* socialist ownership could not remain unchanged, since it contradicts severely the functioning of the modern economic system, whose complex and diversified character needs monetary form for realisation of the connections between its structural economic units. I am tempted to see this eventual development like a break-down of the dogma by the science, but it is much more likely to be a system self-guarding act, done under the pressure of the practice.

That long-lasting internal conflict within the socialist systems shows clearly, that there was an important connection between the private property and the price mechanism, to use the modern economic terms. Simply said, it is a proof that the institutions matter not just because they impose transaction costs of the economic agents, but because without them, i.e. without the structural organisation based on an autonomous character of its elements, the price mechanism could not work. That is to say, that the demand and supply could determine the prices ensuring this way functioning of the whole system, but also that they could do it because the production is structured in countless different companies separated by the boundaries of the private property.

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