

and consume in accordance with real costs, interest (usually at some conventional rate like 5 per cent) is being charged not only on the use of government money by shops and factories, but against the construction costs of plants.

On the surface all this looks indeed revolutionary (or "counter-revolutionary"); and naturally I am tempted to hope that the communist world is on the verge of rediscovering and adopting a complete capitalism. But several weighty considerations should warn us against setting our hopes too high, at least for the immediate future.

The "New Economic Policy"

First, there is the historical record. This is not the first time that the Russian communists have veered toward capitalism. In 1921, when mass starvation threatened Russia and revolt broke out, Lenin was forced to retreat into his "New Economic Policy," or NEP, which allowed the peasants to sell their surplus in the open market, made other concessions to private enterprise, and brought a general reversion to an economy based on money and partly on exchange. The NEP was actually far more "capitalistic," for the most part, than recent reforms. It lasted till 1927. Then a rigidly planned economy was re-imposed for almost

forty years. But even within this period, before the recent dramatic change, there were violent zigs and zags of policy. Khrushchev announced major reorganizations no fewer than six times in ten years, veering from decentralization back to recentralization in the vain hope of finding the magic balance.

He failed, as the present Russian imitation of market mechanisms is likely to fail, because the heart of capitalism is private property, particularly private property in the means of production. Without private property, "free" markets, "free" wages, "free" prices are meaningless concepts, and "profits" are artificial. If I am a commissar in charge of an automobile factory, and do not own the money I pay out, and you are a commissar in charge of a steel plant, and do not own the steel you sell or get the money you sell it for, then neither of us really cares about the price of steel except as a bookkeeping fiction. As an automobile commissar I will want the price of the cars I sell to be set high and the price of the steel I buy to be set low so that my own "profit" record will look good or my bonus will be fixed high. As a steel commissar you will want the price of your steel to be fixed high and your cost prices to be fixed low, for the same reason. But with all means of production

owned by the state, how can there be anything but artificial competition determining these artificial prices in such "markets"?

In fact, the "price" system in the USSR has always been chaotic. The bases on which prices are determined by the planners seem to be both arbitrary and haphazard. Some Western experts have told us (e.g., in 1962) that there were no fewer than five different price levels or price-fixing systems in the Soviet Union, while others were putting the number at nine. But if the Soviet planners are forced to fix prices on some purely arbitrary basis, they cannot know what the real "profits" or losses are of any individual enterprise. Where there is no private ownership of the means of production there can be no true economic calculation.

Elusive Costs of Production

It is no solution to say that prices can be "based on actual costs of production." This overlooks that costs of production are themselves prices—the prices of raw materials, the wages of labor, etc. It also overlooks that it is precisely the *differences* between prices and costs of production that are constantly, in a free market regime, redirecting and changing the balance of production as among thousands of different com-

modities and services. In industries where prices are well above marginal costs of production, there will be a great incentive to increase output, as well as increased means to do it. In industries where prices fall below marginal costs of production, output must shrink. Everywhere supply will keep adjusting itself to demand.

But in a system only half free—that is, in a system in which every factory was free to decide how much to produce of what, but in which the basic prices, wages, rents, and interest rates were fixed or guessed at by the sole ultimate owner and producer of the means of production, the state—a decentralized system could quickly become even more chaotic than a centralized one. If finished products M, N, O, P, etc. are made from raw materials A, B, C, D, etc. in various combinations and proportions, how can the individual producers of the raw materials know how much of each to produce, and at what rate, unless they know how much the producers of finished products plan to produce of the latter, how much raw materials they are going to need, and just *when* they are going to need them? And how can the individual producer of raw material A or of finished product M know how much of it to produce unless he knows how much of that