

# ECONOMIC PROBLEMS IN A RICH COUNTRY: CAPITALISM VERSUS SOCIALISM<sup>1)</sup>

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## I

Economics has in the present century been a rapidly developing science. One reason for this is that almost every decade has faced the economist with new problems. In the twenties static equilibrium theory and trade cycle problems attracted much attention. The depression in the thirties, which surpassed anything known from before and which seemed not to prepare the ground for a real recovery like earlier depressions, called to the economists' attention the possibility of a sort of equilibrium at a low level of employment and with production far below the productive capacity of the society. Also for some years after world war II these problems were dominating in macroeconomic thinking. However, as time passed with no crises comparable to that of 1929—30 and production in many countries displayed a fairly regular pattern of growth, the notion of economic growth gradually gained a central place in economic thinking and economic theory.

In our present context it is interesting to notice that modern economic growth theory is not directly an outcome of conscious interest in growth *as such*. Rather it started as a by-product of a study of employment problems. Only gradually did growth on its own account become a central theme. I shall return to this later.

At present a new field of problems is entering into economics.

<sup>1)</sup> Some of the ideas contained here have been discussed more extensively in my paper "Liberalistisk økonomi og planøkonomi" ("The economics of liberalism and planning"), *Statsøkonomisk Tidsskrift* 1960, pp 157—179.

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This field consists of the particular problems encountered in a rich country, by which I mean a country having a productive capacity sufficient to provide all the population with means to satiate fully all basic private consumption needs. As an economist I certainly hesitate to use the latter expression, and an attempt at further explanation might be requested. Maybe the following can serve as a tentative definition: A certain level of consumption covers the basic needs when external influences, for instance through advertisements or through social pressure, are necessary to induce the consumer to take any effort to increase his consumption over this level. Also those needs which develop only as a result of education beyond the average level of education in the advanced societies of to-day will not be included in what I call "basic needs." This definition is admittedly rather vague and hypothetical. Let me add, therefore, that the USA has definitely entered the stage where "the problems of a rich country" as understood here are no longer only problems of the future, and other countries, among them the USSR, are probably approaching this stage.

To say that the USA has entered the stage of being a rich society in the present sense does not, of course, imply that all inhabitants have satiated their basic needs. On the contrary, direct poverty seems to survive to an extent which is not negligible.

The most famous discussion of the problems of a rich society is to be found in John Kenneth Galbraith's book, *The Affluent Society*. Although many of his viewpoints might be questioned it is convenient to take it as a starting point here.

Galbraith considers the following problems as the most important problems of a rich society as observed in USA.

1. The problem of inflation.
2. The creation of demand for consumers' goods which do not add to human well-being.
3. The problem of "social balance," i. e. the problem of achieving a balance between the production of goods for private consumption and public services or collective consumption.

To this list we should perhaps add the survival of poverty in the midst of abundance as mentioned above.

It may be taken as an observed fact that all these problems pre-

sent themselves in the contemporary US economy. In the sequel I shall offer some considerations which seem to indicate that these problems are not easily solved within the framework of a highly developed capitalistic economy of the US model, and I shall pose the question whether this will be true also for a highly developed socialist economy of the Soviet model.

## II.

Let me first consider the problem of inflation.

I myself don't know whether I would say that a slow inflation of the type observed in the postwar years in USA and Western Europe is really a serious problem in itself. However, it cannot be denied that many people consider it a serious problem, and this fact at least makes it deserve attention. It is of course also true that inflation causes some redistribution of private wealth and that it introduces uncertainties into private production and sales planning and into the system of private contracting which is a part of the very basis of the capitalistic system.

Now certainly any slow inflation could be curtailed by a sufficiently restrictive monetary and fiscal policy. The problem, however, is whether this can be done without creating considerable unemployment at the same time. By now many competent economists consider it as an established fact that it is impossible to keep both stable prices and full employment for a sequel of several years if one does not employ any direct control of wages or prices or both.

One reason for this is the well known fact that conditions of full, or nearly full, employment tend to promote wage increases, and with the high level of demand under these conditions wage increases will give rise to price increases. Professor Phillips has studied these problems empirically for England and found a significant correlation between the rate of unemployment and the rate of increase of wages. The functional relationship seems to have been approximately the same over several decades.

Another aspect of the problem is related to the difficulty, or rather impossibility, of influencing total demand through monetary and fiscal policy exactly to the level corresponding to full employ-

ment, or a certain specified high level of employment. If total demand should fall short of this the consequences are rather unpredictable since it may start a dynamic mechanism which operates through decreasing investment activity.

A safe strategy should therefore have a small probability of failing in this direction, and consequently one may on average have a certain excess demand which keeps the price level rising.

Finally there is the so called "demand-shift" aspect of inflation. Economic development does not affect all production sectors to the same extent. There is a continuous shift in the direction of demand due to rising incomes, and there are more sudden shifts due to the appearance of new goods etc. The development of foreign trade is far from proportional, and the composition of investment is also not very stable. Under these conditions it is impossible for the productive capacity, the sectoral distribution of the labour force, and the composition of demand to be perfectly balanced against each other at any time. Since productive equipment is rather rigid and labour is not very mobile, in order to prevent unemployment from reaching high levels in certain sectors it may be necessary to keep *total* demand so high that excess demand occurs in other sectors. Furthermore, since prices are far more flexible upwards than downwards, this may result in an upward drift in the price level.

At different times not all of these three forces will operate equally strongly, but together they seem to rule out the possibility of achieving and maintaining both full employment and a stable price level for a sequence of years if one is to rely only upon traditional monetary and fiscal policy.

Recently professors Samuelson and Solow studied this problem empirically for the US economy in the last 25 years (see *American Economic Review*, no 2., 1960, "Papers and proceedings"). They conclude by presenting a "menu of choice between different degrees of unemployment and price stability," which includes such possibilities as for instance 2 per cent price rise per year and 4 per cent unemployment, 4—5 per cent price rise per year and 3 per cent unemployment etc. The price of a stable price level should be 5—6 per cent unemployment.

Now I think it may be somewhat misleading to give the impression that USA can choose between such alternatives, since it is very doubtful whether cyclical movements can be eliminated. However, I shall not pursue that question here.

How is it with inflation in an economy of the Soviet model?

None of the three sources of inflation indicated above should be able to produce inflation in a socialist economy.

The wage-push can be difficult to avoid at early stages of socialist planning such as in some Eastern European countries. In a well established system like the Soviet system where the trade unions cooperate closely with the planners an inflationary wage push should not be necessary.

The necessity of keeping a certain excess demand in order to prevent large unemployment stems mainly from the instability and unpredictability of investment demand in a capitalistic economy. In a socialist economy investment is determined within the framework of a national economic plan and there is no danger of investment activity suddenly falling.

Finally concerning the "demand shift" aspect. Labour mobility is probably higher in Soviet than in western countries. At least, rather large scale labour transfers take place on the basis of the economic long term plans. Also, the planning authorities have power to enforce price cuts, there being thus no downward rigidity of prices in sectors with insufficient demand.

On the whole, therefore, there should be no reason to expect any slow inflation of the western type in USSR. At present the movement of the price level seems to be governed by two considerations.

1. To the extent that the authorities want to increase the consumption of *the whole population*, this is most conveniently achieved through price cuts. These can vary between goods such as to restore sectoral equilibria where they have for some reason been disturbed.
2. To the extent that one wants to influence the consumption or real income of *particular groups*, this can most conveniently be achieved through changes in wages and salaries (or prices in the case of collective farmers). In recent years there has been a tendency to increase the lower wages proportionately more than

higher wages. Such wage changes may of course influence prices through costs.

Recently an empirical investigation of the development of the price level of the USSR is presented by F. D. Holzman in *Quarterly Journal of Economics*, no 2, 1960. It appears that there were periods with considerable price increases in the prewar years, and during the war a certain inflation took place. However, after the currency reform of 1947 the trend was decreasing. At the moment the development of the price level is governed by such considerations as are given above, with no clear trend, and certainly none which deserves the label inflation.

I said above that I don't know whether I will consider the slow inflation in capitalist countries as a serious problem in itself. However, if as a consequence of the alternativity of price level stability and full employment the capitalistic countries will pursue a policy which implies unemployment, then certainly it is important for the economic competition between the two systems and the capability to avoid such inflation even under full employment is a definite advantage to the socialist economy.

### III.

The next problem we should consider is the excessive creation of demand for consumers' goods which hardly add anything to human well-being.

Now economists have generally taken the individual preference scales as something given. If people want all these goods, what is there to say for the economist qua economist?

One aspect of the problem can be treated even when sticking to the "moral code" of taking the individual preferences as a given datum. This aspect is related to the so-called "demonstration effect" in consumers' preferences. In recent years, and particularly through the works of professor Duesenberry, the attention of economists has been drawn increasingly to the fact that an individual's evaluation of a good does not only depend upon his own consumption in absolute terms, but also upon how his consumption compares with other individuals' consumption. To the extent that this is true all theo-

remains from the classical welfare theory about the efficiency of the price mechanism as a regulator of consumption and production cease to hold good.

Suppose that consumption of "demonstration goods" has become very wide-spread. Without imposing any preferences of his own the economist can in such a situation say that collective actions to the effect of reducing the consumption below what it would be in the case of a free market with no discriminatory taxes, would increase the general welfare society. (This statement presumes, of course, that collective actions are not considered as evils in themselves.)

Next, however, it is doubtful whether it is justified to consider the individual preference scales as given data as is usual in economic theory. This might have been an appropriate assumption at lower levels of income than those of the most advanced present societies. To-day consumption consists to a considerable extent of goods which can hardly be called necessities, and it is all too evident that individual preferences concerning such goods are strongly influenced by advertising and other sorts of sales promotion. Leaving this fact out of consideration may be justified in other context, but hardly in the present context.

Modern sales promotion of course exploits and supports the "demonstration effect" mentioned above.

These conditions lead to a production of certain consumption goods far beyond what would be compatible with maximal welfare. The alternatives to this production are three:

1. Higher level of public or collective consumption.
2. Higher production and private consumption of other goods, the evaluation of which depends to a smaller extent upon the "demonstration effect" and upon advertising.
3. Shortening of hours of work.

The first point will be left for closer consideration later.

Out of the two last points it follows from our definition of a "rich society" that the shortening of hours of work and (as a part of point 2.) a fuller satiation of such needs as develop as a result of education would be the more important.

Now, if there should be general agreement upon these viewpoints

—would a capitalist economy of the US model be capable of improving this situation? Maybe to some extent, but both theoretical reasoning and experience seem to indicate that the difficulties cannot be efficiently overcome within the institutional framework of a free enterprise economy.

The “negative remedy” would be to restrict or prohibit certain types of advertising and sales methods. This may be possible, but hardly conceivable in practice to any significant degree as long as competition is cheered as an official ideal. The moral or value system of the free enterprise economy certainly also tends to emphasize the “demonstration effect”.

A positive measure would be to shorten the hours of work. This has been done several times and is of course still possible. However, there are reasons to believe that this process will not take place as fast as maximum welfare would require. The main reason is that a shortening of the hours of work will reduce the returns to capital invested in private enterprises, or, at least, it will seem so from the viewpoints of the individual enterprises. A shortening of hours of work will therefore generally be opposed by capital owners.

A problem of great theoretical interest is whether it is possible for a capitalist economy to secure high employment without going on increasing production. Under the present structure of the advanced capitalist economies a high employment can only materialize when there is also a fairly large investment activity. However, what is investment and thus provides employment opportunities in the present time period is an addition to the productive capacity in the next period. Therefore, in that period a full or nearly full employment will produce a larger amount of goods, and still higher investment activity may be necessary to create a sufficient total demand to absorb all these goods. Actually, as I have already touched upon, by this line of reasoning modern theory of growth started as an outgrowth of an analysis of employment problems. Logically it is possible to break out of this circle. That would, however, require such structural changes as are hardly conceivable within any narrow time horizon.

For all these reasons there appear to be great obstacles to a relaxation from the private consumption race as it is presently



observed in USA, even if this would be preferable to the great majority of people.

Now, will a rich socialist society be caught in the same trap? I would say no, with some qualification. It follows almost directly from the definition of "demonstration effect" that the prerequisite for avoiding its welfare-reducing effect is the possibility of appropriate *collective actions*, i. e., institutional arrangements through which people could make agreements on and carry out actions which bring about "corrections" to the effects which result when all individuals pursue their own individual aims. A socialist society is certainly well furnished with such institutional arrangements.

The most near-to-hand actions to counteract the demonstration effect are three: In the first place, to stop production and marketing of such goods as derive their market value mainly from this effect; in the second place, to stop advertising and sales methods which exploit peoples' leaning towards demonstrative consumption; and in the third place, to tax heavily the consumption of such goods in order to reduce the consumption. It is a matter of course that such actions will be strongly opposed in a capitalist economy, since they interfere with the market, and strong economic interests are bound up with such production and marketing. In a socialist society sufficiently strong economic interest will hardly exist to prevent such actions.

And now the qualifications.

The main difficulty for a socialist society would lie in the fact that there are indeed very few goods which derive their value for the individual *entirely* from the demonstration effect. Most goods which serve to satisfy the individual's leaning to demonstrate also serve some useful purpose besides this, as for instance a motor car. One can therefore hardly avoid completely the demonstration effect.

Secondly, there is probably a certain spread effect from capitalist countries into socialist countries.

In spite of this one should expect a socialist economy to be capable of avoiding undesirable consequences of the demonstration effects to a far greater extent than a capitalist economy. The real test of this will come when the USSR attains a level of income per head approaching the present level in USA. However, I think there

is already evidence which testifies in support of our hypothesis. The main evidence is the considerable shortening of the hours of work which is partly carried out already and partly planned for the first years to come. The hours of work in USSR will by this be reduced to a level below that of any other country at a comparable income level. It should be noticed in this connection that there appear to be rather strict limits to overtime work in USSR.

Other evidence to the same effect are statements from responsible politicians that USSR will not adopt the USA ideal of "every man his own motorcar" (or even more). Instead they will develop an efficient network of public transport means, taxi stations and public hire and service stations for motorcars. This is certainly one of the fields where the demonstration effect has proved to be very influential in western societies.

#### IV.

The third problem of the rich society is, in the words of John Kenneth Galbraith, the problem of achieving a "social balance," i. e., an optimal allocation of the means available for total consumption between private personal consumption and the consumption of public services. Galbraith maintains that there is in USA an underoptimal allocation to the public sector. In his words: "The line which divides our area of wealth from our area of poverty is roughly that which divides privately produced and marketed goods and services from publicly rendered services. Our wealth in the first is not only in startling contrast with the meagreness of the latter, but our wealth in privately produced goods is, to a marked degree, the cause of crisis in the supply of public services. For we have failed to see the importance, indeed the urgent need, of maintaining a balance between the two."

Galbraith says—"we have failed to see the importance." However, suppose that "we" see the importance. Would the problem then be easily solved? Of course, if "we" are politically influential people, a recognition of the importance of the point would help. There are nevertheless strong reasons to believe that there will be

a lasting and systematic bias in the allocation in disfavour of the public sector of any capitalistic economy.

The main reason is that the overwhelming part of the total income in the capitalist economy is earned as private income. In some form or other government therefore has to tax these private incomes to an amount corresponding to the public consumption, apart from situations in which a deficit is desirable because of deflationary tendencies.

Now tax increases will almost always be opposed. This is partly because debates and decisions on taxation and on public expenditures are often not sufficiently closely connected.

Usually there will also be quarrel about the *distribution* of the taxes, and it is easy to understand that this may tend to reduce *total* taxes and thus also total public spending below the optimal amount.

These considerations apply possibly to a lesser degree to sales or turnover taxes than to income taxes. But also these taxes, and particularly switches between income taxes and such taxes, involve distribution problems.

Another fact will also tend to work in the same direction. Suppose taxes are uniform over a whole country and that there is no quarrel about this. Suppose also, as is often true, that the benefits from a single item of public expenditure accrue to a smaller group of the population. Majority voting, which is the usual instrument for making decisions on public expenditure in advanced capitalist countries, will then result in small expenditures on such items to the extent that voters are led by self-interest when voting. (At least this will be the result if there is no log-rolling.) The total result may be regrettable to the majority since the benefits accrue to different groups of people each time.

When the groups which benefit are geographically defined the problem can, and is in fact to some extent, solved by decentralizing the decisions. There are, however, many relevant groups which are not geographically defined.

Finally there is a political consideration. An increase in the share of total production which is allocated to the public sector may in many cases be interpreted as a step in the direction of socialism. It

may also be actually true that a large public sector will make easier a transition from capitalism to socialism. To the extent that the dominating groups in a capitalist economy are interested in defending the existing system, there is therefore still one reason why the public sector in a capitalist economy will not attain that size which would bring about "social balance" in the sense of Galbraith.

A socialist economy will not encounter all these obstacles to attaining a "social balance," or, at least, not encounter them to an equal extent. In a socialist economy the greater part of the means for financing public consumption is never paid out to private income earners. As is well known, income taxes are about to be completely abolished in USSR, and the so-called "turnover tax" is mainly a transfer within the public sector itself, namely between state owned enterprises and items of the central budget. It is obvious that it is easier to finance a great public consumption under circumstances in which incomes are simply withheld from private consumers than when they first accrue to consumers and then have to be cashed in through taxation. It also seems probable that the quarrel about the distribution of the burden of financing the public consumption will be lesser under such conditions.

Finally, presumably there should be no fear of socialism in a socialist society.

In confirmation of the above considerations actual facts show beyond any doubt that the share of collective consumption is larger in USSR than in any capitalist economy. Particularly the shares devoted to education, culture and health are evidently very high as is now a matter of general recognition. It appears that the USSR has adhered to and implemented a dictum laid down by Karl Marx in his *Critique of the Gotha Program*. In that work Marx noted that, in a socialist society, before the portion of the social product destined for private consumption could be distributed, it would be necessary to deduct therefrom not only the costs of administration, but "... that which is designated for the joint satisfaction of needs, such as schools, public health institutions, and the like. This share immediately (i. e. immediately after the transition of power. L. J.) shows a substantial rise in comparison with its share in contemporary society, and will continue to rise as the new society develops."

In the recent authoritative Soviet textbook on Marxism—Leninism the principle is expressed as follows: “That part of the total consumption fund which is distributed independently of the quantity and quality of work performed by the individual worker grows faster than that part which is distributed according to the quantity and quality of work.”

## V.

I have so far treated the three problems of the rich society—the problem of inflation, the problem of excessive creation of demand for private consumers’ goods and the problem of achieving a social balance—as independent problems. However, in fact they are rather closely related so that measures which help to solve one of them usually help also in solving the others. The main interrelationships between the problems are probably the following.

The race of private consumption tends to intensify the struggle about the income shares which is one of the sources of inflation.

The creation of demand for private consumption goods through the demonstration effect and through modern salesmanship hampers the achievement of a social balance in the sense given above, since it is not offset by any similar effects or activities in favour of collective consumption.

The underdevelopment of the public sector tends to increase the problem of inflation for at least two reasons. A larger public sector would constitute a larger core in the economy which would not be subject to such instabilities as for instance private investment activity. Therefore it would probably make it easier to safeguard oneself against dynamic depressionary mechanisms with a smaller excess demand than would otherwise be necessary. Secondly, a part of a larger public consumption could be used for purposes which increase the mobility of labour, such as free education when shifting profession, a housing policy in accord with the needs for labour transfers etc. This would reduce the pace of inflations of the “demand shift” type.

It may also be argued that the prevailing social imbalance supports the private consumption race, although the effects in this

case are not of a purely economic character. The main consideration is that a more highly developed policy in the fields of culture and education might influence the scale of values and divert people's attention somewhat away from the struggle for "keeping up with the Joneses" in terms of private consumption.

Thus we can say that generally each of the problems tends to aggravate the other ones. Possibly there is, however, one exception to this rule. It is hardly conceivable that the real rate of taxation which now prevails in the majority of advanced capitalist countries would have been achieved in the absence of the slow inflationary development of prices, since the state has now "benefited" from the fact that inflation in the case of fixed tax regulations and tax rates increases the real rate of taxation. However, also in this case there is one contrary effect. In the case of inflation governments and parliaments may restrict themselves more in sanctioning increases in public expenditures.

The interconnections between the problems pointed out in this section suggest that it is more than an accident that a rich capitalist country generally seems to encounter all these problems whereas a socialist economy encounters none of them to an equal degree.

## VI.

In the introductory remarks I mentioned that the survival of poverty in the midst of plenty should perhaps be added to the list of problems of a rich society.

It is hard to say how far this is a necessary characteristic of a capitalistic society. For instance in the Scandinavian countries plain poverty appears to be eliminated to a greater extent than in the USA although the latter country is definitely at a higher level of *average* income.

Nevertheless, whether this problem will be solved or not within the framework of a capitalist society, it is likely that it is *easier* to solve it in a socialist economy. The main implement for this is of course the greater public expenditures which make possible subventions to handicapped groups to a greater extent than in capital-

ist societies. Other points of importance are that labour can be transferred more easily out of areas with insufficient natural basis or out of industries, the products of which do not share proportionately in the growth. It is well known that poverty for instance in USA is often found in areas with stagnating industries. To this one should add the assurance of employment for everybody who is capable of work.

In some countries—I think in the USA more than in, e. g., Scandinavia—social security arrangements are often opposed because of a suspicion that they will be misused and that they will reduce incentives to work. Whether these fears are well founded or not in the case of a capitalistic economy, they should cause lesser concern in a socialist economy. Direct control and moral pressure through organizations of various sorts are probably stronger, and non-economic incentives are probably more influensive there, although the authorities stress the importance of taking into account in the present stage of development the economic incentives in the design and implementation of the policy in such fields as wages and prices. Under communism, as is well known, labour shall no longer be felt as a burden, but rather as a field of activities which the individual prefers to undertake, partly as a result of social responsibility, partly as a result of an attitude similar to that which makes people like sporting and cultural activities. If, or when, such a stage is reached, of course no consideration of economic incentives will hamper a social policy.

## VII.

I will not conclude this lecture without saying that I think the problem of attaining a high and steady rate of growth of production will still be the most urgent economic problem for many years to come, although some of the problems explored above will become increasingly more important.

So far no country apart from the USA has achieved a production capacity which, if appropriately used, would be sufficient to satiate all basic private consumption needs in the sense said in the introduction. However, a redistribution of income and a redirection of pro-

duction to such a scale that it is hardly conceivable during a short time would be necessary in order to actually satiate the needs of all groups of the population

Next there are needs which are not "basic needs" as understood here, but which should nevertheless, I think everybody would agree, be satiated. These are the cultural needs which arise only as a result of education. With a high education for broad masses of people there is hardly any near limit to these needs.

Finally there is the need for assistance to the economically underdeveloped countries. There is hardly any doubt that this need will claim an increasing part of the production of the most advanced countries. Within the camp of socialist countries it is an official goal gradually to equalize the income levels of the different countries, and USSR will no doubt also extend its economic assistance to an increasing number of countries outside this camp.

Therefore, I think it would be mistaken to leave the impression—as does perhaps professor Galbraith—that the advanced countries will, or should, in the near future stop being concerned with the problem of how to attain a high and stable rate of growth of production. Rather, I think we shall have both the growth problem and the field of problems treated in this lecture.

Actually, the problems or fields of problems are, at the present stage, complementary in several respects. It is obvious that the inflation problem considered above does hamper economic growth in the capitalistic countries. For instance the set-back in 1958 was partly a result of attempts to stop the increase in the price levels in USA and Western Europe. The absence of this problem in the USSR puts that country to a great advantage from the point of view of economic growth.

As regards the problem of the "artificial" creation of consumers' demand, to the extent that socialist countries succeed in avoiding this problem it will help in keeping investment at a high level.

Also the better solution to the problem of the "social balance" in the USSR is a great advantage for economic growth, and will probably be so to an increasing degree. The reason is mainly that science, research and education grow steadily more important for the methods of production, and they require a large public sector.



To quote from the recent study, *The Economic World Balance*, by professor Thorkil Kristensen and associates, "It is apparent that the leaders of the USSR have to a greater extent than those in any other region made use of the cultural factors in their society to promote economic growth." As already touched upon, the large public sector also provides better conditions for transfers of labour between regions or production sectors.

Finally I should like to remark that although the term "the affluent society" is brought into economics from USA, it is in the USSR one can find the broadest and most serious discussion of how society should be organized in order to make affluence produce real human welfare, and the most conscious measures to face the state of affluence. This is exactly the problem of communism, which is discussed with increasing concreteness in the USSR. Among the perspectives are:

1. A rise in the general level of education or qualification for work to about the present level of engineers.
2. Through automation a gradual decrease in the number of jobs which require no or only low qualifications.
3. A shortening of hours of work to 20—25 hours a week, and possibilities for people to change occupation if they like.
4. A continuous increase in the fraction of total incomes which is used for health and culture.
5. A change in the principle of remuneration for work into "to each according to his needs." A measure in this direction will be to start distributing the most elementary consumption goods free of any charge. Gradually a part of the present trade apparatus will be changed into an apparatus for the free distribution of such goods.

In view of the achievements of the USSR and the pace of scientific progress I think these points cannot be brushed aside as utopian even within a horizon of a few decades. The conscious preparation for the era of affluence in the USSR should also call for a reconsideration of the rather wide-spread opinion that a socialist system of the Soviet model may be an efficient system for promoting economic "take-off" and growth in an underdeveloped country, but that it is not an efficient system for solving the problems of a highly developed country.

## DISCUSSION

Various observations were made by Professor Ragnar Frisch, Mr. Adl. Karlsson, Dr. Robert Lamberg, Mr. Torben Grage, Mr. Sigurd Sigurdson, Dr. Rolf Kregel, Dr. Rudolf Neumann, Mr. Knud Erik Svendsen and the lecturer.

With reference to the Samuelson-Solow "menu" it was suggested to add one more variable, namely the gross national product, and to relax the assumptions which led to the "menu." In this way one could analyze the loss incurred by sticking rigorously to the free market economy and not allowing the introduction of other and more direct means of control.

One speaker referred to the fact that the demonstration effect destroyed the preference system and the classical theory, and he could not find that the lecturer had a foundation for speaking about a more justified and optimal allocation of the resources than the one we have in the economy of the West. From another speaker observations were made on whether it was possible to explain the phenomenon of planned economy by pure economic explanations.

The value problem was discussed by another speaker, who also felt that Mr. Johansen went outside the borders of pure economic theory and that he did have a preference scale which could not be treated in purely economic terms. Regarding the definition, he stated that the use of the expression, "mixed economy," was more in agreement with modern economic theory than "capitalistic." The criteria of collective actions in a socialist society should have been pointed out more clearly. He found it very interesting that we now have a form of socialist theory which has left the traditional basis of attacking capitalism. The main focus of the new socialist theory is to attack excessive consumption.

With regard to the inflationary problems in Eastern European economies some comments were made on the lecturer's conclusions. One speaker thought there was a concealed price movement, mainly because of the discontinuation of production of certain goods. He doubted that the social mobility was greater in the Soviet Union than in the United States, and he felt that the lecturer transferred the problems from the economic to the political sector. Some speakers were rather critical about the comparison between the American and the Soviet economic system and about the official figures of the two countries.

Concerning the question of the extent to which judgement of values entered into the picture, Professor Frisch stated that as an economic analyst he relied on the politician in questions of technical details and formulations of goals. He reserved, however, the right to form his own opinion on questions of basic philosophical and moral character.

With relation to the investment quota in the Soviet Union, one speaker thought there were reasons to believe that the Soviet system still will have a quantitative advantage over the western societies, and that the country can keep its investment quota high. About the co-operation between the trade unions and the authorities he assumed that the independence of the trade unions will be growing. This development may disturb the balance between investment and consumption, and lead to a permanent problem in an economy of the Soviet type.

In his concluding remarks the lecturer observed that the welfare theory as such was not destroyed by him. What one may say is that the welfare theoretical proof of the optimal properties of a free competition economy was destroyed. On the other hand, the welfare theory takes care of the demonstration effects by the so-called indirect effects in consumption and production. About the general logical outline of his lecture he said that he took as a starting point the problems raised by Galbraith. What he then did was to discuss whether the problem of affluency will be solved in the United States, and if similar problems will appear in the Soviet Union if or when the Soviet Union approaches a similar level of income per head. This can be done without introducing private value judge-

ments. He did not think he had crossed the border line of economics as such. With reference to the price and inflationary problems, he thought the price movement on certain goods was mainly a problem of relative prices rather than the absolute price level itself. Concerning the demonstration effects, he found that most goods were of a mixed character, and the automobile was a very good example of how difficult it was to avoid these effects even in a socialist economy. About the social mobility, he thought the book by Thorkil Kristensen gave evidence to the fact that there is a higher mobility in the Soviet Union.

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From Mr. Grage we have received the following written remarks, based on his contribution to the debate at the seminar:

#### SOME COMMENTS ON LEIF JOHANSENS LECTURE

*By Torben Grage*

In Mr. Johansen's lecture there occurred a distinction of crucial importance, namely between human values and *real* human values. Furthermore, in his introductory remarks Mr. Johansen identified himself with the statement made by professor Frisch in his morning-lecture: that there are *higher* goals which we have to take into consideration when discussing the problem of economic development. Mr. Johansen phrased his endorsement in the following way: "I would associate myself with the remarks that there are essential goals which possess a different quality from the components of the material welfare". I think it followed from the context that this was not something from which the economist should keep himself aloof.

I find it quite evident that with statements of this sort we are outside the special domain of economics as an objective discipline. We are here dealing with values of a kind that cannot be handled by economics as a scientific undertaking based upon mathematics and statistics. We are here in the realm of politics, not least in its decision-making aspects and the problem of power in modern society. What sort of process do we want to help us adjudicate between individual and social values, and between various group-values.

But, of course, in this particular case where we are confronted with a distinction between human values and *real* human values the epistemological problems, that are staggering already when we talk of values only, become crushing. In the last instance appeal will have to be made to some subjective scale of preferences, most often wrapped in some sort of ideology. Most unfortunately Mr. Johansen did not seem to recognize this problem but considered agreement about a preference scale a foregone conclusion or quite easily arrived at.