

## THE POSITION OF THE CONSUMER UNDER A SYSTEM OF SOCIALIST PLANNING

By

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### *Introduction*

Anyone who casts a critical look on the literature dealing with socialist planning cannot fail to be impressed by the diversity of attitude of the different writers toward the question of the position of the consumer under such planning. For some, adherence to the rule of consumers' sovereignty is a *sine qua non* of healthy, "democratic" socialism. Others reject the concept of consumers' sovereignty, and envisage "the moulding of consumers' preferences" as a basic function of government under socialist planning. From the point of view of a nation still in the throes of elaborating its national planning system, it is important to distill from these conflicting claims a balanced attitude which may serve as a basis for the functioning of an actual socialist economy. This is the object of the present paper.

### *The position of the consumer under capitalism*

It may be appropriate before plunging into the details of this discussion to provide a brief picture of the position of the consumer under a capitalistic, free enterprise system. We may readily obtain such a picture — somewhat idealized, yet professed to be a reasonable approximation to reality — from the familiar analyses of consumers' behavior under conditions of a freely competitive economy. Here, the consumer is conceived of as being confronted with a series of basic choices: a choice between work and leisure, a choice between present and future consumption, and a choice with respect to the allocation of his current expenditure among alternative goods and services. In exerci-

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sing his choice, it is assumed that he is basically free from intervention on the part of his government. His choices are exercised in the light of his scales of preference, on the one hand, and the various prices confronting him through the working of the price mechanism, on the other.<sup>1</sup> It is assumed, of course for the sake of simplicity, that he exercises his choice rationally; but it is acknowledged that various forms of irrationality affect his behavior. It is recognized that he is influenced in his choice by tradition, custom, prejudice, ignorance, the desire "to keep up with the Joneses", extravagance, advertising, and limited purchasing power.<sup>2</sup> In general, however, and despite this irrationality, the welfare assumption underlying the organization of the system is that he is the best judge of what he wants and of the means for satisfying these wants. The scope for the exercise of his choice is usually large, for he is normally faced with an abundance of goods; shortages and accompanying rationing only occur under exceptional circumstances, such as those of war. Moreover, since he is considered to be the core of economic organization, his wishes, expressed on the market, are understood to be the basic guide to the whole process of production through the medium of the price-mechanism. This is what is called "consumers' sovereignty". In other words, the consumer in a capitalistic system enjoys what is usually referred to as "freedom of consumers' choice", which, under this system, includes also the principle of "consumers' sovereignty"<sup>3</sup>. His freedom in this respect is considered one of the

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1. This is, of course, the type of analysis one usually finds in any standard textbook on economic theory. See, e.g., G.J. Stigler, *The Theory of Price*, New York, Macmillan, 1954, chs. 4-5; K. E. Boulding, *Economic Analysis*, London, Hamilton, 1949, Chs. 29, 23; R. H. Leftwich, *The Price System and Resource Allocation*, New York, Rinehart, 1957, chs. 4-5; J. R. Hicks, *Value and Capital*, Oxford, Clarendon Press, 1946, Part I, and more recently, his *A Revision of Demand Theory*, Oxford, Clarendon Press, 1956; for a mathematical formulation, P. A. Samuelson, *Foundations of Economic Analysis*, Cambridge, Harvard Univ. Press, 1947, ch. 5.

2. See T. Suranyi-Unger, *Comparative Economic Systems*, New York, McGraw-Hill, 1952, pp. 4-5.

3. Cf. G. N. Halm, *Economic Systems; a Comparative Analysis*, New York, Holt, Rinehart and Winston, 1961, p. 37. See, nevertheless, our distinction below between the concept of consumers' sovereignty and that of freedom of choice. This distinction is due to O. Lange "On the economic theory of socialism," in *On the Economic Theory of Socialism*, B. Lippincott, ed., Minneapolis, Minnesota, 1938, pp. 95-96.

basic elements in the kit of social institutions designed to ensure his economic freedom and his personal liberty in general.<sup>4</sup>

*Welfare as an end under socialist planning*

To turn now to the position of the consumer under socialist economic planning, let us first try to ascertain what is commonly taken to be the end (or ends) of such planning. It is usually assumed that the end of economic activity under socialism, like that under capitalism, is maximum social welfare. The dependence of the concept of social welfare, in the final analysis, on ethical theory has been repeatedly pointed out.<sup>5</sup> The basis is usually some kind of social hedonism as expressed in the various social welfare functions commonly utilized. Nothing, however, precludes total or partial derivation of the social welfare function from different ethical precepts, such as naturalism, religious ethic, or any other ethical theory, whether the value scales concerned are purely those of individuals, purely those of the planning authority, or of a mixed character.

Among the writers who have dealt with the concept of welfare specifically in its application to the theory of socialism, mention must be made of V. Pareto and E. Barone.<sup>6</sup> It should be noted, however,

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4. In this sense, Suranyi-Unger refers to this freedom of consumers' choice under capitalism as "the strongest bulwark of Western economic freedom at large." (*Op. cit.*, p. 5). And J. M. Clark emphasises that, although consumers' sovereignty is demonstrably limited and fallible "yet with all its defects this agency is indispensable in a society in which the shaping of worthwhile lives is basically voluntary, rather than dictated by central authority." (J.M. Clark, *Competition as a Dynamic Process*, Washington, D.C., Brookings Institution, 1961, pp. 12-13.) And finally, Keynes expresses his high praise of individualistic economic organization by saying that "above all, individualism, if it can be purged of its defects and its abuses, is the best safeguard of personal liberty in the sense that, compared with any other system, it greatly widens the field for the exercise of personal choice, and the loss of which is the greatest of all losses of the homogeneous or totalitarian state." (J. M. Keynes, *The General Theory of Employment, Interest, and Money*, New York, Harcourt-Brace, 1936, p. 380.)

5. See, e.g., C.D. Baldwin, *Economic Planning; its Aims and Implications*, Urbana, University of Illinois Press, 1942, pp. 39-40.

6. V. Pareto, *Cours d'Economie Politique*, vol. II, Lausanne, 1897, pp. 90 f., 364 f.; E. Barone, "Il ministero della produzione nello stato collettivista," *Giornale degli Economisti e Rivista di Statistica*, Sept. and Oct. 1908, pp. 267-293, 391-414. A translation is published as "The ministry of production in the collectivist state," in *Collectivist Economic Planning*, F. A. Hayek, ed., London, 1935.

that their concept of welfare differs in important respects from the traditional concept provided in the writings of Marshall and Pigou.<sup>7</sup> For the latter, welfare is the "sum" of the utilities of the individual households; utility is cardinal, and, with the assumption of its interpersonal comparability and of equal capacity to enjoy income, equality in the distribution of income is economically deduced as a condition of maximum welfare. For the former, welfare is at a maximum when it is impossible to increase the welfare of some without reducing the welfare of others. Utility is ordinal, and interpersonal comparability of utility is rejected. This, in effect, is the basis of the so-called "modern" welfare economics.<sup>8</sup> The importance of all this lies in the silence of this approach with respect to policy measures which affect the distribution of income. The sterility of this attitude, and the possibility of characterizing it as a rationalization of the *status quo* are obvious.<sup>9</sup> However, adherents of this approach do not bar any attempt to change the distribution of income; they simply note that income redistribution cannot be deduced on purely economic grounds. Nothing, therefore, prevents the inclusion of the desired pattern of income distribution as an end in the social welfare function.<sup>10</sup> As they stress, however, this would be an ethical judgement.

The distinction between economic and non-economic objectives of socialist planning, such as increased power or other political objectives, does not require any amendment in our preceding description of the end of socialist planning as maximum social welfare, since this welfare depends on the satisfaction of all these ends. This is not to deny, however, the possibility of perversion of planning if the ends for which satisfaction is sought are in small or large measure those of the planners themselves to the disregard of the ends of society at large. Barring this, nevertheless, the identity of ends between socialism and capitalism has been

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7. A. Marshall, *Principles of Economics*, 8th edition, London, 1920; A. C. Pigou, *Economics of Welfare*, 4th edition, London, 1934.

8. K. E. Boulding, "Welfare economics," in *Survey of Contemporary Economics*, vol. II, B. F. Haley, ed., Irwin, 1952, pp. 1—2, 10; I. M. D. Little, *Critique of Welfare Economics*, 2nd ed., Oxford University Press, 1958, chs. 1—3; P. A. Samuelson, *op. cit.*, ch. 8.

9. P. A. Samuelson, *op. cit.*, pp. 249—252.

10. See A. Bergson, "Socialist economics," in *Survey of Contemporary Economics*, vol. I, H. S. Ellis, ed., Philadelphia, Blakiston, 1948, pp. 413—414.

repeatedly recognized. This is particularly the case with respect to so-called "democratic" socialism. "Democratic" socialism here refers to socialist planning on the basis of consumers' sovereignty. What some call "democratic" socialism, others call "liberal" or "market" socialism, as distinct from "authoritarian" socialism.<sup>11</sup> Whether this should mean absolute, unmitigated adherence to consumers' sovereignty or some more reasonable domain for consumers' preferences is a question we shall deal with in detail below.

Another assumption which has to be made with respect to the framework within which socialist planning takes place is that the socialist system, like its capitalist predecessor, will also be confronted with the basic problem of scarcity. This may be denied in some instances,<sup>12</sup> but all competent socialist thought proceeds on the basis of this premise. Unlimited abundance may be promised as a future possibility of the socialist system;<sup>13</sup> but for purposes of immediate economic planning all problems of consumers' choice and sovereignty would immediately vanish if the contrary assumption is made.

#### *Arguments against consumers' sovereignty*

As previously noted, consumers' sovereignty refers to the situation in which consumers' preferences play the role of the basic guide to the process of production. Under socialist planning, this means that consumers' preferences, as they see them, are the basic factor that should count in allocating the community's resources among their various uses. As such, consumers' sovereignty has been the object of severe criticism by many writers on socialist planning. The most notable writer

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11. See L. Robbins, *The Economic Basis of Class Conflict*, Macmillan, 1939, p. 186; G. N. Halm, *op.cit.*, p. 164; and for different types of socialist planning from this point of view, B. Balassa, *The Hungarian Experience in Economic Planning*, New Haven, Yale University Press, 1959, pp. 44—49.

12. Cf. Baldwin's reference (*op. cit.*, pp. 72 — 74) to the technocratic attitude that this is an age of plenty, had it not been for competitive advertising which creates wants, encourages wasteful product differentiation, etc. As a sample of the writings of this group, see H. Scott, et al., *Introduction to Technocracy*, John Day, 1933.

13. Cf. Suranyi-Unger's reference (*op. cit.*, p. 27) to expectation of unlimited abundance in Soviet Russia sometime in the 1960's, and his comment.

in this respect is M. Dobb.<sup>14</sup> Consumer's sovereignty, he argues, is based on an unwarranted belief in the "sacredness of consumers' preferences", a sacredness which is pretty ruthlessly damaged by the influence of advertising. Of course, it must be noted that the role of advertising under socialist planning is bound to be different from that under capitalism. However, it seems clear that Dobb seeks merely to deny the autonomy of consumers' preferences. If consumers' tastes, then, are the object of social influence and moulding in any case, it is clearly superior to have this moulding undertaken by society as a whole rather than by business under the motivation of self-interest. Static economic theory, he notes, takes consumers' tastes as given. This, however, is an illegitimate assumption "in a context of change and development". In fact, the setting of new and higher social standards will undoubtedly be one of the central preoccupations of socialist society.<sup>15</sup>

In addition, although adherence to consumers' sovereignty may be hailed as "economic democracy", the idea being that consumers exercise their choice by casting their money votes on the market in a manner similar to ballot casting for political democracy, yet economic democracy is vitiated by "a widely graded system of plural voting". Since complete equality of income is unlikely under socialist planning for reasons related to the incentive to work, plural voting would still vitiate consumers' sovereignty under socialism.

It is also clear that under modern economic conditions, a great deal of standardization of products, that is of limitation of variety, can occur without much loss of aesthetic or utilitarian value. The range

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14. See his article, "Economic theory and the problems of a socialist economy," *Economic Journal*, Dec. 1933, pp. 588—598; also published in abbreviated form in his book, *On Economic Theory and Socialism; Collected Papers*, London, Routledge and Kegan Paul, 1955, pp. 34—41. G. N. Halm writes, "The theory of authoritarian planning has found its most advanced expression in the writings of Maurice Dobb. We shall follow Dobb in our theoretical discussion of authoritarian socialism, just as we followed Lange in studying the liberal socialist blueprint." (*Op. cit.*, p. 224).

15. *Ibid.*, pp. 36—37; 78—79. As is well-known, the influence of advertising on consumers' tastes and consumers' choice under capitalism is seldom looked upon with tolerance. Clark refers to the "view held in some quarters that it is the inherent tendency of competition to sacrifice serviceability to vendability and debase or impair the human values it touches". (*Op. cit.*, p. 10). And in another place, he mentions among the perversions of selling effort the bribery of purchasing agents and undercover inducements to retail firms to push the sale of defective products. (*Ibid.*, p. 483).

of choice usually offered the consumer under these conditions is bewildering, and the consumer is frequently incapable of conducting his choice intelligently. This is basically because he seldom has the required technical knowledge for any but a limited area of choice. Trial and error may work reasonably well to protect the consumer against unsatisfactory products, but it is not infallible, for he may be unable to determine precisely the source of his dissatisfaction; and in any case this can apply only in the case of products which are bought in small and frequent purchases.<sup>16</sup>

Under the rule of consumers' sovereignty, the vagaries of consumers' tastes may also be condemned as a source of economic disturbance. Boulding observes that the freedom of the consumer to switch over from one commodity to another as a result of changes in tastes may involve high costs of transfer of resources both human and non-human, with the result that a rather unimportant freedom on the part of some seriously limits important freedoms of others.<sup>17</sup> Then, again, rationality of consumers' choice in certain fields may be seriously questioned. The consumer tends to neglect satisfaction of his needs where the immediate effects of neglect are small, as in the case of health, sanitation, or education. And in the field of his choice between current and future consumption, Pigou refers to his "defective telescopic faculty" which results in underestimation of the future.<sup>18</sup>

As may be seen, many of these arguments against consumers' sovereignty point, in one form or another, to various sources of irrationality which impair consumers' choice. The prevalence of such irrationality in the field of consumers' behavior is partly due to the fact that "the process of selective elimination of the least efficient, which operates among business firms, has little or no application to consumers"<sup>19</sup>. Of course, what is meant by rationality in this context is not conformity of consumers' choice to some criterion of consistency as is usually the case in discussions of the modern theory of consumers' choice, but simply whether the consumer knows what is good for him and chooses means which are well-adapted to the achievement of his ends.

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16. B. Wootton, *Lament for Economics*, New York, Holt, Rinehart and Winston, 1938, pp. 188—191; C. D. Baldwin, *op.cit.*, p. 69; J. M. Clark, *op.cit.*, p. 75.

17. K. E. Boulding, *Principles of Economic Policy*, London, Staples press 1959, pp. 144—147.

18. A. C. Pigou, *op.cit.*, p.25.

19. J. M. Clark, *op.cit.*, p. 232.

*Arguments for consumers' sovereignty*

Such attacks on the principle of consumers' sovereignty have elicited equally vehement defense of the principle from many other writers. Lerner criticizes Dobb's attitude by saying that it assumes that someone knows what the people really want other than the people themselves.<sup>20</sup> If carried far, this may involve the substitution of the planning authority's scale of values for that of the consumers, and adapting wants to production, not vice-versa. With respect to advertising and other social influences on consumers' preferences, Fellner retorts, "In the area of Western civilization few would subscribe to the view that pressures and conditioning mechanisms have spoiled our preferences so thoroughly as to provide ethical or pragmatic justification for the abolition of free choice."<sup>21</sup> Adherents of the so-called centralist solution to the problem of socialist planning may call authoritarian planning "a diet prescribed by a doctor to a patient"; however, the idea of an infallible central authority is rejected by adherents of the competitive solution. Lange writes, "Mr. Lerner has sufficiently shown the undemocratic character of such system and its incompatibility with the ideals of the socialist movement. Such a system would scarcely be tolerated by any civilized people."<sup>22</sup>

It may be argued also that, although consumers' sovereignty may be a source of economic disturbance in the short run, its impact on aggregate welfare in the long run is shown by its historical achievements. And if opponents of consumers' sovereignty stress consumers' irrationality, it may be pointed out that irrationality is not likely to be eliminated under authoritarian planning as is witnessed by its shortcomings avowed through self-criticism in the Soviet sphere. Suranyi-Unger, however, emphasizes that basically consumers' sovereignty can be defended only by reference to the belief in a natural order, which is partly irrational.<sup>23</sup> In other words, adoption or rejection of consumers'

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20. A. P. Lerner, "Economic theory and socialist economy," *Review of Economic Studies*, 1934—1935, p. 54.

21. W. Fellner, *The Emergence and Content of Modern Economic Analysis*, New York, Mc Graw-Hill, 1960, p. 200.

22. See M. Dobb, *Political Economy and Capitalism*, New York, International Publishers, 1945, pp. 307—314; O. Lange, *op. cit.*, p. 95; B. Balassa, *op. cit.*, p. 22.

23. T. Suranyi-Unger, *op. cit.*, pp. 314—315.



sovereignty is a decision on ends. Of course, economic welfare may be defined in the first place so as to imply consumers' sovereignty; but, as Bergson points out, nothing in fact is gained by this type of "implicit theorizing".<sup>24</sup>

Finally, consumers' sovereignty may be defended by noting that planning consumption usually occurs through the imposition of rationing, with all its familiar difficulties, including the appearance of a black market. It is, of course, acknowledged by defenders of consumers' sovereignty that it is in fact rather passive, since the initiative in the process of production actually lies with the producer. "We as consumers could not invent all the things we would choose to use if offered; we leave that to the producers, who produce what they think we can be induced to buy. The consumer, insofar as he can be said to be sovereign, has the last word, not the first."<sup>25</sup> Nonetheless, to these adherents, this last word has all the significance of the difference between the prevalence of freedom and its absence.

#### *Partial adoption under socialist planning*

The above discussion provides us with a fairly detailed account of the arguments that have been put forth to support or criticize the principle of consumers' sovereignty. However, presentation of the issue with respect to consumers' sovereignty as one of the adoption or rejection of the principle may lead to the false impression that there are only two alternatives with nothing in between. Actually, nobody denies that consumers' preferences are relevant to social choice; the question is rather whether they should be the basic or even the preponderant factor.<sup>26</sup>

Even under capitalism, consumers' sovereignty is not unrestricted. On this score, Clark criticizes welfare economics for insisting on consumers' choice as the ultimate criterion of welfare, which would preclude any investigation of the effectiveness of consumers' sovereignty. With its empirically verifiable limitations and fallibility, consumers' sovereignty is indeed in need of practical aid and guidance. Health and safety are

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24. A. Bergson, *op.cit.*, p. 418.

25. J. M. Clark, *op.cit.*, p. 74; and cf. C. D. Baldwin, *op. cit.*, pp.74—77.

26. See M. Dobb, *On Economic Theory and Socialism, loc. cit.*, pp. 69—70.

not mere matters of taste, and cannot properly be left to individual choice, either unguided or guided by commercial advertising. "The idea that they are in fact so left is one of the fictions of individualist mythology. "*Caveat emptor*" (beware buyer) is replaced by minimum standards of health and safety in an increasing number of cases; sometimes even by prohibition as in the sale of liquor to minors, or by limitation on the freedom not to consume as in compulsory elementary education. Where the individual's vagaries are more important to him than to society his sovereignty is acknowledged, although sometimes along with education, rather than control, to guide his choice, as in the case of nutrition. If all elements affecting the quality of products were left to the unrestrained action of consumers' sovereignty, the effect would be calamitous.<sup>27</sup>

On the other hand, the fact that some restriction on consumers' sovereignty is desirable or even inevitable during the initial stages of transition to a developed socialist economy is stressed by Baran. "It is presumably the purpose of whatever political action is taken to establish a socialist system to create such social organs of control that would limit consumers' sovereignty (*and mould consumers' preferences*) in the interest of the community as a whole in preference to an arrangement in which it is the capitalist enterprise which performs this function for the benefit of private interests."<sup>28</sup> Of course, consumers' sovereignty would prevail where the planning authority had no good reason for the contrary. However, some compulsion is inevitable if the implied reorientation of society is to be realized, at least to overcome vested interests and non-congenial short-term consumers' preferences. The planning authority's objectives would be expressed in the formulation of social priorities, with consumers' sovereignty allowed to act within each priority class, but not so as to transfer resources from a higher priority class to a lower one. With the achievement of transitional objectives, these autonomous programs of the planning authority would narrow down, its indifference field would become wider, and with it also the field of consumers' sovereignty.<sup>29</sup>

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27. J. M. Clark, *op.cit.*, *passim*, especially pp. 38—39, 219—220, 230—32.

28. P. A. Baran, "National economic planning," in *Survey of Contemporary Economics*, vol. II, B. F. Haley, ed., 1952, p. 384. Italics are in the original.

29. *Ibid.*, pp. 384—386.

It is clear from all these remarks that consumers' sovereignty and planned consumption, rather than being mutually exclusive, actually supplement each other. Both lead to undesirable results if dogmatically stressed "in a single-track manner".<sup>30</sup> Flexibility in their application in the light of prevailing conditions is the most sensible policy, whether under capitalism or under socialist planning. In fact, under both systems, stringent government planning is undertaken only in response to emergency situations, whether economic, political, or other. The really important issue in either case is that of the extent of the guarantees against the possibility of excessive or unwarranted restriction of consumers' sovereignty, which is basically a political problem.

We may conclude, therefore, that consumers' sovereignty will be at least partially adopted under socialist planning, although its extent may vary from one situation to another in the light of the exigencies of social welfare, and under the guarantees of the political process against excessive or unwarranted restriction. However, if consumers' preferences are to act, even in this partial sense, as a guide to production, there must be some method of ascertaining these preferences. Some writers on socialist planning have advocated the consultation of special bodies of consumers or experts for this purpose. It should be noted, however, that representatives of consumers are scarcely competent to give detailed advice on such matters; while it is unsafe to leave questions with so close an affinity to consumers' tastes in the hands of experts; and, in any case, prior knowledge of cost is necessary for an intelligent expression of preference. Others have suggested the use of questionnaires and similar methods. The difficulty here, however, is that the demand for a commodity does not depend only on its price but also on all, or at least many, other prices. The consumer must know what he may get of other commodities, and on what terms.<sup>31</sup> This clearly indicates the necessity of a price-system for the valuation of consumers' goods. This price-system would work as follows: prices would be fixed in the short run so as to clear the market; their level in the short run can then be used to guide production and resource allocation in

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30. T. Suranyi-Unger, *op.cit.*, pp. 315—316.

31. See H. D. Dickinson, *Economics of Socialism*, Oxford, Oxford Univ. Press, 1939, pp. 44—51, 62—64; *idem*, "Price formation in a socialist economy," *Economic Journal*, 1933, p. 240; A. P. Lerner, "Economic theory and socialist economy," *loc. cit.*, p. 53; C. D. Baldwin, *op. cit.*, pp. 77—81.

the long run.<sup>32</sup> Practically all writers on socialist planning assume a market for consumers' goods. This does not necessarily mean, as we shall point out below, adherence to consumers' sovereignty; but within the domain in which such a market is allowed to work according to the rule we have just specified, consumers' sovereignty would prevail.

*Danger of excessive overruling of consumers' preferences*

Beyondt his domain of consumers' sovereignty, however, the policy followed by the planning authority would be one of overruling consumers' preferences. The danger of excessive or unwarranted overruling under socialist planning should be obvious. With state monopoly over the production process, the planning authority has at its disposal all the means of implementing its wishes. At the same time, the incentive to carry restriction on consumers' sovereignty to excess may be quite strong. "The temptation to exact unnecessary cultural uniformity is always likely to be strong among those men and women who are personally responsible for making the decisions which constitute economic planning. It will be strong because it is, generally speaking, easier to plan for uniformity than for diversity. It will be strong because people who arrive at positions of power are, inevitably, people who enjoy the exercise of power. This is, of course, as true of the powerful whose intentions are good as of those whose designs are evil".<sup>33</sup> Overruling of consumers' preferences may take the form of not producing the desired commodity; covering loss, even in the long-run, by profit elsewhere or by additional taxation, compulsory loans, or inflation; high pressure advertising, or coercive selling.<sup>34</sup>

As was previously noted, freedom of consumers' choice, in a strict sense which refers merely to the provision of a free market for consumers' goods, does not necessarily mean the adoption of cons-

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32. See F. H. Knight, "The place of marginal economics in a collectivist system." *American Economic Review*, suppl., 1936, pp. 259—260; A. C. Pigou, *Socialism versus Capitalism*, London, Macmillan, 1937; B. Wootton, *Plan or No Plan*, New York, Farrar and Rinehart, 1937, p. 233; R. L. Hall, *The Economic System in a Socialist State*, London, Macmillan, 1937, pp. 46—47, 61—62; C. D. Baldwin, *op. cit.*, p. 81.

33. B. Wootton, *Freedom Under Planning*, Chapel Hill, University of North Carolina Press, 1945, p. 31; quoted also in G. Halm, *op. cit.*, p. 37—38.

34. C. D. Baldwin, *op. cit.*, pp. 76—77.

umers' sovereignty, for consumers may be left to spend their income freely, but when it comes to production their wishes, expressed on the market, are disregarded.<sup>35</sup> The planning authority may use a system of taxes and subsidies to overrule consumers' preferences; in this case, a two-price system would exist, one for distributing goods to the consumers, and the other, which reflects the algebraic addition of the tax or subsidy, to guide production. In all these cases, the long-run adjustment of production to consumers' preferences does not occur.

From the theoretical point of view, dealing with such cases where consumers' sovereignty is modified or abandoned should pose no problem, for the planning authority's scale of preferences is simply substituted, wholly or in part, for that of the consumers. Very likely, however, as Bergson points out, the former will lack the elaborateness and precision which usually attach to the latter under consumers' sovereignty, thus implying wide ranges of indeterminacy in the authority's choice.<sup>36</sup> As previously mentioned, this merely widens the scope for consumer's sovereignty, and is bound to acquire increasing importance in a socialist economy as the authority's "autonomous programs" are progressively fulfilled.

#### *Appropriate cases of overruling*

The idea of excessive or unwarranted overruling of consumers' preferences referred to in the preceding discussion necessarily implies that there is a certain area of consumers' choice where overruling is appropriate. A precedent for considering cases of this sort is provided by Pigou's observation, previously alluded to, that consumers tend to undervalue the future, which provides a case for disregarding their preferences with respect to saving. This argument was adopted by socialist writers.<sup>37</sup> Other cases where overruling consumers' preferences may be appropriate include those where such preferences are irrational or in conflict with the social interest, as indicated above in our

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35. O. Lange, *op.cit.*, pp. 95—96.

36. A. Bergson, *op.cit.*, pp.423—424.

37. M. Dobb, *On Economic Theory and Socialism*, *loc. cit.*, p. 73; *idem*, *Political Economy and Capitalism*, *loc. cit.*, pp. 298—299, 311—212; O. Lange, *op.cit.*, pp.90 f. See also Bergson's criticism that the proper decision in this respect may not be to equalize the marginal (social) utility of present and future income, since income may be increasing. A. Bergson, *op. cit.*, p. 415.

discussion of the arguments put forth by antagonists of consumer sovereignty.<sup>38</sup> Cases where consumers' wants cannot be satisfied on an individual demand basis, that is cases of collective wants and indivisible social satisfactions, may be looked upon as cases of overruling, although they are in fact ill-adapted by nature to satisfaction through the market mechanism.<sup>39</sup>

Another case where overruling of consumers' preferences may be appropriate is that of conspicuous consumption and similar cases in which consumers' satisfaction depends on the quantity of the commodity consumed by others. Here, consumption under free market conditions would be too high or too low (depending on whether consumption by others would diminish or increase the quantity of commodity that the individual desires, *ceteris paribus*, to consume) compared with what it would be if the interdependence of consumption by the various households is taken into account. This is a *prima facie* case for overruling consumers' preferences under socialist planning.<sup>40</sup>

It may be noted also that, if the assumption of the independence of the utilities of the different households is adopted as in the Marshall-Pigou welfare function, this too would involve an overruling of consumers' preferences, since it means that interrelations of these utilities are considered to have zero social value.<sup>41</sup> Since such

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38. One form of consumer irrationality referred to by Beckwith is that of habitual preferences which were originally based on sound economic reasons (e.g. Japanese preference for rice, U. S. preference for wheat or meat) but which have become uneconomic as a result of changed conditions (e.g. relative rise in the price of rice in the case of Japan). He advocates the use of taxes and subsidies to overrule consumer preferences in these cases. He also advocates the subsidization of all new goods, since inventions, he asserts, always meet with prejudice and inertia. See B. P. Beckwith, *Economic Theory of a Socialist Economy*, Stanford, Calif., Stanford University Press, 1952, pp. 165—167.

39. Collective satisfaction of these wants does not necessarily imply the overruling of consumers' preferences; it simply means the substitution of voting through the political process for voting on the market as a means whereby the consumers can obtain what they want. And the authority may conform to consumers' sovereignty by actually giving them what they want as expressed through the political process. Cf. A. Bergson *op. cit.*, p. 415; and M. Dobb, *On Economic Theory and Socialism*, *loc. cit.*, p. 71.

40. Bergson points out that, even if the planning authority decides to adhere to consumers' sovereignty in this case, it is impossible for it to carry out its intention since in a free market consumers do not take into account the effects of their behavior on the quantity of the commodity bought by others. (See *op. cit.*, p. 415-416).

41. *Ibid.*, p. 419.

interrelations usually work in the direction of increasing the desire to consume as a result of the general rise in standards of living, thus leading to the constancy of the average propensity to consume, as is indicated by the experience of capitalist countries, overruling consumers' preferences here simply means disregarding their preferences with respect to saving.

In cases of this sort, it may be deemed necessary to substitute what is considered a socially desirable method of allocating resources to the production of consumers' goods for the working of a free pricing mechanism. This may be accomplished by partial modification of the working of the price-mechanism through the use of taxes and subsidies, or by basically discarding the price mechanism as an instrument for the guidance of resources in the instances under consideration. Cases in which the working of a price mechanism is basically discarded, either because of the desire to overrule consumers' preferences or because by their nature they are ill-adapted to satisfaction through the market mechanism, may be called communal consumption. Dickinson<sup>42</sup> includes in it the following categories : 1) Goods which society decides to supply communally although individually consumed, such as education, roads and utilities; 2) goods communally consumed because of their indivisibility, such as justice, defense, and health; 3) less definite commodities, like liberty, equality, culture, and leisure. In addition, it may be noted that collective action is in effect the only method by which consumers may exercise their negative preferences.<sup>43</sup> Communal consumption in this sense is not only a feature of socialist planning; it is a common phenomenon also under capitalism. However, as should be expected, its extent under capitalism is more limited than under socialist planning, particularly with respect to the first category of the tripartite classification mentioned above.

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42. H.D. Dickinson, *op. cit.*, pp. 51-55; C.D. Baldwin, *op. cit.*, p. 83; M. Dobb, *op. cit.*, p. 71.

43. See E. F. M. Durbin, *Problems of Economic Planning*, London, Routledge and Kegan Paul, 1960, p.137; R. H. Blodgett., *Comparative Economic Systems*, New York, Macmillan, 1949, p. 128.

### *Overruling of consumers' preferences in Russia*

Russia and other countries of Eastern planning are usually criticized for excessive disregard of consumers' preferences. Suranyi-Unger draws a picture of the position of the consumer under such planning which suggests the extent to which his preferences are subjected to social control.<sup>44</sup> His choice, he points out, is subjected to guidance both as to quantity and quality; this guidance involves his tastes, for he is trained to shun luxuries, accept goods made available, and make quick adjustments to change. He is especially asked to accept a limited quantity of consumers' goods in order to enjoy abundance in the future; the emphasis is on the production of producers' goods. This restricted freedom of choice, he remarks, may be considered great by the previously very poor or those who like social discipline; but it is small by western standards.

The charge, however, that consumers' preferences are grossly neglected under Soviet planning is denied by Dobb. Dobb argues<sup>45</sup> that it is not to be expected from a country in the earlier stages of its socialist planning to pay considerable attention to consumers' preferences. Some attention is accorded these preferences through the use of the turnover tax, and hence the ratio of retail price to prime cost, as an index of the relative scarcity of the commodity which is relevant to production planning. But it is not the only index, for other factors such as the quantities of scarce factors required for the production of the commodity and social priorities are also clearly relevant. Moreover, after the liquidation of rationing in Russia in 1935 there was great concern about the relation of production to consumers' demand and the need to study the latter, and the tendency toward increased decentralization of consumers' goods production adopted during this period aimed essentially at facilitating the adaptation of production to local market requirements. Nevertheless, a country in the earlier stages of its development cannot be expected to devote much attention to consumers' preferences, for it is then largely preoccupied with its deve-

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44. T. Suranyi-Unger, *op. cit.*, pp. 25-27.

45. M. Dobb, *Soviet Economic Development Since 1917*, London, Routledge and Kegan Paul, 1960, pp. 393-398.



lopment problems, while the production of consumers' goods is by necessity largely confined to a narrow range of basic commodities. Only with more advanced stages of development does the problem of new goods assume importance. Although the significance of the turnover tax as a guide to Soviet planning may be doubted by some writers,<sup>46</sup> and the inflexibility in linking output to retail trade criticized, no one denies the increased concern of Soviet planners over the problem of adjusting production to consumers' demand.

One of the major targets of criticism in evaluations of Soviet planning is usually the great emphasis on capital accumulation, to the comparative neglect of consumption levels, particularly during the first two Five-Year plans (1928—1940).<sup>47</sup> However, Russia's heavy concentration on the capital goods industries during this period may be explained by the circumstances that surrounded her early planning efforts. By 1924, hope of an early victory of socialism in Europe was severely dashed, and Russia was forced to turn her attention to building "socialism in one country". She had to develop her economy at a rapid pace to meet the threat of foreign aggression, depending mainly on her own resources since foreign participation was obviously out of the question. Her capital requirements were immense. She had little overhead capital, and her policy of decentralization of industrial development, partly for military reasons, increased her overhead requirements. Use of less capitalistic methods of production to meet the immediate relative scarcity of capital would certainly have proved myopic in a little longer run.<sup>48</sup> These circumstances clearly show that Soviet planners did not decide to undertake their early huge investment programs for the mere love of grandiose achievements or from lack of consideration for consumers' requirements.

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46. See, e.g., Alec Nove, *The Soviet Economy; an Introduction*, London, Allen and Unwin, 1961, pp. 171-181. At the end of his discussion, Nove refers to a decision taken at the central committee plenum in July 1960 to explore ways and means of making production more responsive to demand.

47. For an account of the great disparity between the rates of growth of consumers' goods and capital goods sectors of Russian industry during this period, see M. Dobb, *On Economic Theory and Socialism*, *loc. cit.*, pp. 122-123. As Dobb points out this disparity has been considerably reduced in postwar, although the emphasis still remains on the capital goods industries.

48. See P. A. Baran, *op. cit.*, pp. 390-392.

As a result of her heavy investment program, as well as of the necessity of exporting on a large scale to obtain sorely needed foreign exchange, and in particular as a result of the production difficulties attendant on peasant resistance to the collectivization of agriculture, Russia had to resort to the rationing of consumers' goods following the adoption of her first Five-Year Plan in 1928. Russia's trouble with the unwieldy kulaks (relatively wealthy peasants who had surplus produce for marketing) antedated the First Five-Year plan. Under the New Economic Policy (1921-1927), attempts to extract a portion of the large savings needed for industrial development from the rural sector, through raising the prices of industrial consumers' goods relatively to the prices of agricultural produce, met with resistance of the kulaks who refused to sell their surplus produce at government prices.<sup>49</sup> Although the first Five-Year Plan did not contemplate widespread collectivization of agriculture, lack of progress in agricultural production and peasant resistance to government seizure of grain particularly in 1929 led to rapid collectivization in 1930 and the notorious liquidation of the kulaks. Resistance to collectivization particularly took the form of large-scale slaughter of live-stock, "an event which had disastrous effects for a number of years on the supply of meat and dairy products as well as on the manuring of land and on the animal power available to agriculture."<sup>50</sup>

The story of Russian rationing during this period is one of censurable discrimination and inefficiency, and hence sacrifice of the interests of the consumer. Consumers were divided into separate classes with ration stores for each in order to favor certain groups. Beside these stores, there were "open" stores that sold at much higher prices — a sort of legalized black market to mop up excess purchasing power.<sup>51</sup> Later, in 1932, the issue of ration books was turned over to the factories to ensure firmer control over the workers. The system suffered from serious defects. Consumers spent a great deal of time standing in line, and it is said that many hired domestic servants especially for

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49. This is the famous "scissors problem". See P. A. Baran, *op. cit.*, pp. 393-395; M. Dobb, *Soviet Economic Development since 1917*, *loc. cit.*, pp. 241-254; R. H. Blodgett, *op. cit.*, pp. 240-243.

50. M. Dobb, *op. cit.*, p. 237.

51. See W. N. Loucks, *Comparative Economic Systems*, 5th ed., New York, Harper, 1957, pp. 531-546. This arrangement was also adopted during the period of rationing of the Second World War, July 1941- Dec. 1947.

this purpose.<sup>52</sup> It led to very inefficient retailing, with such characteristic traits as complete indifference to consumers' wishes, requirement of payment before selection of goods, leaving goods unwrapped, requiring consumers to bring their own receptacles, lack of delivery service, small number of stores, and "frightful" storage conditions. The system was finally liquidated in 1935.

Resort to rationing during this period of Russian development can scarcely be deemed an unnecessary measure. It is true that the imposition of rationing under peacetime conditions is a phenomenon which is not at all common in capitalistic countries; but the Russian economy during this period was not in fact functioning under normal peacetime conditions. As a matter of fact, it was more closely similar to a capitalist war economy in that highly inflationary excess demand for aggregate output, as a result of defense and industrialization effort, dominated the scene. Lange remarks that "essentially, it can be described as a *sui generis* war economy".<sup>53</sup> The aspect for which Russian planners may be blamed in this respect, however, is the inefficiency of application. Wartime rationing in capitalist countries, despite its familiar difficulties, is usually administered with a reasonable degree of efficiency; the fact that Russian rationing had so many defects should clearly be attributed to administrative inefficiency.

### *Conclusion*

To conclude, the consumer under socialist planning, as under capitalism, is bound to be subjected to some restriction on his sovereignty. The scope for this restriction under socialism is likely to be much wider, at least in the initial stages of socialist development. The basic reason for this is that, in addition to such factors as consumers' irrationality, conflict of consumers' choice with social interest, and indivisibility of satisfaction, which justify the overruling of consumers' preferences, it must be realized that one of the basic functions of socialist planning is the moulding of consumers' tastes into harmony with socialist values and objectives. The extent of such restriction on consumers' sovereignty

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52. R.H. Blodgett, *op. cit.*, pp. 310-314; L.E. Hubbard, *Soviet Trade and Distribution*, London, Macmillan, 1938, pp. 33-35; F. Utley, *The Dream We Lost*, New York, John Day, 1940, pp. 69-70, 223-224.

53. O. Lange, *The Political Economy of Socialism*, Warsaw, 1957, p. 16; quoted in A. Nove, *op. cit.*, p. 145.

may vary from one situation to another, according to the circumstances surrounding socialist development. Generally speaking, however, it is most likely to be important in the initial stages of transition to socialist planning, while its extent would diminish gradually with the fulfillment of the autonomous objectives of the planning authority. Ultimately, of course, the greatest possible scope for consumers' sovereignty consistent with national welfare should be the objective of the socialist economy. In the meantime, however, restriction on consumers' sovereignty should be tolerated in the social interest. The danger of excessive overruling of consumers' preferences, nevertheless, should not be minimized. Against this, safeguards must be provided. This, as we have pointed out, is basically a political problem.