

A REVIEW OF THEORY AND PRACTICE  
OF WELFARE IN THE TWO SYSTEMS

by

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**A REVIEW OF THEORY AND PRACTICE  
OF WELFARE IN THE TWO SYSTEMS**

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## CHAPTER I

### INTRODUCTION

As the title of the dissertation suggests, we shall review the idea of welfare in the free market economies of the capitalist system and the centrally planned economies of the socialist system. The concept of welfare came into economic literature to denote the well-being of the people. If the goal of any society is well-being, then it is important to know how the system achieves it.

As is well known, one of the basic differences in the two systems is in the relations of production. This concept is important, in the sense that it explains the nature of appropriation of the products of labour. In the case of capitalism it is the capitalist in whatever form they appear at the surface who expropriates. In the case of socialist economy, as its theoreticians claim, society through the mediation of the state has the right to claim the surplus product created by human labour.

The neoclassical positive welfare economics adopts the undisputed dictum that an individual is the best judge of his own welfare. On the other hand is the Marxist view of welfare - although there is nothing like the marxist 'welfare theory'. Accepting the thesis of false consciousness and applying to the problem of welfare, a question

arises; whether or not an individual is the best judge of his own welfare. In the marxist theory of social change, welfare is taken as an inalienable part of social action. This difference as will be seen renders the concept of welfare to seem different in the two systems.

There is a close connection between welfare and needs. When welfare is understood as well-being, the object of analysis is need as distinguished from wants. Wants are anything a man may wish to have any kind of preference and desire. The idea of need on the other hand is related to a more basic idea, to the question - a humanbeing is, to the idea of good life, welfare etc.

Want is the central concept in welfare economics. The point to note is that the attention is not given to the reason or justification for a certain want, only to whether it exists or not. Assuming wants as given, rules for welfare maximisation are derived. This is of course in accordance with the utilitarian tradition. But on the other hand, welfare state is built on the concept of need. All the needs from 'womb to tomb' as the Americans put it, of all the citizens are looked after by the state.

Socialist planning makes needs its focal point. There is the range of needs and a quantum of resources at the community's disposal. Consequently a situation is created in which only a part of the individual and the collective needs can be satisfied with the given resources. The concept

of social selection states that there should be a selection of individual needs and collective needs and a planned scale of their satisfaction. When the selection of needs which are to be satisfied is being decided, attention is also to be paid to the degree of satisfaction. This requires a number of socio-economic and extra-economic criteria.

Now, if we introduce the time factor in our analysis, then this static policy of balancing and equalising current needs and the possibilities of their satisfaction has to be given up. In the longrun the socio-economic policy must envisage, on the one hand, the constant increase in the availability of means and resources and thus increased possibility of satisfying the needs, and on the other hand, the future outline of changing needs. The socialists consider it an advantage, that through planning they are able to influence the structure of needs in the longrun, as well as it is possible to skilfully link them with the considerable growth of resources for satisfying these needs. Thus we pass from the static conception of needs and resources to their dynamic formulation as seen against the background of developmental process.

In contemporary capitalist society "its political and social institutions provide universally distributed rights and privileges that proclaim the equality of all citizens. But its economic institutions rely on market determined incomes that generate substantial disparities among citizens

in living standards and material welfare... The resulting mixture of equal rights and unequal incomes creates tensions between the political principles of democracy and the economic principles of capitalism."<sup>1</sup> Western scholars, favouring free market mechanism, argue that in any society, at many points along the way, choice has to be made between somewhat more equality at the expense of efficiency or viceversa... That is, a tradeoff emerges between equality and efficiency. Optimality conditions in welfare economics are conditions for efficiency in production and consumption, and as Sen argues "we do not seem to get very much help in studying inequality from the main schools of welfare economics- old and new."<sup>2</sup> In capitalism efficiency is given a greater emphasis than equality. The case for the efficiency of capitalism rests on the theory <sup>of the</sup> invisible hand given by Adam Smith long back. Nobody is asked to evaluate what is good for the system or for the society. If an individual merely pursues his own economic self interest, he will automatically serve, the social welfare. But this efficiency is being at the cost of inequality in income and wealth and in the social status and power that go with income and wealth. These inequalities stem from private ownership of means of production and market determined wages and salaries. "When only the capitalist level is inspected, issues concerning the distribution of material welfare are out of focus. In an economy that is based primarily on private enterprise,



public effort to promote equality represent a deliberate interference with results generated by the market place and they are rarely costless... (but yet) the market needs a place and the market needs to be kept in its place."<sup>3</sup>

It is clear that, both efficiency and equality are equally important to understand the principles of welfare. For the wellbeing of its citizens, a nation has not only to achieve a higher volume of output, but also its proper distribution.

The socialist countries want that everyone of their citizens should participate in the plan making process, by this it is hoped that the interest of all groups in the society will be reflected in the running of the economy. This is the socialist concept of democracy. According to the socialist theoreticians there is a dialectical unity between politics and economics. "The socialist state as the manifestation of political supremacy of the working class and the socialist relation of ownership as the manifestation of economic supremacy strengthen and restrict each other."<sup>4</sup> The socialists do not accept the big tradeoff between equality and efficiency. In socialism the ownership relations are determined by the working class which has also the upper hand, hence if more surplus is accumulated, more gets ploughed back in public enterprises. Efficiency can be attained with greater equality because in socialism, by definition there is distributive justice.

This background seems essential to understand the differences in the point of view adopted by the two systems concerning the idea of welfare.

The aim of this dissertation is a review of theory and practice of welfare in the two systems.

Section A of Chapter two deals with the concepts in theoretical welfare economics and, in Section B with the idea behind the emergence of welfare state. The objective is to see the link/divergence between theory and practice.

In Chapter three a similar review is done to understand the 'welfare criteria' in the socialist economies.

In the fourth chapter, the levels of living in United Kingdom, Federal Republic of Germany, German Democratic Republic and Czechoslovakia are compared. This is an attempt to understand welfare at the operational plane in the four developed economies in the two systems. It has to be borne in mind there are a number of constraints in such an attempt, the most important being that world view of one system does not provide enough transparency for the other.

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## CHAPTER II

### THEORIES AND PRACTICE OF WELFARE IN CAPITALISM : AN EVALUATION

This chapter reviews the concept of welfare in the free market economies based on private ownership of means of production. The chapter is divided into two sections. Section A investigates the theoretical concepts of welfare economics. The central idea that emerges is: in the classical political economy every rise in opulence was regarded as an increase in prosperity and welfare of all. In the hands of marginalist and neoclassical school welfare criteria become practically synonymous with the efficiency criteria. Although much has been fought for the case of distributive justice, it has always received a secondary place. Section B examines the emergence of the welfare state which is claimed to be the outcome of the working class movement, the Keynesian revolution which emphasised on stability, and thirdly an idea towards a more egalitarian society. Hinting on the link between theory and practice, that is the development of theories of welfare economics and the development of the welfare state, we observe minimum of state interference in welfare activities during the period that classical school held sway. But as industrialisation matured and state accepted more and more the responsibility to look after the

welfare of its population, concepts of welfare economics rendered little help in policy making.

### Section A

This Section begins with the classical welfare theory followed by the welfare theories of Pigou, Pareto, Bergson, Samuelson, Arrow, Rawls and Sen. Usually in modern times, only new welfare economics which begins with Pareto and reaches maturity with Bergson, Samuelson and Graaf are emphasised. But in this review, in order to get a comprehensive view of the idea of welfare, classical theories and theories in distributive justice are also included.

Now, we turn to a more detailed study of the theories starting from the classical school.

The classical school worked with a very simplistic model of the 'early and rude state of society' - to which any complex economic system could be reduced and a simplifying assumption that levels of satisfaction are proportional to quantities of physical product. Wealth was measured in terms of physical product, furthermore, increase in physical product was supposed to lead to rise in economic welfare. Economic activity consisted of a physical process in which commodities were annually produced and consumed. The amount of material wealth could be increased either by raising the physical productivity of labour or by increasing the supply of labour.

Labour came to be regarded as the source and measure of value and wealth, as a more significant measure of value and economic welfare than money. However, when it came to the problem of establishing precise relationship between the measuring rod of labour, value and economic welfare, the classical writers were divided into two groups.<sup>1</sup>

Ricardo and his group approached the problem from the cost of production angle; value of a commodity could be measured by the quantity of labour embodied in its production. To them, therefore, value is the measure of the difficulty of production and an inverse index of changes in economic welfare.

For Malthus, economic welfare increases, when increase in the physical magnitude of society's output is accompanied by an increase in the effective demand for it. Measure of value is the quantity of labour commanded in exchange for it, assuming that the disutility of performing an average unit of labour is constant and identical for everyone. To him, therefore, value is a positive index of economic welfare.

The classical economic theories on which the dictum of *laissez faire* was based, sought to demonstrate that human welfare could best be enhanced if there was free trade between nations, mobility of labour and operation of specie flow mechanism. Under these conditions there is a natural harmony between self-interest and the welfare of all.

Adam Smith was confident that some of the increases in

wealth following industrialisation would filter down to the poor.<sup>2</sup> Ricardo was also, as we know, mindful of the ameliorating influence of customs. In examining the role of customs in the definition of 'subsistence' Ricardo suggests that "the natural price of labour...always depends on the price of food, clothing and other necessaries', but this price is never absolutely fixed and constant, since it depends on the habits and customs of the people... Many of the conveniences now enjoyed in an English cottage would have been thought luxuries at an earlier period in history."<sup>3</sup>

With the emergence of the marginal school emphasis shifted to the scarcity problem, and 'allocation efficiency' came to be the central problem. A more stringent formulation of optimum became necessary. The 'workable' classical theory, where free competition in the consumer market equalised the price of each good to its cost of production, and in the producers market equalised the net advantages of the factors of production in all industries, thus solving the allocation problem, had to be given up.

Professor Pigou defined economic welfare as that part of social welfare that can be bought directly or indirectly into relation with the measuring rod of money and saw national income as the objective part of economic welfare. Economic welfare and social welfare were not the same but varied directly.

Pigou's two cases for increase in welfare are well

known. (a) When there is an increase in national income provided that the share of the poor is not diminished. This is a clear Paretian case, only that it is further qualified. And (b) any cause which increases the absolute share of income in the hands of the poor, provided it does not lead to a contraction in the size of national dividend. This is much stronger than any Paretian assumption, making redistribution as the central theme. But what is interesting here is the constraint that the size of national dividend should not diminish, and if this is the case than redistribution is not possible on a large scale.

The satisfaction of society as a whole was regarded as the sum of the qualities of individual satisfactions. This, as is well known by now, implied that the satisfaction of different individuals can be compared and added up. So the sum of the individual utilities is taken as the measure of social welfare, and alternative social states are ordered in terms of the value of the sum of individual utilities.

Pareto changed the approach to the subjective optimum by introducing the concept of the 'index of ophelimity', - an individual's position of preference is determined by alternative combinations of different goods at his choice. By this he was able to generalise the utility analysis to the case of related goods and define the optimum without using the question begging concept of measurable utility

and without entering into interpersonal comparisons of utility. Pareto defined the optimum as a situation from where no single individual can move to a more preferred position without pushing the others to <sup>a</sup>less preferred position. Until optimum is reached some individuals will be able to move to a more preferred ~~and improve their~~ position while leaving others as well as before. Dobb objects that "the maximum that it defines is a conditional one and does not define a unique position."<sup>4</sup> Edgeworth's contract curve proves the case clearly; it is a locus of all Pareto optimum points. Furthermore, each point is relative to a particular initial distribution of goods. Pareto to get over the problem of distribution assumed an ethically just distribution. But as has been amply proved, ~~The~~ problems of production and distribution are closely connected. Dobb's further objection is that, to the extent we admit such influences as Duesenberry effects or Veblenesque influence or external effects in consumption... "We can no longer treat an individual's satisfaction as depending only on his own consumption it will depend also on the level and kinds of other people's consumption. In this case we can no longer assume that more goods to one person with no less to any one else will necessarily be an improvement in welfare."<sup>5</sup>

Initiated by Robbins,<sup>6</sup> a whole group of economists supported the view of the neutrality of the concepts in welfare economics. This is evident by the whole lot of



contributions to the development of welfare economics by socialist writers like Lange and Lerner. The programme of positive economics culminated in Friedman's definition of economics as a positive science, which is not interested in normative assumptions or arguments. It concentrates on 'what is', rather than 'what ought to be'.<sup>7</sup> Following Robbin's article Kaldor published his article on welfare propositions in economics,<sup>8</sup> where he proposed to examine the relevance of this whole question (Robbin's argument) to what is called 'welfare economics'. The idea was to completely eliminate normative assumption from welfare economics, while at the same time continue to offer recommendations in the field of social policy on the basis of Paretian assumption (Note 1).

The development and analysis of optimum conditions marked the high point of new welfare economics.

The propositions of welfare economics came to be logical deductions from a set of definitions and assumptions which

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Note 1 : To quote the known optimum assumption: (1) An individual is the best judge of his welfare. (2) Welfare of the society depends on individual welfare and is a monotonically increasing function of the latter. (3) Non-economic factors are held constant with respect to economic welfare. (4) If at least one individual is better off (his welfare is higher) without anybody being worse off, then society as a whole is better off (his higher welfare). It is this assumption that makes the optimum Paretian.

may or may not themselves be realistic or ethical in nature. Having defined welfare for a group, or an individual and <sup>having</sup> made the assumptions, we can deduce the conditions under which it (welfare) will increase. If these conditions are fulfilled and welfare does not increase, then the assumptions are found to be inappropriate.

An individual's welfare map is assumed to be identical to its preference map, so objectivity is maintained by establishing a close link between individual welfare and individual choice. As for social welfare, we have the famous Pareto optimum.

Implicit in the fourth assumption is: nobody should be against the change. As Harrod<sup>9</sup> pointed <sup>out,</sup> ~~however,~~ ~~that~~ the repeal of the protectionist corn laws could hardly be based solely on the Pareto principle, for some individuals would surely be made worse off. Economics needed a justification for corn law repeal going beyond Pareto.

Kaldor presented the compensation principle.

Compensation principle is based on the principle that if the individuals who prefer A to B can compensate those individuals who prefer B to A, so that these become at least indifferent while the compensating individuals prefer A to B, a change from A to B is an improvement or is socially preferred. All interpersonal comparisons of utilities are therefore avoided. This is known as the Kaldor-Hicks criterion. Scitovsky improved on this criterion and presented

the double Kaldorian test. Little tried to develop the principle taking explicit recognition of the distribution problem. Arrow has noted that "while the Kaldor-Hicks-Scitovsky criteria purport to compare different levels of production independent of distribution, Little tries to compare different income distributions independent of income (or production) levels. This is as equally impossible as the original attempt."<sup>10</sup>

A few words are necessary to point out the Bergsonian welfare function. The welfare of the society is a function of goods consumed by the individual, work performed by the individuals, the inputs of other factors of production and all other relevant factors. Bergson social welfare function is defined as:<sup>11</sup>

$$W = W(x_1, y_1, a_1^x, b_1^x, a_1^y, b_1^y, \dots, x_n, y_n, a_n^x, b_n^x, a_n^y, b_n^y, C^x, D^x, C^y, D^y, R, S, T, \dots)$$

X and y are two consumer goods, a and b, two kinds of labour, C and D two other factors of production, R, S, T...all other factors affecting welfare. There are n individuals in the society. When factors R, S, T... are held constant and all changes are analysed ceteris paribus with respect to these factors we have the economic welfare function. The welfare functions analysed by Bergson are all Paretian i.e. they are based on Paretian assumption (presented in Note p.13).

As has already been mentioned, it should be noted that the Paretian assumptions do not specify the welfare function completely. As a result of the maximisation we get an infinite amount of points. This is due to the fact that the assumptions are not enough to define a complete ordering.

The welfare function merely defines what factors affect welfare, hence it is claimed to be perfectly general entailing no value judgement. We transform the function, making use of Paretian assumption

$$W = W(u^1 \dots u^n) \left\{ \begin{array}{l} \text{where } u^g \text{ is the utility of } g\text{th} \\ \text{individual.} \end{array} \right.$$

$$\frac{\partial W}{\partial u^g} > 0$$

The social welfare function is assumed to be composed of individual welfare functions. So all the given factors of welfare affect social welfare only through individual welfare function.

These individual welfare functions in terms of economic welfare, may be formulated as follows:

$$u^g = u^g(x_1^g, v_j^g) \quad i = 1 \dots n \quad j = 1 \dots m.$$

where  $x_1^g$  is the share of the  $g$ th individual in the  $i$ th consumer good and  $v_j^g$  is the productive input of the  $g$ th individual in the  $j$ th form of labour.

The Bergson welfare function then is an individualist

function. It can be interpreted as a means of giving a numerical value to each social state, with the aim of society being the maximisation of the function under technological and resource constraints. It is supposed to help the society choose that social state which is conducive to highest possible social welfare in a certain environment. The idea is simply to express the ordering of states of society in a set of real numbers.

Sen<sup>12</sup> points out, that even this is not strictly necessary. A social welfare function need not be a real valued function. It is only necessary that it be an ordering. The problem is how to combine individual utilities? Arrow has worked on it.

The essential quality of social welfare function is that it specifies the goals of society.

Bergson notes: "If the production function and individual indifference functions are known, they provide sufficient information concerning the economic welfare function for the determination of the maximum position, if it exists. In general, any set of value propositions which is sufficient for the evaluation of all alternatives may be introduced, and for each of these sets of propositions there corresponds a maximum position. The number of sets is infinite, and in any particular case the selection of one of them must be determined by its compatibility with the values prevailing in the community, the welfare of which

is being studied. For only if the welfare principles are based upon prevailing values can they be relevant to the activity of the community in question."<sup>13</sup>

Bator<sup>14</sup> has given a lucid presentation of welfare maximisation. The locus of efficiency consists of points of tangency of the two commodity isoquants (FF). From the efficiency locus we can read off the maximum obtainable contributions of the two commodities (in our case nuts and apples). Let us plot these points in the output AN space.

Diagram 1

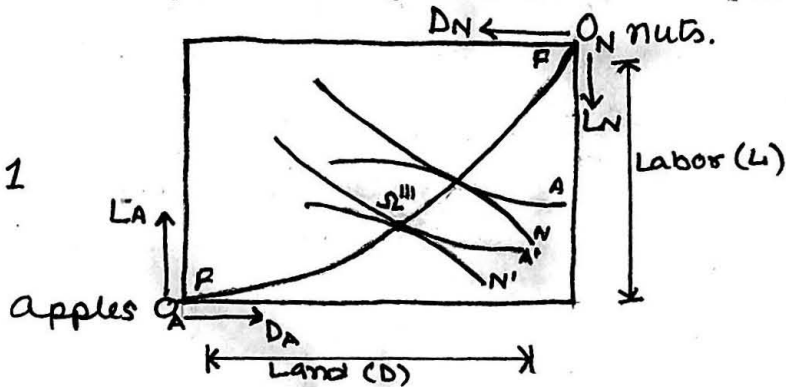
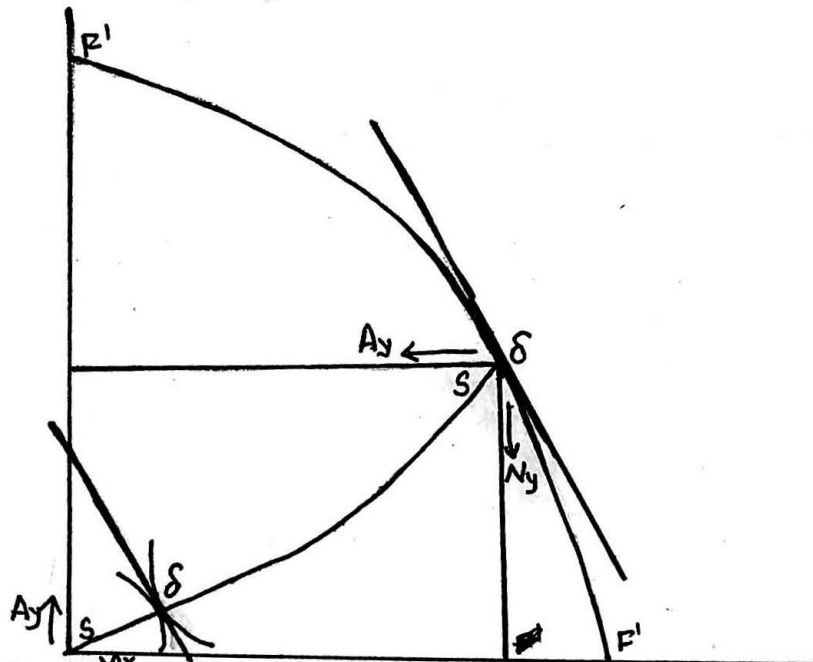


Diagram 2



As is obvious, Diagram 1 shows that the marginal rate of substitution between two factors (our case labour for

land) in the production of any given quantity of one commodity (apple) just equals marginal rate of substitution of the two factors in production of nuts. In Diagram 2, the slope ~~of~~ <sup>at any point on the</sup> production possibility curve (PPC) reflects the marginal rate of transformation of one commodity into another (apples into nuts).  $PP'$  is the Pareto-efficient Production Possibility Curve.

Now from <sup>the</sup> PPC we can derive utility possibility frontier. Pick any  $\delta$  on the PPC, it denotes specific quantities of the two commodities (apples and nuts), construct an Edgeworth box and draw the two individuals' (X's & Y's) indifference curves. All the six variables get represented. The problem of exchange efficiency consists in finding that locus of feasible points within the box, where any increase in <sup>satisfaction</sup> ~~utility~~ of one individual (X) implies a necessary reduction of another (Y's), - feasible in the sense that we just exhaust the fixed amount of the two commodities (apples & nuts) denoted by  $\delta$ . Again the locus turns out to be the tangency point SS. Here marginal rate of substitution of nuts for apples for one individual (X) is equal to the  $MRS_y$ .

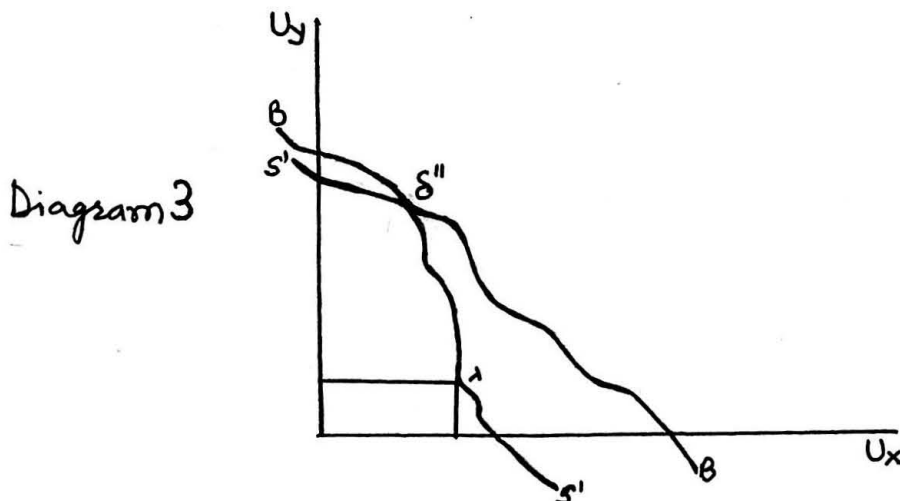
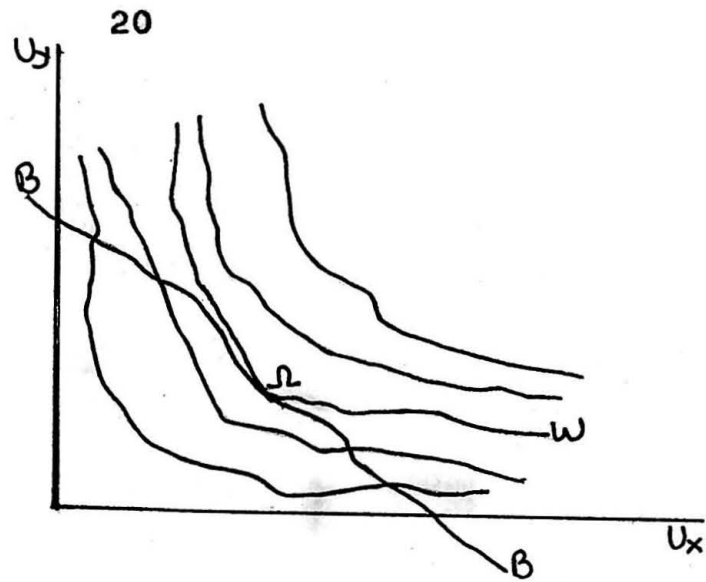


Diagram 4



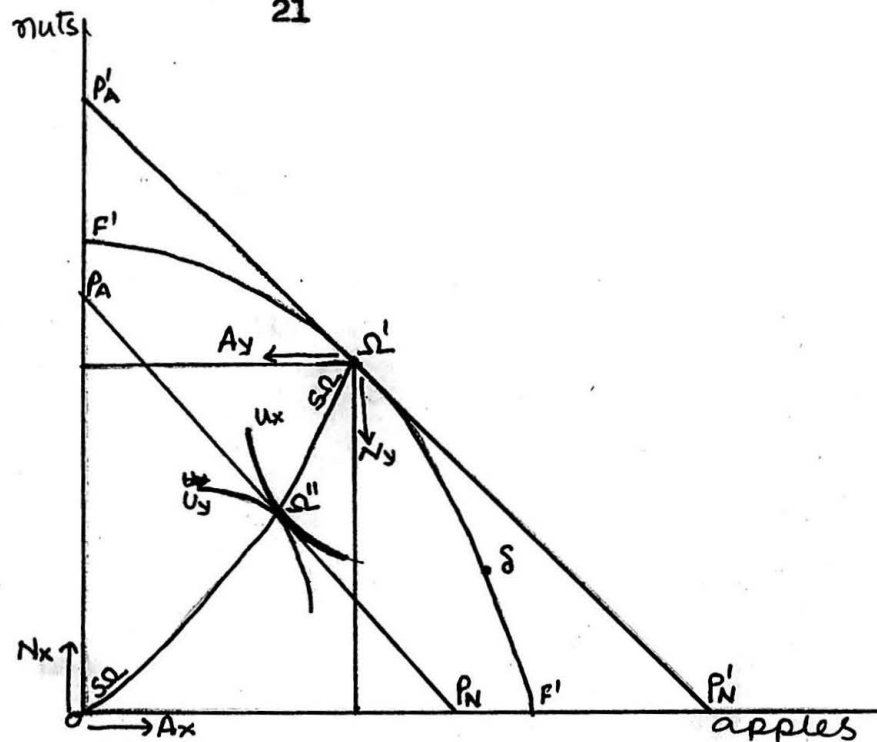
The exchange efficiency locus SS is associated with a single production point  $\delta$ . S'S' give the utility space. Each point like  $\delta$  in the output space 'maps' into a line in utility space.

Now, the grand criterion is that it will be impossible for any shift in production cum exchange to increase utility of one individual ( $U_x$ ) without reducing  $U_y$ . This point is  $\delta'$  in Diagram 2. This also helps fix a single point on SS, and thus  $U_x U_y$  combination is plotted as  $\delta''$  in Diagram 3. Repetition of this process for each point on <sup>the</sup> PPC will yield the grand utility possibility frontier BB. Now given the Bergson-Samuelson social welfare function, welfare is at a maximum where the utility possibility envelope frontier BB touches the highest contour of the welfare function 'W' i.e. at  $\Omega$ .

BB is derived point by point from F'F' in Diagram 2 and for  $\Omega$  on BB, there corresponds just one point  $\Omega'$  on the PCC-F'F' - Diagram 5



Diagram 5



$\Omega$  fixes the output mix of the two commodities (apples and nuts) from this we can locate point  $\Omega''$ .  $\Omega''$  fixes the two commodity distribution (apples and nuts) implied by the maximum of  $W$ . Furthermore we can locate the point  $\Omega'''$  on the Pareto efficient input locus  $FF$  in Diagram 1 that corresponds to  $\Omega'$  of  $F'F'$ , which fixes the factor allocation.

Theories in welfare economics beginning from Pigou are individualistic and atomistic in character. The atomistic view of society is an integral part of the neo-classical tradition, and it has developed to its extreme in new welfare economics, where constructs are completely devoid of any structure, in the sense of 'social structure'.

Myint notes, "that welfare economics has followed the line of least resistance in restricting itself to valuation of separate individuals which can be measured in terms of

money, while a more comprehensive study of human welfare requires a revision and sometimes even replacement of market values by the valuation of society as a collective whole, which although, not accurately measurable is more fundamental."<sup>15</sup>

It is argued that welfare economics has lost touch with reality, none of the actual problems relevant to individual or group welfare is solved.

Historically, the study of welfare economics originated from a concern for a broader economics, that would include the whole social organism.<sup>16</sup> But unfortunately, welfare economics limited its scope. In new welfare economics there is almost complete nihilism with regard to welfare.

"As it has developed", Boulding remarks, "the Paretian welfare economics seems to have had three main objectives. One has been to clarify and qualify the vague concept of 'riches... opulence'... A closely related objective has been to clarify what it is that economists have to say on matters of public policy... Welfare economics then tries to set up standards of judgement by which events and policies can be judged as 'economically' desirable, even though on other grounds (political, national, ethical) they might be judged to be undesirable. The search for such a standard of judgement leads to a further search for a definition of an economic 'optimum' this being the position of all the economic variables at which riches are at a maximum, the test of desirability thus being an increase in riches...

Closely linked with these objectives is a third - to develop propositions which are 'scientifically' free of ethical judgements, but which can nevertheless serve as a basis for conclusion, With respect to policy alternatives by delimiting the area within which the final ethical judgement has to be made."<sup>17</sup> But in reality welfare economics has remained only an elegant formal analysis. Sen argues that on <sup>an</sup>egalitarian basis social innovation may still be opposed if it would help the poor but enrich the top class much more, even if the poor or the rich did not mind.<sup>18</sup>

Arrow's Impossibility Theorem and <sup>the</sup>whole research on value and social choice, seems to now build up welfare economics on different grounds. Arrow's<sup>19</sup> problem is as follows: Is it possible under certain general conditions, to construct a device, which when given the preferences of the members of society (their choices over various alternatives), produce a set of solutions which is transitive i.e. within which it is possible to find the best choice. So the problem is to base social welfare on the decisions and wishes of the members of society. Arrow cited the voting paradox to show the paradox in decision making. The thing that the voting paradox and the impossibility theorem have in common is that both lead to a situation where the choice of the community cannot be deduced from the choices of the members of society.

Arrow defined the social state as a complete description of the amount of each type of commodity in the hands of

each individual, the amount of labour supplied by each individual, the amount of each productive resource invested in each type of productive activity and the amounts of various types of collective activity. By social state is thus meant an exhaustive description of the conditions prevailing in the society.

Now, let vector  $X$  represent such a state. The set of alternatives  $S$  is a set of all possible social states (all alternatives are exclusive). Since some alternatives may not exist individuals may choose among subsets. An individual is assumed to order the existing alternatives with respect to his preferences by comparing all states in consecutive pairs. Preferences are determined exogenously.

Preference and indifference are relations between alternatives. The statement ' $x$ ' is preferred or indifferent to ' $y$ ' will be symbolised by  $xRy$ . We define the relation  $R$ :  $(xRy) \leftrightarrow \neg(yPx) \text{ (or } \neg(yRy))$ . So  $R$  means 'at least as good as'. For the relation  $R$  two properties are required in the form of Axioms I & II.

AI:  $(x)(y) (x \in S \text{ \& } y \in S \longrightarrow xRy \vee yRx)$ . This is the completeness axiom (Sen's terminology, Arrow calls it connectedness). He requires that all alternatives ~~are~~ be comparable. This axiom also implies that  $R$  be reflexive, if  $x = y$ . The AI reduces to  $x(x \in S \longrightarrow xRx)$ .

AII:  $(x)(y)(z)(x \in S \text{ \& } y \in S \text{ \& } z \in S \text{ \& } xRy, yRz \longrightarrow xRz)$   
This is the transitivity axiom.

Preferences and indifferences with respect to  $R$  are defined as follows:

$$xPy \leftrightarrow (xRy \& \neg(yRx))$$

$$xIy \leftrightarrow (xRy \& yRx)$$

Sen points out that quasi transitivity also fulfills requirement. ~~Also~~ Completeness is <sup>also</sup> not strictly necessary for social choice. If we disregard it, but retain reflexivity and transitivity we have a quasi ordering.<sup>20</sup>

If we denote the ordering of the individual  $i$  as  $R_i$ , then the preference profile of the society (a profile of preference ordering) of  $n$  members is  $R_1, R_2, \dots, R_n$ .

$$R^{(n)} = R \times R \times R \times \dots \times R$$

where  $R = R^1, R^2 \dots R^m$ ; ( $m$  alternatives). Choice function  $C(S)$  is a set of all alternatives  $x$  in  $S$ , such that for every  $y$  in  $S$   $xRy$ . Every element of  $C(S)$  is preferred to other element of  $S$  and indifferent to all other elements in  $C(S)$ . For every  $x \in C(S)$  there is no  $z$  such that  $zPx$ . By a social welfare function we mean a process or rule which for every preference profile  $(R_1, R_2, \dots, R_n)$  gives the corresponding social ordering  $R$ .

Arrow, presented four conditions and concluded that if these four have to be fulfilled then it is not possible to get social choice from individual values.

### Condition of Collective Rationality

When  $n > 2$  and  $m > 3$ . We define an admissible set of individual orderings as a set for which the social welfare function defines a corresponding social ordering which fulfils AI and AII. So the social decision making needs to fulfil <sup>the</sup> same requirements as individual preference.

### Condition of Positive Association between Individual and Social Choice

We ~~must~~ require that the social welfare function has the capacity to consider that if some alternative rises in an individual ordering without a consequent decrease in position of <sup>the</sup> other individuals ordering, its status must not depreciate in overall social ordering. Sen calls this the weak Pareto principle.

### Condition of Independence of Irrelevant Alternatives

"Since the chosen element from any environment is completely defined by knowledge of the preferences as between it and any other alternative in the environment, it follows that the choice depends only on the ordering of the elements in the environment. In particular the choice made does not depend on preferences as between alternatives which are not in fact available in the given environment...(furthermore) only ordinal measures of utility or preferences are relevant to decisions."<sup>21</sup>

The last two conditions are: welfare function should not be imposed and welfare function should not be dictatorial.

Individual plays a central role in social choice, as a judge of alternative social actions according to his own standards. Each individual ranks social actions according to his preferences for the consequences. Those preferences constitute his value system.

Welfare economics asserts that an individual's preferences are or ought to be concerned only with the effects of social action on him, but Arrow maintains that there is no logical way to distinguish a particular class of consequences which pertain to a given individual. We cannot separate consequences of social action for each individual.

"How much guidance - it is reasonable to ask. Can we expect to get from modern welfare economics in analysing problems of the inequity? The answer, alas, is: not a great deal. Much of modern welfare economics is concerned with precisely that set of questions which avoid judgements on income distribution altogether."<sup>22</sup> Pareto Optimality only guarantees that no change is possible such that someone would be better off without making any one worse off. If the lot of the poor cannot be made any better without cutting into the affluence of the rich, the situation would be Pareto optimal despite the disparity between the rich and poor.

Economists realising it tried to go beyond Pareto

optimality and the famous Bergson-Samuelson social welfare function was partly an answer. Social welfare is assumed<sup>as</sup> a function of individual utilities. Now although both cardinal measure and interpersonal comparisons are possible for these individual utilities, orthodox welfare economics tries to avoid both and the measure of social welfare function is usually taken to be ordinal. The distributional judgement would depend on the precise social welfare function chosen.

Arrow's theorem, as seen earlier, showed that it is impossible to establish a relation between individual preferences and the social ordering.

The crucial question is as regards interpersonal comparisons. Unless we allow for interpersonal comparisons, not much can be gained from models or discussions in welfare economics. With cardinality we can compare each person's gain and losses with alternative values of his own gains and losses, but distributional judgements could seem to demand some ideas of the relative gains and losses of different persons and also of their relative levels of welfare. Sen has shown that Arrow's theorem remains in tact even when cardinality is introduced without interpersonal comparisons. So the argument is to broaden the approach of social welfare functions to include also interpersonal comparisons so that distributional judgements can also be made. Sen argues "If I say - I would prefer to be person A rather than person B in this situation, I am indulging in an interpersonal



comparison - while we do not really have the opportunity of in fact becoming A or B we can think quite systematically about such a choice, and indeed we seem to make such comparisons frequently."<sup>23</sup>

Rawls<sup>24</sup> argues for a conception of justice according to which the primary goods - liberty, income, other bases of self-respect are to be distributed equally except where their unequal distribution is to the benefit of the least advantaged members of society. With reference to income distribution the conception involves choosing the social structure so as to maximise the economic benefits of the people receiving least benefit. Even this criterion of maximum in standard would call for meritocracy and stops well short of absolute income equality.

Sen has given the weak equity axiom WEA. "Let person i have a lower level of welfare than person j for each level of individual income. Then in distributing a given total among n individuals including i & j, the optimal solution must give i a higher level of income than j."<sup>25</sup> This restriction is rather mild as its only requirement is that the deprived person should receive more income as a compensation, but does not specify how much. WEA is a much weaker requirement than that of Rawls.

### Section B

Capitalist economy is based on the theses of profit maximisation. We have welfare programmes sometimes grafted

from top, they cannot be viewed as an integral part of the system.

Relief from poverty has always been the responsibility of the society, in the earlier periods private institutions took over the burden, government intervention took place when private welfare organisations were unable to carry the entire burden especially in depression or to achieve an equitable treatment of all the victims of poverty between people and between regions.

The transition from feudalism to the market oriented economies of the 16th, 17th and 18th centuries was accompanied by an increase in economic insecurity for the working class. The government did intervene to help the poor, but the prevailing social view regarded poverty largely as a result of individual shiftlessness, standards of poor relief were harshly restrictive and meagre.

During the course of 19th century, as the effects of industrialisation become increasingly apparent more sophisticated views of the causes of poverty gradually developed. It was realised that industrial wage earners as a group suffered from economic and social risk of unemployment, fruits of industrialisation were unequally distributed, and they suffered from factors largely beyond their control. By 1920s the state was providing many social services, it assumed responsibility and carried out functions to improve the welfare of those citizens comprising a majority of the

population, who were unable through inadequate income to pay for the services necessary for achievement of a reasonable standard of life. Services were given in the field of education, medical care, housing, income maintenance schemes like old age pension, widow's pension. The interesting point is, that this did not mean a contradiction in capitalist ideology, raising of income levels in employment was still left in the main to be bargaining of employers and trade unions. Intervention was merely in response to the realisation of real poverty to be found among hard working men and women, whose wages often even after working long hours under intolerable conditions were insufficient to provide for a reasonable standard and impossible to protect themselves in sickness, unemployment, old age or widowhood. So the general notion that came to prevail: welfare state is nothing more than one which provides social services; and social services are those provided by the community for no other reason than that of maintaining or improving individual well being. There is no profit motive attached to it. But it would be incorrect to define a welfare state as one in which attempts are made to ensure reasonably high material standards of living for all. Over and above providing for material welfare, in a welfare state, there should be no discrimination on the basis of sex, race, religion, caste etc.

Since the end of World War II, especially with the publication of Beveridge Report in 1942 social services are

available in U.K. for all the adult population irrespective of occupation or income. Universality of welfare provision came to be much emphasised. The modern welfare state provides to all its citizens a variety of income maintenance services such as national insurance, industrial injuries insurance, the national assistance; an elaborate and comprehensive range of health services, services to promote and facilitate the findings of employment, various educational services - like free primary and secondary education, scholarships for technical and higher studies; means of encouraging the building of houses, a variety of services for special groups such as the physically and mentally handicapped, offenders against the law, the aged, children deprived of a normal home life, to meet the needs of youth, and to help the unborn child and its mother; services in fact to meet the needs of most people from the cradle to the grave. Significance of this later development is that now services are ~~not~~ provided <sup>not</sup> only for cure, but are preventive devices. The unemployment insurance did not prevent unemployment, now positive policies have been introduced; 'maintenance of employment is wanted for its own sake' (Lord Beveridge). State has a duty to ensure that employment opportunities are made available and more implicit in this notion is the fact that unemployment is no longer regarded as simply the fault of the individual. And it is only when state consciously and deliberately holds as one of its aims the

maintenance of full employment then it is on the way to becoming a welfare state. Secondly every child and young person has the chance of being educated so as to play its full part in the economic and social system.

An interesting point from the comparative angle between the two systems is: although the services are provided to all individuals, it is not necessary that an individual avails of them, a rich man can consult his own private doctor or educate his child privately.

Modern attitudes towards public welfare have also been associated with the Keynesian revolution with its emphasis on fiscal policy as a central tool. Welfare programmes are favoured as they help maintain economic stability. This attitude has played a significant role in connection with the marked expansion and liberalisation of social security programmes since World War II.

The debate is around the extent to which the state should plan and control economic activity, so as to ensure optimum economic growth and hence a continuously rising standard of living.

Now of late, with the rising concern about economic growth, an increasing emphasis is put on manpower goals and policies designed to bring about the full development and utilisation of human resources. This is leading to renewed interest in the relationship between welfare programmes and maintenance of health and efficiency of the population.

The following two quotes give a very neat picture of the thinking behind the welfare state.

Sir Charles Carter: "behind the detailed purpose of individual welfare services there is a general desire to increase the happiness or satisfaction of individual citizens. (But) comparisons of different societies and different times yield no good evidence that more welfare services necessarily mean more happiness. The effect of the provision of services... may be to cause expectation to rise faster than means of satisfying them so that people end up more dissatisfied instead of less, or it may transfer to government responsibility for action previously taken by individuals, without persuading people that the change offers a significant improvement."<sup>2226</sup>

"If the nineteenth century was responsible for the triumphant introduction of new methods for the creation of wealth, the twentieth century must see the triumph of the introduction of new methods of the more equal distribution of wealth. But in realising, or attempting to realise the better distribution of wealth we must not fall behind in our power or efficiency to produce wealth. Therefore, modern development must progress along the well defined lines of efficiency."<sup>2227</sup>

### Concluding Remarks

We observe that the capitalist system handles the

problem of equality and efficiency separately. Legislation for taxation of income and wealth and other redistributive measures taken by the government help get more distributive justice. As for efficiency all objectives of government policy are to make market work competitively. Capitalism by its very nature places explicit faith in the market mechanism. The price mechanism is supposed to determine both efficiency of production and distribution of income and wealth. Secondly with growth in the economy, it was supposed that potential gains to the poor from full employment etc. were much larger and much less socially and politically divisive, than those from redistribution. But now it has been realised that the prices used for this efficiency purpose, may result in a very undesirable distribution of income and wealth, and hence faith on price mechanism <sup>has</sup> weakened. On the other hand gains from growth did not necessarily reach the poor. Hence governments had to enter on a large scale in the economic sphere. Many ideas have been forwarded to interpret this convention.

Our own analysis shows that the capitalist society has a concept of specific egalitarianism. Basic necessities of health, life, citizenship are more evenly distributed. Other commodities are left to the criterion of ability to pay for them. As regards the welfare state, the point repeatedly observed is that it is the events that forced state intervention not ideology. The effects World War Two and the

1930 depression on one hand, and the affluence and intensified industrialisation and urbanisation on the other hand all contributed to the emergence of <sup>the</sup> welfare state. The welfare state capitalism entails the use of old and new powers of central government in parliamentary democracies to make capitalism work differently from how it worked before the Second World War.

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### CHAPTER III

#### PRINCIPLES OF SOCIALIST ECONOMIC DEVELOPMENT AND THE WELFARE CRITERION

Until the great October Revolution in Russia : Socialism was a utopian dream. But the revolution brought in momentous changes. There was hope for man's freedom from exploitation, insecurity and want.

In socialism man is the entity around which the whole economy revolves. This entity is the centre of economic and social policies of socialist countries. The entire economic activity is directed towards raising the efficiency of social labour and to the comprehensive development of man's personality.

Socialism means state ownership of means of production; and is looked upon as the translation of the political power of the working class into economic reality. Socialist economy is ipso-facto a planned economy. Planning means pre-determination of the future social and economic development of a country.

Planning is characterised as being for the people, by the people and is comprehensive. Thus <sup>the</sup> principle of planning itself reflects that 'welfare' is its basic aim. In socialism welfare measures are adopted from the very beginning. They are an inalienable part of the whole planning process.

We digress a little and see the link between economic laws and improvement in people's well-being. In the process of social production, division of labour is realised as an objective necessity, so people enter into definite relations with one another. The economic laws which express these relationships likewise do not depend on people's will and consciousness, although they manifest themselves through their conscious actions. Economic laws originate with the emergence of human society, with the appearance of production relations and change along with their development. They act as tendency. In socialism there is a conscious utilisation of these laws in the interest of society, that is, purposeful extension or limitation of the sphere of their operation, stimulation of their positive aspects and prevention or elimination of negative consequences. Knowledge of the objective character of the basic economic laws and other laws of socialism helps planners to make conscious use of these laws in the planning for a continuous rise in the standard of living and satisfying more fully the requirements of the members of the society. The basic economic law and the main task in socialism is the fuller satisfaction of the requirements of the members of socialist society. Economic planning strikes to achieve this aim both at an individual level and to the requirements of society in general. One of the main tasks of the plans is to ensure a considerable rise in the living standards and cultural level

of the people through rapid development of socialist production and enhancement of its efficiency, scientific and technological progress and rapid increase in labour productivity. The fulfilment of this task is looked upon to mark an important step in socialist society's advance to communism, in the construction of its material and technical basis. The planned growth of labour productivity and the improvement of workers' qualification ensures the growth of incomes and the improvements of living standards. When the plan is being formulated, it is necessary to choose from among the many variants of basic proportions of economic development the one that will make it possible to satisfy best the population's material, cultural, daily and social requirements.

In the socialist economies, economic development is looked upon as the most important component of the comprehensive development of the society. Growth is looked upon as a means to raise the standard of living of the (working) people. Higher the rates of growth, more the funds for peoples' consumption.

It is simpler to look upon society's development in two stages - extensive and intensive, though societies usually are assumed to pass from one stage to the next. Brus and others in recent times have opposed this idea. According to them a society can skip the extensive stage and go straight to intensive pattern of development.

In the initial stages of development it is of crucial importance to attain the best possible quantitative effects in view of the acute shortages of goods and services and the unsatisfied needs of the population. Hence the chief criteria of effectiveness of planning and of development policy is the highest possible rate of growth. Furthermore, it is also very necessary that this rate of growth should be sustained over a longer period of time until a reasonable level of satisfying peoples' need is achieved. A high rate of growth enables on the one hand, a more rapid and more effective satisfaction of needs and on the other provides the basis for further maximisation of this rate during subsequent years, with of course the assumption of a socialist distribution of income. The underlying assumption of the working of socialist economy is that there is a fair degree of equality of incomes.

Now, along with the traditional factors of growth like labour, capital and natural resources, contemporary economies have to take into account a far greater complex of factors in the course of shaping a development process. Optimal economic results can be achieved by proper allocation and flexible utilisation of these resources.

For example, the market factors belong to the group of contemporary economic factors, and they are also at the same time closely linked with the shaping of the standard of living. The growth of demand for goods and services, incomes

of people, and the purchasing power of buyers, all occur simultaneously in the economy. So, in long term planning the marked growth of potential demand is very largely taken into account. That is, when potential demand gets transformed into effective demand, at the same time, there must be the growth of real income at the same rate. Thus the shaping of the volume of real incomes is accompanied by appropriate coordination of the flow of increasing quantities of goods and services, into the market in order to meet peoples' demand more and more fully. In<sup>a</sup> socialist economy, the economic policy based primarily on long term planning ensures both a proper shaping of the growth of production and services and the desired structural transformation, with due regard to the developmental needs of the national economy and for the collective and individual needs of the population.

The Plan exerts influence on both growth and structure of collective and individual consumption. There is the planned growth of people's purchasing power and a corresponding increase in the flow of goods and services. At the same time, by foreseeing and guiding the future increase of the potential demand the plan can also help mould<sup>the</sup> future structure of consumption in accordance with the outlines of the social policy. Hence there is both a rise in the peoples' living standards and an advantageous structural modification. The direction of modification should be based on appropriate

criterion as regards the development of individuals and of the community in conditions of the socialist system.

The principle of rational management aims at achieving maximum effects with minimum outlays. The economic side of the social development process consists, in correctly linking the steady growing means and resources with the goals and needs set by the social policy. This creates a very complex problem of selecting the most effective methods of utilising the means allocated for the satisfaction of social needs. Simultaneously, the rate of growth also increases and consequently additional possibilities and resources are obtained.

The all embracing planning of socio-economic development becomes indispensable, so as to link more precisely the means, the task and the goals on the basis of effective realisation methods, with due regard to socio-economic rationale. The construction of social development plan requires<sup>a</sup> sufficiently detailed pragnostication of development, that is, the most correct forecasts possible of how the needs and the possibilities of satisfying them will change in the future. Such forecasts are at the same time, a point of departure for taking the most appropriate decisions within the framework of the constructed plan - namely which optimal variants of future development to choose, or how to use future <sup>of productive facilities</sup> means<sub>g</sub> for ensuring ~~the~~ planned socio-economic development in both the quantitative and qualitative sense. Thus the plan includes concrete recommendations and decisions which form the basis

for the current and long term socio-economic policy. The Plan also contains provisions and forecasts which taken together answer the question - what, at what time, with what financial means and by what methods to realise, in order to achieve in the final effects - the planned level, character and direction of socio-economic development. The aim and object of socialist community is maximum exploitation of the community's resources to satisfy the needs of its members; maximum production for needs. The socialist economies lay their theoretical base in Marxian economics; "...it is not the consciousness of man that determines its existence, but on the contrary, it is the social existence that determines its consciousness."<sup>1</sup> The socialist planning is characterised by emphasis on production, for the mode of production of material life conditions in general the social, political and spiritual life process. Marx in Grundrisse has emphasised the primacy of production as a moment in relation to other moments i.e. consumption, distribution and circulation.

It is now an accepted fact that the satisfaction of needs is a natural aim for the economic activity of a socialist society. This view is expressed by Prof. A.P. Lerner thus: "As a human being and a sympathiser with socialist ends, it seems to me the maximisation of such lines is completely in the spirit of all socialist ideals and particularly sympathetic to the slogan of 'scientific socialism' - 'to each according to his needs'."<sup>2</sup>



So although the central planning board takes the decisions on accumulation, consumption and production of consumer goods, producers' goods etc. (especially in the extensive development stage), this does not by any means imply that the board could arbitrarily brush aside the preferences of public and be guided by the whims of its members. On the contrary, the board's policies may be fully compatible with, "... a principle likely to be accepted by socialist...of giving people what they want, where there is no reason for a contrary policy."<sup>3</sup>

In short, the whole argument can be put as follows: since the basic concern of a socialist society is the welfare of man and since planning is an inalienable part of the socialist economy, such welfare measures that are part and parcel of a society could be decided beforehand and their implementation could be consciously determined. We see that in the socialist framework growth gets equated to development and increase in growth reflects always an increase in welfare. There are no welfare theories as such, but welfare is looked upon as the basic task.

There is a close link between satisfaction of needs and level of output. Furthermore standard of living depends on the rate of investment. So saving (accumulation) seems to be of fundamental importance in economic growth. It is also a well known fact, that during the initial stages of economic growth the capital coefficient is particularly high so if the

society aspires for a fast and high future standard of living, greater sacrifice of consumption is needed at present. In capitalism based on virtue of private profit, polarisation sets in. But in socialist countries, being planned economies <sup>and acting</sup> in the interest of the working class and other working people, the fruits of industrialisation and modernisation are distributed among a larger community.

After a certain time, however, this quantitative extensive phase of development (extensive development means a plan of growth or development depending more on labour and material input in a condition of abundance rather than on labour productivity, science and technology etc. Of course these forms are relative) should not be maintained. The necessity arises to pass to a more intensive form of development. Since after having met the basic needs, in terms of quantity, priority must go to the question of improving the quality and structure of production to correspond with the growing requirements arising from both the further expansion of the economy along more modern lines, and the new types of needs of the people.

Thus the principle of maximisation gives way to the principle of optimisation. The modern needs of the economy and population must be reflected in the appropriately changed structure of production and services. Both quality and quantity are needed for expansion. There is at this later stage, one could say, a demand for optimisation of rate, direction and structure of growth. This has been the

experience of the countries of Eastern Europe.

Upto now we have tried to present an overall picture of the socialist concept of growth, geared to raise the levels of living of the working people. It would be interesting to discuss a precise relationship between the law of value and the problem of optimal allocation of resources and therefore the problem of economic calculation in the widest sense.

One of the characteristics of Marxist-economics is the presentation of the problem of allocation in terms of the law of value. "Marx examined the problem of rational allocation on a wide scale by considering what conditions are created by a given social and economic system (of production-relation) for the optimal utilisation of available resources."<sup>4</sup>

A close link is established between the law of value and market process in Marx's analysis and this has had effects on the way this problem was handled in socialism. Thus communism was taken as a phase when there is direct distribution of goods and the law of value was supposed to disappear but this is not a very correct view.

Now in a market economy, market prices are determined by the ratios of socially indispensable outlays of labour. The operation of law of value means that there is a constant tendency to correspond ratio of prices to ratios of values. This tendency is realised by means of market process, deviation between the two ratios lead to a reallocation of production factors.

Brus and Laski argue that "by concentrating economic means in the hands of the state, as in socialism, it is possible - with the aid of an efficient enough calculating equipment - to make a direct allocation of resources in such a way that the structure of the final structure of production thus obtained, would correspond to the operation of the law of value."<sup>5</sup> So market process is not always essential.

From the socialist point of view the problem of the operation of the law of value is tantamount to the problem of whether the "optimal plan demands an allocation of resources as a result of which the ratios of prices of particular products correspond to the ratio of values and thus to the ratios of socially indispensable outlays for the manufacture of these products. If the optimal plan on the nationwide scale requires just this type of conformity between the ratio of prices and ratio of outlay then the law of value is valid, in socialism, as an objective law, and solutions which do not correspond to this law lead to suboptimal results. On the other hand the law of value does not operate as an objective law if the optimal plan demands another ratio of prices."<sup>6</sup>

The socialist economists claim that due to <sup>the</sup> planned nature of their economy they are able to maintain an efficient allocation of resources the inputs for each item produced correspond to socially indispensable outlays. Since <sup>the</sup> allocation problem is worked out at all levels, parameters

(prices) are set which correspond to the socially indispensable outlays of labour.

It is possible (indeed it will usually be the case) that the prices which are proportional to values, do not balance demand and supply on the market for consumer goods. Then we get two price systems in a socialist economy. As we have already seen in capitalism the price system fulfils the dual role of ensuring the optimal allocation and bringing equilibrium between demand and supply. But in socialism the exchange ratios - which are equal to the ratios of socially indispensable outlays of labour, ensure the best allocation of means of production contributing to carrying out of the plan, and therefore, the greatest effectiveness in carrying out of the plan. On the other hand there may be divergence between planners' preferences and consumers' preferences. So the above exchange ratios do not equate demand and supply, Brus argues that the exchange ratios will not correspond to value if there is a possibility of mechanical substitution, the fulfilment of the role assigned to the postulate price system requires the assumption of only one technical process existing for each product.

Allocation is considered to correspond to the operation of law of value if the ratios of the prices of consumer goods which balance demand and supply (the market prices in a socialist economy) correspond to the ratios of socially indispensable outlays. Here we implicitly define efficiency of

utilisation of resources to the extent consumers needs are satisfied through the given outlays. Brus and Laski argue that these social needs are established by the plan and need not correspond to the preferences of the consumers expressed in the market. So the deviation between ratios of value and ratios of prices is accepted,<sup>and</sup> may also be justified. But with this deviation there is defective allocation and a degree of waste. Long term instructive policies may be undertaken to influence consumption such that the deviation is minimised.

The year 1965 marks a dividing line between an extensive pattern of economic development of most socialist countries and the introduction of a new system of management and planning. Highly centralised planning with all decisions taken at the higher echelons of planning led to diseconomy, waste and stagnation. Enterprises tried to fulfil targets in physical terms alone and did not bother with efficiency in management and production. The point in short is that at higher scientific and technological level the 'old' system was found irrational and hence a change was imperative.

In the new system there was massive decentralisation of the planning process with widespread devolution in the new economic system. The planning board was engaged only in 'structure determining tasks' and mechanics of their execution. Routine work was handed over to lower levels.

Greater emphasis on the incentive payments, could be viewed as an important byproduct of the new system. Caution

had to be practised as this could lead to inequalities between individuals, enterprises and regions. Therefore one of the prime functions of indicators coming down from above is to check the enterprises so that the social goals are not blurred. The concept of "iso-profit space" was introduced. It means that if enterprise A is already at an advantageous position with regard to its capacity, technological level, production planning and skill of its workers as against enterprise B, some formulae of compensation would be applied to make enterprise A and enterprise B occupy neighbouring points in the iso-profit space. Theoretical support to material incentive payments is found in Marx's critique of Gotha Programme. One of the characteristics of the socialist phase, according to Marx, is that each is paid according to his work performance.

The planning board operating at a macro social plane issues indicators and regulations which are to create conditions for the correct formulation, elaboration and implementation and realisation of the basic objectives and major tasks enunciated by the plan, the task is to ensure "a co-ordination between the interest of the society, the economic organisation and the individual, collectives and workers, by giving priority to social and collective interests in the case of a divergence between these groups of interests."<sup>7</sup> Indicators determine the volume and main conditions of production and sale, the direction of technical progress and

the effectiveness of their economic activity as well as the distribution of the profits etc. Thus in this new system there has to be a sufficient degree of decentralisation subject to constraints from above. The principal idea behind the introduction of the New Economic System is to make a fusion possible between national planning and market relations on the basis of socialist ownership of means of production. From the welfare point of view it is important to understand the theory and operation of New Economic System as it reflects how issues of efficiency and equality are handled.

According to the theoreticians in the post reform times also, plans should enjoy supremacy over market tendencies. These should guide and influence the development of the market. Every aspect of economic activities has to be organised through planning. Intervention with market operation should occur only where the national interest or basic allocation made by the plans are threatened. In the process of translating the above principles into reality, nationalised enterprises have obtained virtual economic autonomy.

As regards income regulations, accumulation of funds and increase in personal income of managers and workers is linked to profitability of the enterprise. Secondly, there is a clear division between quantum of profit which can be used for accumulation and which can be distributed as additional income. But this increase in income rate



increasingly decreases with the increase in the profit mass. In this connection it may be noted that theoretically, an important criterion for determining the advancement that socialist state has reached, is the share of social consumption vis-a-vis individual consumption or the rate of growth of the former in relation to the latter. Furthermore, this social consumption fund is used for pension, for social security, help to children, and people unable to work, for education, health, to subsidy food items and prices of other essentials. So it can be argued that if this fund is rising and it is to help every one in the economy, then equality in satisfying the basic needs is maintained.

In the ultimate analysis a proper coordination between economic control and enterprise management is viewed as a definite necessity for the sake of efficiency.

Thus we see that while in the extensive stage, increase in share of accumulation was emphasised, in the intensive stage more and more importance is given to increase in efficiency. Increase in labour productivity gets much emphasised.

The economic potential (defined as the totality of the available productive power and natural wealth and possibilities of their mobilisation offered by the socialist relations of production at a particular time) is the material foundation for the development of social life. "The fulcrum of the economic strategy of the party...is the further increase in the economic potential of the country."<sup>8</sup>

Production planning is the nucleus of all planning activity, but of course not the only element of planning. Growth of production leads to a rise in productivity and efficiency which is a necessary precondition for higher living standards. Standard of living is understood as a comprehensive concept including over and above the level of consumption also a better development of a human personality. On the other hand, the growing degree of satisfaction of material and cultural needs itself is a stimulant to higher productivity. So the basic economic law of aspiration for higher standards of living reflects the dialectical unity of aims and means. Planning should start from this objective reality.

Plans concentrate on material process - physical processes and not on financial processes. This is because priority is given to production planning - comprehensive planning of production and planning of the consumption of all elements or factors of production process. This means that the level of efficiency of production process is planned. Therefore, efficiency can be taken as an important indicator of economic growth.

Between the aims of growth and efficiency, the socialist countries generally give emphasis on growth. But Bergson<sup>9</sup> argues that economic growth should itself depend on efficiency. In the early stages, the state is able to maintain high saving rate at the expense of consumption, but

at higher levels the state (tries to) ensure a high level of consumption. Then if attention is not paid to efficiency the consequence will be lower growth rate. Depending on static efficiency, the community may produce a larger or smaller output with the productive factors at its disposal. Depending on such efficiency, therefore, it will be able to generate larger or smaller surplus, over a given level of consumption. This surplus (saving) is one necessary factor for growth.

There has been quite a bit of debate amongst economists, concerning economic calculations in a socialist economy. It is a dead issue now, and Dobb has aptly given it a status of a footnote. We shall here, merely illustrate the main points. Many of the arguments developed during the later half of the debate, had a big contribution to the development of the study of welfare economics. It started on the issue of the possibility or impossibility of any rational calculation in socialist economy. Prof. Von Mises<sup>10</sup> asserted that economic calculation was not possible in a socialist economy and this problem was accordingly stressed as a crucial objection to socialism. Without a market, and price signals resource allocation according to Mises can never be efficient. E. Barone on the other hand, rejected the fantastic doctrine that production in a collectivist state would actually be 'ordered' in a manner substantially different from that of anarchist production. In a closely reasoned mathematical essay Barone shows first that, by appropriate calculations, the series of

equivalents, which satisfy the equations expressing the physical necessities of production can be found. Second, given the aim of obtaining the posited maximum from the services of individuals and of the community, the ministry must reintroduce, no matter under what name "all the economic categories of the old regime... prices, salaries, interest, rent, saving etc....,"<sup>11</sup> and finally because of its aim, the ministry must observe the condition which characterise free competition namely 'minimum cost of production and the equilisation of price to cost of production'. Robbins and Hayak maintained impracticability of attaining rationality owing to the lack of any sound method of assessing the cost of production, limitation from lack of information and the magnitude of task.

Dickinson<sup>12</sup> and Lange<sup>13</sup> gave theoretical solutions, showing under what conditions ~~was~~ economic calculations ~~were~~ possible in socialism. Dickinson viewed socialism as compatible with <sup>an</sup> actual market for producers' good. Lange gave the trial and error method.

The writings took a normative endeavour to elaborate rules for an 'ideal' economic organisation, seeking economic 'optimal'. They "might be considered as providing a theoretic basis for the work of a Central Planning Board seeking to rationalise the planning system of socialist state."<sup>14</sup>

The whole of this controversy is viewed with the assumption of neutrality of the systems and the end being consumer sovereignty. Economics was looked upon a positive

science and the optimal conditions were thought to be neutral. Hence it was argued that the learnings from the capitalist economy be superimposed on socialist economy. Lerner supported the view, that the fundamental problem for <sup>a</sup> socialist economy like that in capitalism is allocating scarce resources among alternative uses and that welfare is maximised only when there is consumer sovereignty. In the socialist state the Central Planning Board was to replace an individual's preference and depending on the ends it wants to serve formulate the scale of value for an optimum allocation. Furthermore it was also argued that in cases like saving and investment, <sup>the</sup> Planning Board may be a better allocator as an individual is limited by a telescopic faculty. Dobb<sup>15</sup> showed that the Board would value equally a marginal dollar of present and future income; provided that income is constant. If <sup>the</sup> Board expects income to rise, as a result of the investment undertaken, then it will value the marginal dollar of <sup>the</sup> future less in the present. Thus the Board values future satisfaction equally with equivalent present satisfaction.

Lerner<sup>16</sup> emphasised that in the production of the optimum output, price must equal costs, on this point there can be no difference between the two systems. But we know that, firstly the concept of cost is very different in the two systems, and this is the capitalist rationale.

The idea behind building up such a conceptual framework was to serve two purposes. On the one hand, it in effect

poses for the Board a series of question on ends relating to consumer sovereignty, saving investment, income distribution etc. In this way the analysis might assist the board to formulate a conceptually satisfactory scale of value to guide the economy. On the other hand, the analysis establishes the implications of a given ends (these implications are the optimum conditions). So the board is helped to allocate resources consistently in accord with the given ends. The establishment of these implications would seem to be a prerequisite for the construction of a planning scheme which might approximate the given ends. In practice, the usefulness of this framework, of course, depends on the importance the Board lays to the welfare aims.

One basic objection raised against such formulation is on the assumption of neutrality. It is argued that socialist system is a system different from capitalist system and has to be studied freshly without previous capitalist hangups. "It is becoming fairly clear, Dobb<sup>17</sup> says, that some traditional habits of thought, slow to be surmounted, have specially handicapped economists' thinking about a socialist economy. These have had the effect, in particular of obscuring certain crucial features of such an economy and assigning exaggerated weight to elements common to different economic system...of such habits of thought. One may single out two in particular... first, the notion that valuation of the national income can be measured independent of the way

in which income is distributed has yielded an oversimplified, indeed misleading, definition of maximising wealth or welfare, and hence an exaggeration of the degree of precision with which optimum conditions for efficiency of any given set of economic arrangements can be formulated. Secondly the habit of concentrating attention upon problems of stationary equilibrium has resulted in deficient attention being paid to the quintessential functions of planning functions associated with the abolition or reduction of what Prof. Koopmans has termed 'secondary uncertainty' and with the choice and maintenance of long term paths of movement."

The consequence of the first is that it has encouraged a myopic concentration on problems of marginal adjustment as though it were the only type of efficiency problem. The second leads to an implicit assumption that equilibrium is always reached effortlessly and quickly. Hence planning is viewed as: "in statics there is no planning, mere repetition of what has been done before does not need to be planned."<sup>18</sup> But planning is superior, in the sense of a coordinator, when the movement is on the dynamic path, which may be highly unstable. Even in the post reform period, as observed above, plan still guides allocation decisions so the typical western reaction is that, then there is no guarantee of an optimal resource allocation - as only <sup>a</sup> free price system can guarantee rationality. Dobb<sup>19</sup> argues that the case for a free price system or talk of optimum conditions for allocating resources

are only relevant when the distribution of income is 'ideal' - when there exist conditions of greater approximation to equality- this can never exist in a capitalist system. On the contrary there are preconditions for such a situation in socialist system.

Now, we seek to examine the concept of welfare in the absence of consumer sovereignty, to analyse the socialist criteria of welfare and proportionality and try to briefly identify techniques and failures in producing output mixes in conformity with those criteria.

Jan Drownoski<sup>19</sup> perceives that 'the crucial problem is the interaction of the state and individual preferences. If we take a short term view, we may abstract from the influence the individual has on the state preference function through political channels and consider the state and individual preference functions to be independent of each other. Where they meet they constitute restraints for each other...we must try, therefore, to determine the zone, in which state preferences are supreme (the zone of state influence) the zone in which individual preferences are supreme (the zone of individual influence) Drownoski envisages that the pattern of government aims be mapped, so that 'as a result of dual influence of the state and consumers, the socialist economy will have two independent sets of prices one coming from the state preference function, and one from the consumers' preference function. The first price set will be applied to all



dealings between state enterprises. The second will be applied to sales by state enterprises to consumers. In the previous chapter on capitalist welfare economics, one of the limitations observed was the incapability to handle interpersonal comparisons in welfare economics. In socialist economies, the assumption underlying the basic task of greater satisfaction of needs of population is, the possibility of interpersonal comparisons. Little defends interpersonal comparisons "it is clear that if one accepts behaviour as evidence for other minds, then one must admit that one can compare other minds on the basis of such evidence. Therefore, those who deny interpersonal comparisons deny the existence of other minds."<sup>21</sup>

The concept of welfare : the socialist theory of welfare rejects the twin procedures of the market and parliamentary democracy in favour of an ultimate aim epitomised in socialism or communism. The participation of the members of society is assumed to consist in electing the kind of government that would correspond to individuals' general ideas but where the detailed aims of state policy are formulated by the government itself. State desires are identified with the economic desires of the working class, which controls production. The communist party is defined as the vanguard of the working people in their struggle to build communist society and..the leading core of all organisations of working people, both public and state.

When there is a contradiction between consumers versus citizen sovereignty (or state preferences) the solution is hoped by the socialist transformation of man on one hand and by self-administration on the other. The socialist problem is to answer the question of 'why the consumers' preferences are what they are'.

Lenin put 'the planned organisation of the social and productive mechanism to ensure the welfare and harmonious development of all members of society' as the aim of socialism, the definition of that welfare is the prerogative of the party state. The socialist state, writes Mikhail Bor, "by determining through national economic plans the production targets for consumer goods and also for the capital goods needed for their production...thus basing itself consciously on the economic laws of socialism, determines the level at which human needs are satisfied."

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## CHAPTER IV

### A COMPARATIVE STUDY OF WELFARE IN THE TWO SYSTEMS : THE CASE OF UK, FRG, GDR AND CZECHOSLOVAKIA

This chapter is an approach to social welfare at the operational plane; we will examine the actual living conditions of people. The preceding arguments on the concept of welfare in both the capitalist and socialist systems were to understand the concept of welfare from two different points of view. But to get a comprehensive view it is also interesting to evaluate the levels of living in the countries represented by the two systems.

We realise that welfare is closely connected with fulfilment of certain needs. We therefore consider some 'basic needs' and 'cultural needs' and examine the extent to which they are satisfied in the two systems. Here only certain fundamental needs which are generally accepted have been taken into account and in a way that does not necessarily conform to the personal wants of the individual. In this study an attempt has been made for a comparative analysis of the levels of living of four countries, German Democratic Republic, Czechoslovakia, Federal Republic of Germany and United Kingdom (England and Wales).

The general level of living may be divided into several components. A component of the level of living means a

distinct class of human needs, the satisfaction of which contributes to the general level of satisfaction of needs expressed in the level of living. Each component is made up of one or more indicators, each of which give specific factors used in statistical measurement. In this study there are seven components and twenty-two indicators of the level of living. It is realised that some indicators reflect the facilities provided to the people rather than the needs. The selection of the components and the indicators and the procedure followed in this chapter is adopted from : Report on International Definition and Measurement of Standards and Levels of Living; a United Nations Publications, 1954; and International Definition and Measurement of Levels of Living- An Interim Guide, a United Nations Publication, 1961. The source of all the statistical data is (unless otherwise specified) the 1967 and 1977 compendium of Social Statistics, United Nations, New York, 1968 and 1980. Some basic data regarding the four countries are introduced at first. This throws some light on the economic situation of these four countries.

In GDR food items are state subsidised, prices of items like bread, meat etc., have not risen over a long period of time.

Consumer Price Index Numbers : General & Food

Country		Index Numbers		
		1960	1970	1975
GDR	General	99.9	100.0	98.7
	Food	98.4	100.0	99.7
Czech.	General	91.0*	100.0	100.8
	Food	98.9*	100.0	99.6
FRG	General	81.6	100.0	134.7
	Food	86.0	100.0	130.1
UK	General	67.2	100.0	184.4
	Food	73.0	100.0	206.2

\* 1965

Per Capita Gross Domestic Product (US Dollars) and Annual Rate of Change

	Per capita GDP (US \$) 1970		Annual rate of change of GDP: 1963-70	
	Agriculture sector	Non-agri- culture sector	Agriculture sector	Non-agri- culture sector
GDR	3,225	3,281	2.2	5.2
Czech.	2,239	3,010	1.5	5.3
FRG	2,048	6,548	1.6	4.8
UK	3,368	3,489	2.6	2.7

Population, Rate of Population Growth and Density

Country	Population(1970) (in thousands)	Rate of popula- tion growth	Density (1970)
GDR	17,058	0.1	150
Czech.	14,339	0.6	113
FRG	60,700	0.3	240
UK	55,480	0.3	324

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1917.31

Percentage Distribution of Income by Population Fractiles, Income Inequality Measure

Country	Year	Reference population	Percentage shares of income occurring to population fractiles							Measure of income inequality P(70-79) - P(20-30)
			Percentiles of population specified							
			0-9	10-19	20-79	80-89	90+	Lower 50%	Upper 5%	
GDR	1970	Household	4	6	59	14	17	36	9	2
Czech	1964	Workers	5	7	57	14	17	36	10	2
FRG	1970	Household	2	4	49	17	29	23	18	3
UK	1968	Household	2	4	53	16	24	26	14	2

I. Health : Including Demographic Conditions

1.A Expectation of Life at Birth

This indicator is considered theoretically the best indicator of levels of health.

1.a Expectation of Life at Birth

Country	Sex	1950's	1960's	1971 onwards
GDR	M	65.56	68.50	68.5
	F	69.88	73.77	73.9
Czech	M	66.24	67.54	67.4
	F	71.24	73.41	73.7
FRG	M	65.65	67.32	67.6
	F	70.18	73.13	73.7
UK (E&W)	M	66.65	68.1	69.1 (1973)
	F	71.87	74.2	75.3

A more or less equal emphasis seems to have been put in all four countries, in providing facilities like DDT, vaccination etc.

1.B Infant Mortality Rate (Number of Deaths of Infants under one Year of Age Per 1000 Births per Annum)

Infant mortality rates have traditionally been regarded as one of the best measures of environmental sanitation, and are closely connected to the general levels of economic and social development.



1.b Infant Mortality Rate

Country	1950-54	1955-59	1960-64	1971	1975*	1976
GDR	59.9	45.2	33.8	18.0	15.9	14.1
Czech	58.2	31.0	22.5	21.7	20.8	-
FRG	49.3	37.3	29.3	23.3	19.8	-
UK(E&W)	27.9	23.2	21.2	17.5	-	14.3

\* Demographic Year Book 1977, United Nations, New York.

This chart reflects the greater emphasis put by the socialist countries to reduce the rate.

1.C Crude Annual Death Rate (Deaths per 1000 Population Per Annum)

Country	1950's	1960's	1976*
GDR	12.05	13.1	14.0
Czech	10.3	9.5	11.4
FRG	10.8	11.1	11.9
UK(E&W)	11.6	11.8	12.2

\* Demographic Year Book 1977.

This is a very rough indicator as it is highly influenced by the age distribution of the population - which we have not taken into account.

1.D Number of Hospital (Beds per Population) in Relation to the Population and Number of Physicians in Relation to Population

Population Per Hospital Bed

Country	1950's	1960's	1972
GDR	95	90	90
Czech	115	100	100
FRG	100	93	90
UK	100	106	110

Population Per Physician

Country	1952's	1957	1960's	1972
GDR	NA	NA	870	600
Czech	1,100	700	565	450
FRG	750	730	650	540
UK	1,200	1,100	853	760

A better indicator would be one which reflects actual utilisation. In GDR and Czechoslovakia the entire health service is state controlled. Health schemes are a part of communal consumption. On the other hand in UK although the state operates the health schemes, there is also a parallel development of private practice, but this is a very small

proportion. In other capitalist countries differential treatment dependent on the income of the patient still exists. In GDR, all enterprises and combines are bound by law to provide and maintain health facilities. Enterprises with 500 to 2,000 employees have a duty doctor, those with 2,000 and 4,000, an outpatient departments and with 4,000 and over have a health centre. A health centre is well equipped with an x-ray unit, laboratory etc. In 1978 there were 109 health centres, 290 outpatient departments and 2,051 duty doctors. In 1976 about 3,46,000 workers received convalescent holidays. While the patients are being treated they receive 90 per cent of their pay. The UK also has a very efficient health service system. Every worker is attached to a government employed general practitioner. Medicines etc., can be obtained at a very nominal rate.

The quality of facilities provided by the two countries, UK and GDR is very similar, the basic difference being that in UK the opportunity to avail of medical services of one's choice by additional payment exists.

## II. Food and Nutrition

The satisfaction of human needs, in nutrition consists of food intake. Indicator 'a' shows the quantity of it, whereas 'b' refers to the quality of food consumed.

The two indicators are:

a) Calorie intake per head per day as a per cent requirement in relation to needs.

b) Total protein intake per head per day as per cent of requirement.

It is realised that the nature of the statistical material that is used for the indicator does not present a complete or accurate picture of international differences, for environmental and traditional influences play a great part in food intake.

### 2.a Calories Level as a Percent of Requirement

Country	1950's	1960's	1972-74	Requirement
GDR	NA	126	132	100
Czech	NA	138	141	100
FRG	110	124	129	100
UK	121	135	133	100

### 2.b Protein-Grams

Country	1950's	1960's	1972-74	Requirement
GDR	NA	88.0	95.0	41.4
Czech	NA	93.5	96.6	37.8
FRG	79.3	85.0	87.7	41.4
UK	86.3	94.4	92.3	39.1

This indicator gives only an average, its use is limited until an idea can be had about the distribution of food <sup>amongst</sup> ~~with~~ the population.

### III. Shelter

The satisfaction of human needs for shelter consists in the size of dwelling. That implies protection from exposure and enjoyment of environmental conditions connected with the dwelling. The three indicators suggested are:

- a) Density of occupancy
- b) Independent use of dwellings
- c) The magnitude of the service from dwellings

providing shelter.

#### 3.a Average Number of Persons Per Room in Occupied Dwelling

Country	1950's	1970's
GDR	1.2	NA
Czech	1.3	1.1
FRG	0.9	0.7
UK	0.7	0.6

This average figure is not very reliable as the size of the dwelling differs with income groups. For Czechoslovakia and UK we have additional data as regards percentage of

dwellings with three or more persons per room. In Czechoslovakia in the 1960's it was 5.4 and has reduced in the 1970's to 1.9. In UK in 1970, it is 0.1.

### 3.b Independent Use of Dwellings

This indicator is measured by the ratio of the number of occupied dwellings as a percentage of number of households.

Country	1950's	1970's
GDR	NA	85.1
Czech	86.9	100.0
FRG	84.6	90.9
UK	97.4	100.0

### 3.c Percentage of Dwellings with Piped in Water, Toilet and Electricity

Country	Piped in water		Toilet		Electricity	
	1960's	1970's	1960's	1970's	1960's	1970's
GDR	65.7	82.1	32.7	100.0	NA	100.0
Czech	49.1	75.4	NA	99.9	97.3	99.7
FRG	96.7	99.2	86.5	100.0	99.9	99.7
UK	98.7	100.0	98.2	100.0	NA	NA

Certain background information can be obtained from data regarding the types of investors in dwelling construction.

Dwelling Constructed (Percentage) by Type of Investor

Country	Public			Private		
	1968	1970	1973	1968	1970	1973
GDR	NA	88.4	59.3	NA	11.6	40.7
Czech	24.1	36.2	42.4	75.9	63.8	57.6
FRG	2.5	2.3	1.9	97.5	97.7	98.1
UK	45.3	49.3	36.8	54.7	50.7	63.2

To the extent that the state takes over the responsibility of construction there will be greater uniformity in size and facilities provided in the dwellings, than when there is private investment.

Here the implicit principle is that a better dwelling is one which renders greater services to the dwellers.

Clothing also falls under this component of shelter but is omitted due to lack of data.

The set of these three components covers the 'physical needs'. Transport in modern times can qualify for inclusion in this set, but is not included.

IV. Education

Education as a component of cultural needs has to be

given a very broad meaning. It is a process of developing intellectual abilities, of shaping cultural attitudes and of acquiring knowledge and useful skills. The satisfaction of human needs in education consists of receiving education.

The <sup>Enrolment</sup>~~involvement~~ ratio expresses the number of those receiving education in relation to those needing it. Our indicators are

- 4.a) Enrolment ratios
- 4.b) Pupil-teacher ratio
- 4.c) Book titles published (per 1000 inhabitants)  
and newspaper circulation (per 1000 inhabitants)

While 4.a represents the quantity of education received by the population, 4.b reflects the quality, 4.c is more of a nature of facility.

The enrolment ratios reveal the significant attention paid to education both in GDR and UK at the 1st and 2nd level. But at the 3rd level GDR has achieved a higher level than UK and <sup>the</sup>same is the case with <sup>the</sup>female enrolment ratio.



#### 4.a Gross Enrolment Ratios

Country	Sex	First level			Second level			Third level(20-24)		
		1960	1970	1974	1960	1970	1974	1960	1970	1974
GDR		(7-14)	(7-16)	(7-16)	(15-18)	(17-18)	(17-18)			
	MF	112	93	95	39	92	90	16.27	32.81	NA
	M	111	92	93	41	95	93	23.47	36.63	NA
	F	113	95	96	37	89	86	8.89	28.82	NA
Czech		(6-14)	(6-14)	(6-14)	(15-18)	(15-18)	(15-18)			
	MF	93	98	96	25	31	35	10.96	10.44	11.21
	M	93	98	96	22	24	27	14.32	12.76	13.17
	F	93	98	97	28	39	44	7.54	8.04	9.17
FRG		For FRG combined 1st and 2nd level enrolment ratios available			(6-18)	(6-18)	(6-18)			
	MF				67	78	82	6.11	13.41	20.26
	M				68	78	81	9.22	19.18	26.07
	F				67	79	83	2.85	7.37	14.09
UK		(5-11)	(5-10)	(5-10)	(12-18)	(11-17)	(11-17)			
	MF	95	110	116	67	72	76	8.50	14.37	NA
	M	95	110	117	69	72	76	12.76	18.81	NA
	F	94	110	116	65	72	76	4.13	9.80	NA

4.b Pupil Teacher Ratio

Country	1st level				2nd level		
	1950's	1960's	1970's	1974	1960's	1970's	1974
GDR	36	25	20	25	8	5	5
Czech	29	25	20	20	12	16	15
FRG	40	30	26	23	19	15	15
UK	30	23	23	NA	21	17	NA

4.c Books Titles Published and Daily Newspaper Circulation

Country	Books titles published per 1000 inhabitants				Daily newspaper circulation per 1000 inhabitants			
	1952	1960	1970	1974	1952	1960	1970	1974
GDR	3200	35	30	32	126	NA	445	452
Czech	3800	58	63	67	137	236	252	288
FRG	3200	38	75	78	242	307	319	289
UK	3800	45	60	57	573	514	NA	443

Total Expenditure on Education as a Percentage of:

Country	GNP			Total Public Expenditure		
	1965	1970	1974	1965	1970	1974
GDR	5.0	5.1	5.6	7.8	8.3	7.6
Czech	5.3	4.4	4.5	7.6	7.0	6.8
FRG	3.4	4.0	4.3	10.3	13.8	14.4
UK	5.1	5.9	NA	13.4	13.2	NA

GDR benefits from planning, because the educational programmes at all levels are so planned that jobs are available for all on completion of the education. So, if we view the quality of education such that the kind of education open to the pupil corresponds to the need of both the community and economy, and can make the graduate a useful satisfied member of that community, then the planned economies certainly achieve the goal better.

#### V. Employment and Working Conditions

5.a The top priority indicator is the proportion of persons unemployed in the total labour force. The socialist countries claim to have no unemployment problem. Alec Nove notes "The (socialist) system might appear to possess solid advantages against West. The plans for various sectors are drawn up in the knowledge of available labour resources, in

various areas and of requisite qualification. The long term plan includes a segment concerned with labour needs. The provision of specialist training courses at all levels can be geared into the projected requirements in a manner impossible in capitalism. There is a duty to provide employment, there is explicit recognition of the right to work and also of a duty to work, so that one could not be accused of the offence of being a parasite."<sup>1</sup>

#### 5.a Unemployment

Country	1960	1970	1975
UK	1.6*	2.6*	4.1*
FRG	0.8	0.7	4.7

\* Excluding percents temporarily laid off.

#### 5.b Average Number of Hours Worked or Paid for Per Week in Manufacturing

Country	1960	1970	1975
Czech	48.1	43.8	43.6 (Worked)
FRG	45.6	43.8	40.4 (Paid)
UK	47.4	44.9	42.7 (Worked)

It would be desirable to have data on the non-agricultural sector also, but <sup>it</sup> is not available. Data on GDR is also not available.

5.c Wages, Money Wages and Index Number of Real Wages in Manufacturing

Country	Index No. of real wages			Basis for the index number				
	1960	1970	1975	Monetary Unit	Period	1960	1970	1975
GDR	76	100	118	DDR Mark	Month	567	748	869
Czech	82	100	118	Koruna	Month	1436	1971	2339
FRG	57	100	121	D.Mark	Hour	2.62	5.96	9.69
UK	75	100	114	Pence	Hour	32.0	64.4	139.9

5.d In the employment situation one of the important indicators is the proportion of the economically active population in the total population, by sex. GDR and Czechoslovakia present a better picture as far as female participation in labour force is concerned. This is in keeping with the emphasis on equal opportunity for women in socialist state. Also the state provides many facilities like creches, kindergartens and long maternity leave.

5.d Economically Active Population by Sex and Percentage of Total Population

Country	Both sexes			Males			Females		
	1950	1960	1970	1950	1960	1970	1950	1960	1970
GDR	46.1	48.3	48.1	62.3	59.0	56.1	33.1	39.3	41.3
Czech	NA	NA	48.8	NA	NA	55.4	NA	NA	42.5
FRG	46.3	47.7	45.3	63.2	64.0	60.9	31.4	33.2	31.0
UK	46.5	60.8	46.7	66.9	86.2	61.0	27.6	37.7	33.2

VI. Recreation, Entertainment, Communication

Different countries have different forms of recreation and entertainment. Family and personal ties constitute a rich region in the levels of living over the world, but this part of levels of living is not measurable, and to that extent this component reflects only superficial understanding of levels of living.

But indicators like

- 6.a) Radio and television receivers per 1000 inhabitants
- 6.b) Number of libraries, museums, art galleries
- 6.c) Cinemas and theatre seats per 100,000 population do reflect facilities for relaxation and recreation.

6.a Radio and Television Receivers (Per 1000 Inhabitants)

Country	Radio			Television		
	1955	1964	1974	1955	1964	1974
GDR	279	337	356	0.8	164	297
Czech	220	263	266	2	135	245
FRG	253	300	337	5	172	305
UK	278	296	750	105	243	315

6.b Number of Books in Public Libraries(Per 1000 Population)

Country	1954	1964	1968	1970
GDR	424*	924*	NA	1695
Czech	1058*	1911*	NA	2293
FRG	490	404	803	NA
UK	1129	1459	NA	NA

\* Not including Trade Union libraries.

6.c Museums and Cinemas

Country	Museums		Visitors(in thousands)per museum	
	1969	1973	1969	1973
GDR	552	595	NA	42
Czech	437	271	32	48
FRG	507	574	30	33
UK	900	NA	653	NA

Country	Seating capacity per 1000 inhabitants			Annual attendance per person		
	1954	1964	1974	1954	1964	1974
GDR	32	23	20	17	9	5
Czech	71	77	67	12	10	6
FRG	49	39	19	14	6	2
UK	81	40	17	25	6	3

In the socialist countries tickets to concerts and cinemas are subsidised by firms or through the theatre subscription system. In all these countries there is a lot of travel for pleasure, but no proper data is available for it.

#### VII. Security

The satisfaction of the need for security consists in people having a feeling of security maintained in respect of their persons and their way of life. So the two subcomponents are (a) maintenance of security of the person (b) maintenance of security of the way of life.

a) Includes incidences of violent deaths, for example due to war or riots, homicide, industrial and traffic accidents. Some data can be had for industrial accidents (p.85) but it is difficult to obtain crime statistics.



**7.a Industrial Accidents : Rates of Total Accidents in**

Country	Mining & Quarrying			Manufacturing			Construction					
	Code	1960	1970	1975	Code	1960	1970	1975	Code	1960	1970	1975
GDR		NA	NA	NA	1/c	NA	0.06	0.05	1/c	NA	0.19	0.10
Czech	1/b	NA	NA	0.36	1/b	NA	0.09	0.07	1/b	NA	0.20	0.19
FRG	11/a	0.99	0.68	0.46	11/a	0.19	0.18	0.16	11/a	0.58	0.40	0.35
UK	1/a	0.67	0.45	0.36	1/c	0.04	0.04	0.03	1/c	0.24	0.19	0.18

1 = Reported accidents

11 = Compensated accidents

a = Rates per 1000 man-years of 300 days each

b = Rates per 1000 wage earners

c = Rates per 1000 persons employed

7.b(1) Percentage Distribution by Social Security Scheme

Country	Social insurance and assimilated schemes		Family allowance		Public employees, military & civilians		Public health services		Public assistance & assimilated schemes		War victims	
	1960	1971	1960	1971	1960	1971	1960	1971	1960	1971	1960	1971
GDR	NA	99.2	NA	0.8	NA	-	NA	-	NA	-	-	-
Czech	59.6	59.0	17.1	12.8	-	-	21.3	26.1	2.0	2.1	-	-
FRG	66.0	70.2	2.0	2.6	16.9	15.8	0.7	0.6	6.6	4.8	7.8	6.0
UK	40.8	41.8	5.4	5.4	8.8	7.1	30.2	28.7	10.8	15.1	4.0	1.9

b) This is the assurance of being able to maintain any given level of living once it has been achieved. This sub-component can be measured by the participation of the population in social security schemes.

The total benefit expenditure of the four countries in national currency is presented below.

7.b(i) Social Security Benefit Expenditure : Percentage Distribution by Social Security Scheme (page 86)

7.b(ii) Pensions as Percentage of Expenditure for Social Insurance and Assimilated Schemes

Country	Pensions	
	1960	1971
GDR	60.1 (1967)	59.3
Czech	60.2	63.0
FRG	59.6	55.7
UK	66.6	64.5

Country	Total benefit expenditure	
	1960	1971
GDR (GDR Mark)	11836.3 (1967)	15335.7
Czech (Korunas)	24739.0	58771.0
FRG (D Mark)	44307.0	123590.0
UK (Pounds)	2485.0	6582.0

This chapter gives us an idea of the living conditions of the four countries. An overall view, shows that all four countries presently enjoy an affluent level of living. But it would be a very naive approach to conclude from the above facts that the two systems are similar, or rather that this is also not the purpose of this study. The purpose of this dissertation is a critical appraisal of the idea of welfare in the two systems from the Anschauung of its own system, and this chapter is merely an attempt to make this study comprehensive by incorporating some factual information regarding levels of living.

Inflation and unemployment are supposed to be the two curses of modern industrial economies. Our data on consumer price index and the unemployment figures show, that these 'curses' are prevalent on a big scale in the two capitalist-economies. The socialist economies claim to have no unemployment and the consumer price index reflects price stability, both for general and food items. Table 5.c gives the index number of real wages. FRG had the lowest real wage in 1960 but by 1974 its real wages has risen considerably.

Housing is still a problem in most European countries. GDR still has an acute housing problem. Trend in Tables 3.a, 3.b and 3.c show that GDR and Czechoslovakia have improved substantially over the past two decades.

Education at the first and second levels is more closely connected to the level of living, for it reflects the size

of population that can read and write. Higher education and technical education is to meet the needs of the economy, for example the use of sophisticated machinery requires more skilled workers. There is no illiteracy in any of the four countries. In U.K. and GDR education is free. The point that is much emphasised in such discussions is regarding which strata of society benefits most from the education facilities. In GDR about 64 per cent of students at the third level come from working class homes, while in U.K. this figure is anywhere around 4 to 5 per cent. One major achievement of the socialist countries in the field of education is the help education has brought to the working class to raise their level of living.

Closely connected with education is the freedom of expression-verbal, writing or in other forms of art. In UK, FRG this freedom is granted. In GDR and other socialist countries this freedom is restricted.

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1. Alec Nove, Soviet Economic System, London, 1977, p.218.

## CHAPTER V

### AN OVERALL VIEW

Often the impression one gets from economic writings is that the differences between social and economic systems are comparatively unimportant, perhaps can be dismissed as part of the make believe world of politicians rather than of the real world of economists. In this dissertation an attempt has been made to illustrate and explore in some detail the understanding of the concept of welfare both in theory and practice in the two major economic systems and as a by-product the similarities and differences between the systems do get highlighted.

Institutionally the capitalist system is based on private ownership of means of production and ideologically favours individual values and preferences. In socialism there is state ownership of means of production and state preference function dominates over individual preferences. This difference leads to a very different approach to economic theory in general rather than to welfare theory in particular.

As was noted in the introduction, there is a close link between welfare and satisfaction of needs. In theoretical welfare economics wants are assumed to be given and constant. Knight and others have raised objection to such a construction. Myint<sup>1</sup> has neatly summarised these objections under

three heads: (1) It is inadequate and unrealistic to concentrate only on the formal mechanism of satisfying given and constant wants, since in real life, wants are not only continually changing, but it is in their nature to grow and change, man continually gropes forwards for what he considers to be <sup>the</sup> right sort of wants. (2) A position of strict ethical neutrality cannot be maintained in a realistic study of human welfare. (3) Individuals' wants are not given in a vacuum but one being continually moulded by their social and institutional environment, a large part of which lies outside the price system. We must therefore supplement, correct and sometimes even replace the valuation of separate individuals measured in terms of money by the valuation made by society as a collective whole, which though less accurately measurable, is nevertheless at least equally, if not more, important. In socialism, as has been observed in Chapter One, planning makes needs its focal point. Furthermore the concept of needs is comprehensive and dynamic. One practical objection to socialist planning is that a certain structure of needs is imposed on people. These are debatable points to which there is no final answer.

As was pointed out in Chapter Two, underlying the entire literature of theoretical welfare economics and the welfare state capitalism, is the assumption that an individual is the best judge of his own welfare. A somewhat detailed study of the theories of welfare economics shows that, the classical

school assumed a linear relationship between increase in material production and increase in welfare. Welfare analysis was conducted at physical level, "closely related to the labour-theory outlook which conceives the economic problem as the struggle between man and nature in which the success of man is to be measured by the quantity of his net physical product."<sup>2</sup> With the emergence of the marginal school the problem of efficient allocation of resources, that is, the scarcity problem came to be emphasised. Welfare analysis was conducted at the subjective level. The assumption of welfare economics (the literature under the heading of welfare economics covers economics of Pareto onwards) was that the quantities of economic welfare are proportional to quantities of satisfaction of given and constant individuals' wants. The scarcity approach conceives of the economic problem as the allocation of given resources to obtain the maximum satisfaction of given wants. While elaborating the Pareto condition of optimality, it has been shown that this condition proves nothing but efficient allocation of resources at <sup>the</sup> macro level. The grand criterion of welfare maximisation is that it will be impossible for any shift in production-cum-exchange to increase utility of one individual without reducing that of the other. In this situation Pigou's work can be looked upon as an improvement as he explicitly brought in the distributional aspect. As will be evident from the discussion in the same chapter, the new welfare economics has proceeded



on Paretian footsteps. The compensation principle and the Bergson-Samuelson social welfare functions are all attempts to improve on Paretian lines. This entire development helped to build a refined efficiency criteria. As Sen has observed, the entire welfare economics offers no solution of how to tackle <sup>the</sup> distribution problem. On <sup>the</sup> theoretical plane, we have Rawl's favour-the-bottom conception of distributive justice and Sen's "Weak Equality Axiom".

Given a cake it is also necessary to know how it is distributed. To have a rising welfare of most people in society it is necessary to have a rising national income, obtained by efficiency of production-cum-exchange, but it is also equally necessary that the increased production is shared better or more equally by a larger group. In the capitalist system efficiency and equality are viewed as two separate problems, the first to be solved by market mechanism, and the latter by government intervention. Attempts have been made in the appropriate sections to provide theoretical and analytical basis for this general argument.

As is clear from the discussion, although at a slightly conceptual level in Chapter Three, there is no separate branch of study both in theory and for practical application, known as 'welfare economics' in the body of literature in socialist economies. But the general planning principle and the particular institutional set-up reflect that welfare is the basic task of the planning process.

On the question of rationality of economic calculation in the socialist economics, as has been pointed out, most western scholars maintain that since there is no free price system, there can be no rational allocation of resources in socialism. Dobb has challenged this point of view. Brus and Laski have also tried to present the 'concept of socialist rationality'. It has also been argued that the socialist economies should be studied without capitalist biases.

One serious limitation of theoretical welfare economics is that it does not allow for interpersonal comparisons. The socialist system accepts the view that interpersonal comparisons are possible.

In practice, we have seen the emergence of welfare state, which after World War Two was coined as 'welfare state capitalism'. It is still capitalism, because the welfare state retains the two basic organisational features; private ownership of productive facilities, and therefore property incomes of rent, interest and profit and market determination of outputs and incomes. But under conditions of welfare capitalism, the government assumes the responsibility of the micro economic performance of the economy: to achieve and sustain full employment and income growth and to provide for health, education, housing and other welfare services. Before World War Two the state intervened in economic activity through public welfare programmes. These programmes operated at the periphery of economic activity to help industrial workers, for the view held was

that the causes of poverty and misery among workers were mostly the effects of industrialisation. Also as the socialist movement was gaining strength, shrewd politicians like Bismark tried to check this movement by a strategy designed to stave off socialism by protecting the wage earner from the economic risks of modern industrial life through social insurance programmes. Increasingly during the decades of the century, the German social insurance laws of the 1880's influenced the course of welfare legislation in other countries. The welfare state capitalism, as the concept is in current use, is a post World War Two phenomenon. The external shock of wars, the internal shock of depression and the new economics of Keynes and the emergence of socialist states in Europe were responsible for the welfare state.

In socialist economies the state is the guiding organ of all economic activities. If modern socialist economies are based on Marxian and democratic socialism of 19th century, then the nineteenth century socialism was a response to nineteenth century industrial capitalism, it was a call for social justice and equality. It sought a new economy materially improved in organisation and performance which would create a new society, humane, just and harmonious. This background helps get a better understanding of the welfare implication, from theory and practice highlighted in Chapter III.

At the operational plane, it is observed that all four countries studied in Chapter Four have more or less an equal level of living. The level of living upto a point definitely reflects important elements of satisfaction, but as has been repeatedly pointed out in Chapter Four, in the ultimate analysis, the consciousness and elements of satisfaction depend on various factors many of which are qualitative and also are not common in the two systems. To the extent that these latter factors are not highlighted in the present analysis, questions regarding levels of satisfaction cannot to be answered.

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2. Ibid., p.229.
3. George Dalton : Economic Systems and Society : Capitalism Communism and The Third World, Penguin, 1978.

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