

# The Future of Socialism

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## I. INTRODUCTION

An unpromising title, this, in the seventh year of the third millennium of the Common Era; rather like “Recent Developments in Ptolemaic Astronomy” or “Betamax—a Technology Whose Time Has Come.” My grandfather’s dream, the faith of my younger days, has turned to ashes. And yet, I remain persuaded that Karl Marx has something important to teach us about the world in which we live today.

In what follows, I propose to take as my text a famous statement from Marx’s *A Contribution to the Critique of Political Economy*<sup>1</sup>—a sort of preliminary sketch of *Das Kapital*<sup>2</sup>—and see what it can tell us about the capitalism of our day. I shall try to show you that Marx was fundamentally right about the direction in which capitalism would develop, but that because of his failure to anticipate three important features of the mature capitalist world, his optimism concerning the outcome of that development was misplaced. Along the way, I shall take a fruitful detour through the arid desert of financial accounting theory.

Here is the famous passage, from the preface of the *Contribution*, published in 1859:

No social order ever disappears before all the productive forces for which there is room in it have been developed, and new, higher relations of production never appear before the material conditions of their existence have matured in the womb of the old society.<sup>3</sup>

Although Marx spoke generally about all social orders—by which he meant ancient slavery, medieval feudalism, modern capitalism, and the socialism he anticipated—it was principally the transition from feudalism

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1. KARL MARX, *A CONTRIBUTION TO THE CRITIQUE OF POLITICAL ECONOMY* 12 (N. I. Stone trans., Charles H. Kerr & Co. 1904) (1859).

2. KARL MARX, *CAPITAL, A CRITIQUE OF POLITICAL ECONOMY* (Frederich Engels ed., Samuel Moore & Edward Aveling trans., Charles H. Kerr & Co. 1906) (1867).

3. MARX, *supra* note 1, at 12.

to capitalism on which he focused his attention. The development of *latifundia* in late Roman times, he thought, was a preparation for feudalism within the womb of the slave economy of the empire. But when it came to the transition from feudalism to capitalism, his historiographical research, which was quite extensive for his day, persuaded him that all of the structural elements of a full-blown capitalist economy and society could be found in rudimentary form in the latter decades and centuries of the old feudal order: exchange based on money rather than barter; wage labor; production for sale rather than consumption; the transformation of money into investment capital; the appearance of commodity production; the dissolution of legal and customary constraints on production and exchange; and so on. In Marx's view, the great political upheavals of seventeenth- and eighteenth-century Europe and the Americas were caused by the growing and eventually unsustainable contradiction between the economic power being acquired by the new entrepreneurial classes and the formal legal and political power still exercised by the landed aristocracy and its allies in the clergy.

But Marx also believed that he was witnessing, in his own time, a new contradiction between the legal and political power of bourgeois capitalism, which by the mid-nineteenth century had taken a secure hold of both the marketplace and the state, and the emerging but still subordinate industrial working class. It was, as Marx made clear in his 1848 tract *The Communist Manifesto*,<sup>4</sup> a world historical irony that every effort by capitalists to expand the scope and efficiency of their productive forces had the unintended consequence of promoting the unification and self-conscious awareness of their mortal enemy, the working class. As later European Marxists would say, *Capital* was unintentionally but inexorably transforming labor from a class *in itself* into a class *for itself*. The end result of this dynamic process, Marx believed, would be a clash as momentous as that which replaced feudalism with capitalism. This time, it would be capitalism's fate to be consigned to the dustbin of history and to be replaced by socialism.

It followed immediately from the logic of Marx's analysis that revolutionary change in the most advanced capitalist countries would be brought about, if at all, through the actions of the most advanced sector of the working class—the skilled industrial workers in those industries that had achieved the most efficient, sophisticated forms of capitalist production. Marx was not sentimental about the unskilled toiling masses, to whom he referred rather contemptuously as *lumpenproletariat*.

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4. KARL MARX & FREDERICH ENGELS, *THE COMMUNIST MANIFESTO* (Joseph Katz ed., Samuel Moore trans., Washington Square Press 1964) (1848).

Marx never presented us with the same sort of detailed analysis of the transition from capitalism to socialism that he so brilliantly laid out in his historical account of the development of capitalism. It is up to us therefore to try to imagine what such a transition might look like, taking as our guiding clue his remark about “the material conditions” maturing in “the womb” of the old order. Since the capitalist firm is the central institution through which production and distribution is managed in capitalism, it is there, if anywhere, that he believed we should expect the “new, higher relations of production” to appear. What can this possibly mean?

## II. IN THE WOMB OF THE OLD

In the early stage of capitalist development, the characteristic capitalist firm is a small, single-product manufacturing operation presided over rather closely by an entrepreneur who is both owner and principal manager. Present-day observers accustomed to the almost complete separation of legal ownership from effective control characteristic of the modern corporation may find this difficult to remember. For the implications of the transformation of the owner-operated firm into a limited liability joint stock corporation, one may still usefully consult the classic 1932 work by Adolf Berle and Gardiner Means, *The Modern Corporation and Private Property*.<sup>5</sup>

A firm of the original sort, in the language of modern economic theory, is a price-taker at both ends. Take for example the entrepreneur. The entrepreneur purchases raw materials, labor, and other inputs in a competitive market at a price over which he (and it is, almost always, he) has no control. The size of his purchases is vanishingly small in comparison with the market as a whole and consequently he must simply shop around for the best price, and pay what the market dictates. The entrepreneur stands in a like relation to the price of his output, for when he returns to the market to sell what has been produced in his factory, he finds that his sales are negligible in relation to the market as a whole. Thus, though he makes a profit sufficient to support a comfortable existence and also to permit further expansion of his enterprise, he is, and experiences himself to be, at the mercy of market forces beyond his control, and even, in the early stages of capitalist development, beyond his ken.

Characteristically, the process by which inputs are transformed into output in our entrepreneur’s factory is simple and relatively direct, although there may be temporary intermediate products as the result of a

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5. ADOLF A. BERLE, JR. & GARDINER C. MEANS, *THE MODERN CORPORATION AND PRIVATE PROPERTY* (Harcourt, Brace & World, Inc. rev. ed. 1967) (1932).

first process of transformation, serving as the inputs into a subsequent process. Flax is spun into thread and woven into linen; iron ore and coke are transformed into steel; wheat is turned into flour and is baked into bread.

The accounting procedures required to keep track of the production process, in value terms, although revolutionary in relation to the procedures of the pre-capitalist era, are by modern standards elementary and transparent. Profits are simply the difference between the cost of inputs—wages and rent included—and the price at which the output is sold. The rate of profit can be computed directly as the ratio of annual profit to the value of the capital invested in buildings, machinery, raw materials, and so forth.

There is, to be sure, the first suggestion of a theoretical complexity in the necessity of assigning some fraction of the cost of the buildings and machinery—the “fixed capital”—to the cost of inputs of an annual period. But Marx, in common with all other classical economists, simply assumes that a machine yields up, each year, a portion of its purchase price equal to the fraction of its expected lifetime represented by one year. A power loom that can be expected to last five years, costing one thousand dollars new, can be thought of equally well as having cost the capitalist two hundred dollars in each year. Very shortly, we shall see that this elementary calculation is in fact quite problematical.

At this earliest stage of capitalist development, nothing remotely resembling economic planning can be said to take place on any level save that of the individual firm. Prices, wage levels, aggregate demand and supply, the economy-wide movement of capital, all are completely beyond control and are experienced by all as though they were forces of nature. Within the firm, of course, there is increasingly careful calculation, as individual entrepreneurs, pressed by their competitors, examine every element of their operation in the effort to reduce costs and thus increase profits. It is hardly surprising, under these circumstances, that owners resort to such petty subterfuges as tampering with the clocks in their factories so as to extract an extra few minutes of labor from their miserably paid workers.

The state of affairs we have been describing may strike economic *theorists* as ideal—indeed, as Pareto-optimal! But it can hardly be said to strike the entrepreneurs as in the least satisfactory. To them, it is a condition of perpetual uncertainty and anxiety. Even the most careful and rationally calculating entrepreneur is utterly at the mercy of market forces, which he cannot control and can scarcely predict. Though he may be in the grip of one or another of the self-serving rationalizations that celebrate the productivity and progressive thrust of the system as a whole, he

will, as a prudent businessman, be eternally on the alert for some way to diminish the degree of his servitude to the market.

There are essentially two things our entrepreneur can do to achieve a more secure relationship to the market forces, and whether by foresight or accident, he and his fellows pretty soon attempt both of them. First, he can increase the scale of his operations, so as to cease to be a negligible factor either in the market in which he buys his inputs or in the market in which he sells his output. Second, he can partially overcome his dependence upon markets by engaging in a bit of what economists call “vertical integration”—he can start to *produce* some of the inputs that previously he was forced to buy in the market.

The first tactic, increasing the scale of operations, is illustrated easily enough from the history of American capitalism. When the Great Atlantic and Pacific Tea Company (or A&P) decided in the early twentieth century to expand beyond its original role as a supermarket grocery chain, and go into the business of making jelly under its Ann Page label, it turned to the grape-growing valleys of California for its principal input. The growers were relatively small producers who had, until then, sold their crop in a competitive market to large numbers of small producers. A&P launched its Ann Page line on so large a scale that it needed to buy up the crop yields of entire valleys for its jelly-making operation. As a consequence, it became virtually the sole buyer for the output of large numbers of small growers. It was able to guarantee purchase of a grower’s entire crop even before the growing season had begun, in return for which it acquired the power to dictate the price at which it would buy the crop. In this way, it gained a significant measure of control over its input market, and this in turn allowed A&P to institute production and marketing plans based on an assured input at an assured price.

A further extension of the entrepreneur’s conquest of market forces is exemplified by a practice of Sears & Roebuck. Sears would not merely buy the entire output of its suppliers, thereby making them subservient to its dictates in a manner analogous to that of A&P. Sears buyers would meet with representatives of the supplying companies and dictated the specifications of the goods it wished to purchase, along with the quantity it wanted. The suppliers then produced to order, secure in their ability to sell their entire output. Sears also dictated the price it would pay, thereby completely undermining the play of market forces. Under these circumstances, Sears executives could truly plan their seasonal line, not in the sense of merely *predicting* accurately the character, price, and availability of the goods they wished to sell, but in the full sense of deciding what they wanted and then commanding that it be produced.

At this point, it should be noted, a new form of calculation enters into corporate planning. Previously, a corporation like Sears would bargain as hard as it could to lower the price of its inputs. Now, however, when it decided what price to specify for the total output it proposed to buy from a supplier, it had to balance its desire to obtain its input at the lowest possible price against its interest in keeping a reliable supplier in business.

Firms can undertake analogous maneuvers when offering their output to the market. As a firm grows larger, it less and less confronts a market for its output that is opaque and independent of its will. Increasingly, it becomes a price-maker rather than a price-taker in its output as well as its input market. Instead of short-term sales tactics, focused almost entirely on price competition, it begins to think strategically about total market share, adding product differentiation to price as a means of increasing, or merely securing, a stable market share on which it can predicate corporate planning.

As the firm grows larger, it progressively diminishes its level of uncertainty and reduces its dependence on the impersonal workings of the market. It is driven to achieve this independence by the same self-interest that motivates it in the more fully competitive market environment at an earlier stage of capitalism. To whatever extent they are able, entrepreneurs or managers seek to substitute planning in the full sense indicated above for mere calculation of profitability.

One of the inevitable consequences of this move from calculation to planning is a corresponding loss of simple clarity of goal. When an entrepreneur is locked in cutthroat competition with other small producers, he has very little choice of feasible entrepreneurial goals. Short-term profitability is the condition of survival. Growth—for economies of scale, for technological innovation, and as a means of liberation from market forces—virtually is thrust upon him. At this stage, there is no room for what eventually comes to be celebrated as “industrial statesmanship.” A firm may flourish one season and be driven to the wall the next.

Once the firm has reached a certain level of size and control over its input and output prices, however, the managers of the firm (for at this stage, it is likely that the individual entrepreneur has been replaced by salaried managers) must choose among a variety of corporate goals: short-term profit maximization, longer-term profit-maximization, enhancement of the firm’s stock market performance (which is, of course, not necessarily identical with profit maximization), managerial stability, attractiveness to potential takeover financiers, resistance to a financial takeover, and so forth.

There is no calculus that dictates how managers are to decide among these goals. They are genuine alternatives, corresponding to different and incompatible managerial ambitions. In a fundamental sense, these choices are political rather than economic in character. What distinguishes them from what are ordinarily considered political alternatives is not their logical structure, but simply the identity of the constituencies to whom the decision-makers are accountable in the making of the choices.

The second means available to entrepreneurs for overcoming the tyranny of the market—incorporation into their enterprise of stages in the production process that were previously carried out by independent supplier firms—constitutes an even more important theoretical departure from the logic of capitalism and a corresponding movement toward a precursor of socialist planning. This time, let us use a simple hypothetical example.

Imagine a firm that has been producing cardboard cartons in a factory with 80,000 square feet of usable floor space. We may suppose that the firm buys the cardboard in large sheets from a cardboard producer, and then stamps, folds, and staples the cardboard into cartons. Cardboard cartons are the sole product of the firm, and abstracting from a number of issues to which we shall return, the accounting procedures used to keep track of costs and determine profit margins are quite elementary and straightforward. The firm's accountants have made a few standard assumptions about the depreciation rates of the machinery, and we may simplify things by assuming that there are no tax considerations (accelerated depreciation, etc.) to complicate or warp the bookkeeping. Profit is then the difference between costs and revenues, and the profit rate is calculated on the value of invested capital, the profit margin on the difference between cost and sale price of each unit of cartons.

The market for cardboard sheets, we may suppose, is fluctuating and uncertain, and the carton manufacturing company's manager believes that he can stabilize his costs and increase his profits by producing his own cardboard, rather than buying it on the market. Because there are 25,000 square feet of unused space on the factory floor, he allocates that space to cardboard production and puts a young, ambitious supervisor in charge of the new branch of the firm. The question arises: How shall the profitability of this cardboard manufacturing activity be computed?

There are two reasons why this question needs answering from the firm manager's point of view. First, of course, he must decide whether it is better to produce the cardboard in-house or continue to buy it in the market. That question, we may suppose, is relatively easy to answer. Second, as the manager of a firm with two divisions, each headed by an

ambitious divisional chief, he must evaluate the relative profitability of the two divisions in order to decide which division chief will be tapped for promotion when and if a new, higher-level job in the corporation comes open. In large, modern capitalist firms, this bureaucratic question of internal advancement is of much greater importance to everyone in management than the older question of profitability of the firm as a whole. Profitability becomes a key to managerial advancement, not merely to owner satisfaction.

The new division manager, eager to make as good a record for herself as possible, argues as follows to the accountant, whose job it is to come up with profitability estimates at the monthly meeting of officers of the firm: "The depreciation on the factory building is exactly the same whether we run the cardboard-producing activity or not, as are the general overhead costs for utilities, telephone and so forth. Save for some small increase in operating overhead, the cardboard-production experiment imposes no new fixed costs on the firm at all. What is more, the bookkeeping, ordering, and shipping departments can absorb the relatively small flow of work generated by the new division without any increase in personnel or overtime costs. Hence, in figuring the input costs as against revenues for cardboard production, the only items that ought to be charged off against the new division are such direct costs as the new machinery required, the wages of the extra workers taken on to make the cardboard, and the cost of the raw materials."

The manager of the old carton division, who knows a serious threat to his job when he sees one, flatly refuses to agree to this self-serving bit of accounting sleight of hand. What the cardboard-production manager has proposed will, if accepted, result in a dramatically higher rate of return to her division's investment than can possibly be earned in his. How long will it be before the president of the firm gets it into his head to have them switch places with an appropriate readjustment of their salaries! He proposes that all of the fixed costs of the enterprise be allocated to the two divisions in proportion to the percentage of the floor space they occupy (a method of allocation that happens to favor him a bit more than the equally plausible proposal to allocate in proportion to the revenues generated by the two divisions).

The president of the firm, confronted with this disagreement between his two division managers, turns to the accountant, whom he asks for an objective, impartial, scientific ruling. And he now gets a distinct shock, for his accountant—who is as honest as she is competent— informs him that as a matter of fact (or, more precisely, as a matter of accounting theory) there is no objective, impartial scientific answer to the question: How shall the fixed costs of a joint-production enterprise be

allocated among the several distinct productive activities of the enterprise?

This is a rather startling proposition on which the entire argument of this Essay rests. I need therefore to spend some time explaining it clearly and indicating the grounds on which it rests. My guide here is a pair of monographs written by a Canadian Professor of Accounting, Arthur L. Thomas and published by the American Accounting Association. The first monograph, *The Allocation Problem in Financial Accounting Theory*, appeared in 1969<sup>6</sup>; the second, *The Allocation Problem, Part Two*,<sup>7</sup> was published five years later. Thomas seems to be something of an iconoclastic radical masquerading as a nerdy bean-counting number-cruncher. In the driest language imaginable, he argues ploddingly, painstakingly, but devastatingly that a central activity of financial accountants—the allocation of costs to the outputs of a firm—has no objective rationale whatsoever, being based rather on an arbitrary choice of one from among a number of alternative incompatible patterns of allocation. What this means, in plain language, is that an accountant, speaking professionally, cannot tell the management of a firm just what a unit of output costs and hence how much of the profit of the firm can be attributed to its sale.

Thomas himself draws no larger lesson from this extraordinary conclusion, but in what follows, I will try to show that it has the most profound implications for our understanding of the manner in which something very like socialism evolves in the womb of the capitalist firm. Incidentally, in his correspondence with me, Thomas seemed to evince a good deal of pleasure at the radical conclusions I drew from his work, but it goes without saying that when I venture beyond the confines of financial accounting theory, I am entirely on my own.

The accountant is presented by the firm with the raw data concerning the costs of the firm's activities: invoices for materials, bills for rent, electricity, and insurance, hourly wages and managerial salaries, inventories, and so forth. His job (if we imagine this to be Thomas himself as the accountant) is then to figure out how much of each of these factor costs to allocate or impute to each unit of salable output, and thereby to calculate the contribution to profits being made by each division of the firm. He is to do this as objectively and accurately as the data permit, not allowing his assessments to be influenced either by the hopes and ambitions of the company management or by the particular aspirations of one

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6. Arthur L. Thomas, *The Allocation Problem in Financial Accounting Theory*, in STUDIES IN ACCOUNTING RESEARCH #3 (1969).

7. Arthur L. Thomas, *The Allocation Problem: Part Two*, in STUDIES IN ACCOUNTING RESEARCH #9 (974).

division of the firm rather than another. His conclusions can then be presented to the investing public as a neutral evaluation of the performance of the firm, and to the management as a sound basis on which to make corporate decisions.

There are three different features of the activities of large capitalist firms that defeat the accountant's effort to find neutral, objective methods for allocating costs to individual outputs, or to the subdivisions of the firm responsible for their production. These are the phenomena of fixed capital, inventories, and joint production. Let us look at each of them briefly in turn.

Fixed capital is capital that lasts longer than one cycle of production, which is to say, longer than it takes to produce one unit of output. The examples are endless: a robotic riveting machine on an automobile assembly line that can be used in the assembly of three thousand vehicles before it must be replaced, a power loom that wears out after being used to make ten thousand yards of cloth, an office copying machine that must be replaced on average every twenty thousand copies, an office building good for fifty years. Some of these items will have a resale value when it is time to replace them; others will simply have to be scrapped. Each of these factors of production costs the firm something, and that cost must in some way be apportioned to the units of output to whose production it contributes. In other words, the accountant must select a schedule of depreciation for the productive factor. (I am entirely abstracting from the enormous complications introduced by the depreciation schedules stipulated by the Internal Revenue Service, which of course have nothing whatever to do with the actual wear and tear on the item being depreciated. These words are being written at my desk in the tiny *pied-a-terre* that my wife and I bought in Paris several years ago, which we rent out to readers of the *New York Review of Books*. Our apartment is in a seventeenth-century building whose value has been appreciating steadily for the past four hundred years or so but when it comes time for me to fill out IRS Schedule E—Rents and Royalties—I am permitted to adopt the fiction that in twenty-two-and-a-half years, its value will have disappeared.)

Without going into the details of Thomas's monographs, let me indicate some of the incompatible alternatives available to the accountant. He may assume that the fixed capital yields up equal parts of its purchase price to each unit of output produced with its aid. This was in fact the assumption Marx made in *Capital*. Alternatively, he may assume that the machine loses equal shares of its value in equal time periods—one-tenth during each year of a ten-year life, for example. This is not at all equivalent to the first alternative because the machine may be used in the pro-

duction of differing numbers of units in different years, either because of speed-ups and slow-downs in the production process, or because the machine has a breaking-in period before it reaches maximum efficiency, followed by a period of optimum functioning, after which as it wears out it is less and less capable of spewing forth product at the same rate. Each of these assumptions will yield a different depreciation schedule and hence a different quantum of cost imputed to units of the output.

Alternatively, the accountant may adopt an entirely different approach, and by appealing to an existing market for second-hand capital goods, impute to each year's output the difference between what the machine would have sold for in that market at the beginning of the year, and what it would have sold for at the end of the year. Or—and this will yield a totally different set of numbers—he may compare what the company would have to pay for a second-hand machine at the beginning of the year with what it would have to pay at the end of the year for a second-hand machine one year older. But we have not even begun to ring the changes on this apparently elementary accounting problem, for the accountant may impute to a year's output what it would cost the company to rent a machine for one year, even though the company has already purchased the machine, which is thus, from its point of view, a sunk cost. Indeed, Thomas actually considers the suggestion (which has been treated respectfully in accounting circles, to my surprise) that the company write off the entire cost of the machine in the year it is purchased and treat it in all the subsequent years of its use as a free good, like the air that is required for the burning of fuel. The accountant may even, in any given year, choose whichever of these methods of allocation yields the lowest number, on the theory that he is thereby telling the management what its most efficient choice would be at any moment.

This litany of options available to the accountant does not begin to exhaust the logical possibilities. The problem faced by the firm, as Thomas makes clear, is that accounting theory offers no way of deciding which of them is objectively right—which accurately reveals to the management of the firm the true structure of its costs. Indeed, although the data with which the accountant works are, or can be made to be, factually accurate, there seems simply to be no answer to the question, "Just how much does each unit of output cost the firm to produce?" Thus, returning for a moment to our cardboard and box factory, the accountant cannot resolve the dispute between the division managers in a neutral and unbiased manner befitting a chartered accountant. Some of the many options are likely to favor the head of the box division, others will make the head of the cardboard division look better.

Similar problems arise when the accountant turns to the task of deciding how to carry on the books of the firm the cost of the stocks of material in its inventory. A firm acquires a stock of some input that it requires for its productive activities—coal for its furnaces, thread for its power loom, gravel for its cement mixers, diesel fuel for its trucks. Stocks characteristically are composed of units acquired at different times and at different prices. For the most part, stocks consist of homogeneous units—one gallon of diesel fuel is much like another, one bag of cement indistinguishable from another. (The homogenization of inputs, and the corresponding outputs, is, as Marx points out in *Capital*, one of the signal features of capitalism, and distinguishes it from the craft production that it replaces. It is accompanied by a like homogenization of the labor performed by the workers employed by a capitalist firm.)

How shall our accountant proceed in allocating the cost of inputs drawn from stock and thrown into production (as Marx liked to put it)? He may assume that the first unit withdrawn is the first unit that was added to the inventory, and he will then impute to the output whatever price was paid for it. This is the rule of allocation known in accounting circles as FIFO—First In, First Out. He will still have to adjust this price for the opportunity cost incurred by tying up that amount of capital in inventory, which in turn will require some choice from among the many alternative ways of computing the relevant rate of interest.

Alternatively, our accountant may opt for LIFO—Last In, First Out—rather than FIFO, or some average of the two ways of computing costs, and so forth. Because the price of stocks typically varies over the life of an inventory, it can make a very considerable difference to the profit or loss imputed to a unit of output which of these accounting conventions is selected. If I may echo the late unlamented Richard Nixon, it would be easy, but it would be wrong, to suppose that choosing one accounting rule and sticking to it will sanitize the accounting process and obviate these problems. It takes only a little mathematical imagination and some patience to construct examples in which, as a consequence of the pattern of variation of factor prices, the choice of FIFO over LIFO, or any of the other alternatives, can over time systematically advantage one division of a corporation over another.

For example, if a factor input has been falling steadily in price for some years, FIFO will make the division using that factor look unusually profitable, for the accounting convention will make its costs appear to fall. On the other hand, LIFO will make it appear that its profitability is in decline. If two divisions are in competition within the corporation, one using inputs whose price is falling and the other using inputs whose price

is rising, the choice between FIFO and LIFO can have an inverse effect on their relative profitability.

Adverting once again to our cardboard example, when the manager of the box division draws cardboard from the inventory being accumulated by the cardboard division, he must for purposes of keeping track of his profitability choose one convention for imputing the internal cost of the cardboard to his box output. Just as he lobbied for an allocation of the cost of space to his division that most advantaged him vis-à-vis his fellow division manager, so now he will try to persuade the accountant to select an inventory convention that has the same beneficial impact on his bottom line.

Which brings us to the third and most problematic of the sources of accounting ambiguity—joint production—for that is precisely what is at stake when it comes time to allocate the cost of the space in which the two divisions carry out their productive activities. Speaking generally, joint production is the use of a factor input to produce two distinct salable outputs. In this case, the input is the company's building and the outputs are cardboard and boxes. An oil refinery usually generates an entire array of products from its processing of crude, as does a slaughterhouse from its transformation of beef on the hoof into an assortment of meat products, hides, and other outputs. It is not too much to say that in a modern corporation, joint production is the rule rather than the exception.

The accountant, in preparing an annual report of a firm, is called upon to allocate the cost of the inputs that are used jointly in the production process. As Thomas demonstrates, there is no neutral pattern of allocations that can determine how much of the cost of such a factor is to be allocated or imputed to each unit of the several outputs in whose production process it is employed. The problems are manifold, as should by now be obvious. Thomas cites as one example an attempt to distinguish the cost of a building in which are carried out production processes having multiple outputs from the cost of the land on which it is built. The problem is that tearing down the building would so significantly alter the land values in the surrounding neighborhood that the sale price of the cleared land would in no way reflect the cost to be allocated among the several outputs.

Well, enough is enough. Even these remarks, which might be characterized as accounting lite, are more than any sensible layman would want to read. Why does all this matter to someone like myself who is trying to assess Marx's analysis of the transition from capitalism to socialism?

Perhaps the best way to begin is with the classic essay by Ludwig von Mises entitled *Economic Calculation in the Socialist Common-*

*wealth*.<sup>8</sup> First published in the original German version in 1920, and included in an English version in Friedrich von Hayek's widely read 1935 collection of essays, *Collectivist Economic Planning*, von Mises's essay is generally thought to be a devastating dismantling of the socialist penchant for central planning. His thesis, in a nutshell, is that since the free market does the best possible job of pricing factor inputs, through the interplay of individual decisions to buy or sell, the very most that socialist planners could do, in the ideal case, would be to mimic the operations of the market. Since socialist planners have no hope of achieving that ideal, collectivist planning will always be inferior to free market competition as a way of deciding how most efficiently to employ scarce resources. Thus, contrary to the expectation of Marx and his followers, socialist planning can never improve on the unplanned outcome of the marketplace but instead will fall disastrously short of that standard, producing wastage, bottlenecks, shortages of necessary productive inputs, and calamitous failures to meet consumer demand. In the jargon of modern economists, unfettered capitalism will tend to put an economy on its production possibility frontier, while socialist planning will consign an economy to a position well below and to the left of that desirable location.

In 1920, von Mises was dead right, and I think it is a fair guess that Marx, had he been alive, would have agreed. Von Mises was of course looking at the fledgling Bolshevik government that had just seized power in Russia, ostensibly in the name of Marx and communism. Russia was then still a late feudal economy with a tiny nascent capitalist sector pretty much confined to a few cities west of the Urals. The social relations of capitalist production had scarcely begun to grow in the womb of feudalism, and nothing remotely resembling socialist relations of production could be discerned anywhere in Russia's economy. The Bolsheviks were well-aware of this fact, and engaged in a lively—ultimately bloody—discussion about whether it was theoretically possible to “skip a stage” and go directly from late feudalism to socialism. Marx knew that the answer was no, and so, I suspect, did they, but when one has unexpectedly taken control of a vast nation at considerable personal risk, it would have seemed unnecessarily doctrinaire to turn the state over to whatever capitalists one could find and wait patiently for the slow evolution of new social relationships to run its course. Not surprisingly, what emerged in Russia, and later in the even vaster peasant society of China, bore no re-

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8. Ludwig von Mises, *Economic Calculation in the Socialist Commonwealth*, in COLLECTIVIST ECONOMIC PLANNING: CRITICAL STUDIES ON THE POSSIBILITIES OF SOCIALISM 87–130 (F. A. von Hayek ed., S. Adler trans., George Routledge & Sons 1935) (1920).

semblance at all to what Marx had in mind when he spoke of socialism growing in the womb of capitalism.

So von Mises was certainly right with regard to the world he was looking at in 1920. The market clearly did a better job of allocating scarce capital resources than any group of planners could, even though Russia numbered among its intelligentsia some of the best economists in the world. (Indeed, it is said that some years later when the young Wassily Leontief took his brilliant new technique of linear programming to the Soviet Commissars and offered it as a tool for sophisticated central planning, they dismissed his offer on the bizarre grounds that because Marx used only addition, subtraction, multiplication, and division, Stalin had decreed that his planners must do likewise. Leontief eventually moved to Harvard, where his theoretical innovation assisted corporate planners to manage their capitalist empires. Many years later, he was awarded the Nobel Prize in economics.)

But von Mises was fundamentally wrong in his conception of the question under debate. Marx did not think that socialists could do a better job than capitalists of running a capitalist economy. Marx had only the greatest admiration for the explosive efficiency of capitalism. No one has ever penned more effusive panegyrics to capitalism than Marx. What Marx said was that inevitably, ineluctably, socialist relations of production would develop *within* capitalism, devised and advanced by capitalists, not by socialist moles burrowing into the heart of enemy territory in an effort to undermine their fortresses.

If market forces were adequate to the task of making rational allocations of scarce resources, there would be no internal impetus for the evolution of new ways of organizing production. But as we have seen, in a large modern corporation, the play of the market does not of itself resolve questions of allocation, resource use, and profitability. Capitalists do not develop internal planning models of economic decision-making because they have been seduced away from the faith of their fathers by tenured radicals on effete Eastern campuses who have never met a payroll. They develop new modes of corporate decision-making because their accountants and financial experts cannot tell them, in a neutral, objective fashion, which of the available alternatives will be most profitable. Our cardboard CEO, struggling to decide which of his division managers has made the most significant contribution to the firm's profits, must somehow resolve the disagreement between the two over the proper allocation of the fixed costs of the building in which their production takes place, and over the proper amounts to be charged against the box division's accounts when it draws its raw materials from the stocks produced by the cardboard division.

Once the firm's president becomes persuaded by his accountant's argument, he realizes that the disagreements between his division managers will have to be worked out politically—they will either have to be negotiated, or else he will have to decide them by an exercise of sovereign authority.

In either case, what has happened, even in this very elementary case, is that a decision originally made for the firm by the market, and then made for the firm by an accountant, now has been transformed into a political decision to be made essentially by some form of political mechanism. In short, economic calculation has been replaced by political planning.

No doubt, none of the actors in this miniature drama would consider it in the slightest appropriate for what is usually called the "political system" to get involved in deciding how fixed costs are to be allocated in the cardboard carton firm. But though there might be many other reasons for keeping the city, the states, or the federal government out of the process, the principal and most plausible reason—that the decision is best made by the impartial working of market forces—has evaporated. The decision isn't simply economic; it is not actually an objective scientific decision at all. It is a political decision, required in order to resolve a conflict between the incompatible ambitions of the two division managers, one of whom is seeking to hold his job against the threat of replacement, the other of whom is trying to advance her career by demonstrating her ability to run a division profitably.

The situation we have analyzed in this hypothetical small firm is reproduced throughout the modern capitalist corporate world, with complications, elaborations, and variations that cannot even be hinted at in our example. A major multinational corporation, as has often been remarked, is better compared to a state than an entrepreneurial firm. Contained within it are huge bureaucratic systems and sub-systems in whose hallways and meeting rooms men and women live their entire working lives. The processes by which corporate-wide calculations of profitability are made involve considerations of tax codes, local ordinances, international trade, exchange rates, inflation rates, and regional differential development patterns that are substantially indistinguishable from the corresponding considerations weighed by economic planners in centralized national economies.

The running of such a corporation requires systems of data acquisition and retrieval entirely beyond the capabilities of the eighteenth- and nineteenth-century capitalist firms on whose behavior the original models of capitalism were based. To manage such information systems, and thereby to coordinate the decisions, the purchasing and shipping patterns,

the product development timetables, and the promotional campaigns of the many divisions of the firm requires an extremely high level of literacy—both linguistic and computer—on the part of lower- and middle-level, as well as upper-level, employees. Until it is possible to get reliable answers quickly to questions about employee levels, warehouse inventories, price shifts, exchange rates, and capital availability, those charged with the central planning of the corporation cannot even begin to carry out their tasks.

Nothing resembling this level of information flow and consequent decision implementation existed in the early capitalist firms, not even in those that grew to great size in the nineteenth century. The importation into capitalist industrial organization of the model of military command and control was due at least as much to the sheer unavailability of any alternative way of managing and coordinating the behavior of large numbers of people as to the ideological affinity of the early industrial magnates for militaristic modes of organization.

In short, when Marx talks about socialism, he has in mind an economy whose stage of development of technology and organization is so far advanced that national planning is *technically* possible. Such a stage exhibits both a certain level of technology of production, of data generation and retrieval, and of communication, and also a corresponding level of knowledge and skill on the part of workers at every level, not merely at the top. Although Marx failed to foresee the digital computer, it is not farfetched to say that his conception of socialism presupposed it, or something equivalent.

Marx expected, for sound reasons, that the technology of production, communication, and management required for the central planning and control of an entire economy would develop first within capitalist firms, in direct response to the pressures of competition and the demands of profitability. And so they have. An immediate consequence of this process is the transformation of economic calculations into political decisions within the firm. Thus, if by socialism we mean the rationally coordinated planning of an entire national economy in such a way as to transform the major economic choices of the society into political choices, responsive to the will of the people, then it is true that socialism has been growing within the womb of capitalism, or at least that the technical preconditions for socialism can be seen to be developing there.

The economic systems established in the Soviet Union, in Eastern Europe, in the People's Republic of China, and in a number of other nations self-described as "socialist" were not in any usable sense examples of socialism. This description must be denied them not because of the character of their political systems, but quite simply because they did not

exhibit either the stage of development of productive forces or the level of development of, and rationalization of, relations of production prerequisite for what Marx meant by "socialism." An economy cannot, with the best will and the strongest ruling party in the world, move directly from a feudal or early-capitalist economic organization to socialism. The reason has nothing whatever to do with piety, ideology, or the inexorable march of history. Rather, it has everything to do with the impossibility of planning food production rationally when you cannot even find out with any precision how many acres are under cultivation, or what the pattern of crop yields is from county to county, and when your work force is computer-illiterate.

Note, by the way, that the development of efficient techniques of central planning within a modern capitalist corporation is advanced, not impeded, by the ambition, acquisitiveness, and egocentricity of the workers and managers. Switching over to a planning system in our carton factory does not require the development of socialist consciousness. It requires only that the objective structure of the firm make policy-neutral calculations of profitability theoretically impossible, as in fact they are once the second division of the firm starts to operate. Somewhat more to the point, the coherent management of large modern firms does not require that the capitalist mentality so often credited with the rise of modern capitalism be somehow transcended. The same men (and recently women) who manage the great corporations would, if they were suddenly to find themselves running small firms in a classically competitive environment, adopt precisely the calculations of profitability traditionally conceived as determined for them by the free market. They do not do so when managing large corporations simply because it is technically impossible to do so.

What, then, is the fundamental difference between socialism and capitalism at its most advanced, rationalized, and centralized? Under socialism, economic decisions would be treated (I use the subjunctive because there does not yet exist a socialist society) as collective political decisions, to be made democratically on the basis of the aggregated will of the entire people. In a capitalist society, decisions are taken privately, within the firm, in response only to the interests, the will, or the pressures of those who occupy positions of power within the firm.

The issues available for decision are not at all comparable in the two systems. A socialist society will be presented with choices among economy-wide investment policies or systematic wage policies that simply do not come within anyone's ambit of decision in a capitalist economy. This, of course, is the principal source of the greater rationality of a socialist economy. But the mechanisms for the acquisition and man-

agement of information, and the consequent management of economic activity, will have been developed and tested within the capitalist firm—*within the womb of the old society*.

### III. WHY AREN'T WE HAVING FUN YET?

It would seem, if this argument is correct, that things are proceeding just as Marx anticipated. As capitalist social relations mature, the elements of socialist planning begin to develop deep within the corporation, which is truly the womb of capitalism. Why then are the prospects for social and economic justice so bleak? Why has the term “late capitalism,” once used by socialist theorists to describe what they confidently believed to be the death throes of the established order, now become a wry joke shared, with sighs and the rolling of eyes, by aging radicals like myself? Why have any signs of a true movement of the masses died out, to be replaced by an identity politics that is fundamentally assimilationist rather than revolutionary in its thrust? In short, if all is going as predicted, why aren't we having any fun?

The answer, I think, is that along with everything that he got right, Marx got three big things wrong, with the result that the liberatory potential he saw in the internal contradictions of capitalism is nowhere in evidence today. Let me say something about each of these failures of analysis or prediction.

First, Marx completely failed to anticipate that the capitalist state would develop the ability to manage and, to some extent, to control the increasingly wild booms and busts that threatened to destroy the capitalist order. He quite presciently foresaw that the ever more rational organization of production within the firm would come into contradiction with the anarchic distribution of the market, resulting in crises of overproduction and under-consumption. The great crash of '29 was just what the good Doctor of Philosophy ordered, albeit too late to gladden his heart.

But Marx was convinced that capitalists, confronted with disaster, would be unable to coordinate their actions in order to save their skins. In an odd way, he was too much in thrall to the classical economic theory he had subjected to such a penetrating critique in *Capital*. It took imaginative, theoretical, and practical defenders of capitalism like Keynes and Roosevelt to see that with farsighted fiscal and monetary policies, the state could sufficiently dampen the business cycle to enable capitalism to survive. To put the point differently, Marx, very much in common with the other economists of his day, failed to see how powerful the state had become under capitalism.

The pulse still quickens in the circles I frequent when the tech stock market bubble bursts or Paul Krugman forecasts a calamitous reversal in housing prices, the way old war horses flare their nostrils and stamp their hooves at the sound of distant trumpets. But the truth is that our corporate masters will never again allow a serious threat to the foundations of the economic house they have built.

Our mature capitalist economy is no longer the unplanned, unintended consequence of the playing out of market forces, for all the lip service that its apologists pay to “free enterprise” on festive occasions. Rational planning is as pervasive at the macroeconomic level as it is within the firm. But that planning—far more sophisticated and nuanced than either Marx or the state planners of the Soviet Union could have anticipated—is securely within the service of private interests, not the public good.

The second obstacle to the development of a revolutionary working class movement has been the persistence of pre-capitalist passions and attachments that Marx was convinced capitalism’s invasive rationalization of economic life would weaken and ultimately destroy—nationalist loyalties, ethnic identifications, racial antagonisms, and religious faiths. The secularization of life seemed to be well under way in Marx’s time. The Catholic Church had lost its grip on public life in France, Germany, and Italy. As Marx had indeed predicted, the ancient antagonism of the urban and the rural was dissolving. And the ever-increasing mobility of both labor and capital bid fair to consign nationalist sentiment to public holidays and political speeches.

The optimistic confidence that class interests would defeat the irrationality of nationalism reached its height in 1914, as socialists worldwide—my grandfather among them—refused to believe that French and German workers would fight one another in the trenches at the behest of their capitalist masters. With the bloody refutation of that belief, something died in the heart of the socialist movement. To be sure, the unanticipated success of the Bolsheviks in Russia encouraged some to believe that despite all, the proletarian movement was on the march (though not my grandfather, who sided with Norman Thomas and the Mensheviks). But the success first of the Soviet Union and then of Mao’s revolution in China, important as they were to the unfolding of the twentieth century, had nothing at all to do with the birth of socialism in the womb of capitalism.

In the United States, race had already opened a chasm in the worker’s movement that, in a revised form, persists to this day. When four million black men and women walked out of slavery, prepared for the free labor market with agricultural, craft, and industrial skills that they

had used as slaves to make the South rich, they encountered implacable hostility from white workers, whether immigrant or native-born. White workers until after the Second World War struck devil's bargains with their employers, conceding labor peace and low wages in return for whites-only hiring practices. This fact, perhaps more than any other, doomed the American working class movement to eventual failure.

At this nightmare moment in recent history, little need be said about the persistence and intensification of ethnic and religious antagonisms throughout the world. Try as we may, we socialists can no longer cling to the hope that class interests will unite men and women across national, ethnic, racial, and religious divides in a vibrant revolutionary movement to replace capitalism with a humane, just, egalitarian social order. Capitalists are doing their part. Not only are they crafting the elements of rational planning that a socialist economy would require but they also are in the forefront of efforts to put the divisiveness of race, ethnicity, nationality, and religion behind us, for these divisions are not good for business. It is the people who remain mired in self-destructive and self-defeating irrationality.

Marx's third and most serious mistake concerns the direction in which the labor force evolved as feudalism gave way to early capitalism, and then to the mature capitalism we see today. In the middle of the nineteenth century, when Marx was doing the British Museum research on which his *hauptwerk* was based, one of the most striking changes taking place in British society was the destruction of the old crafts—weaving, spinning, woodworking, and the rest—and the incorporation into machinery of the skills they once required. In late feudal and early modern times, a working man was known by the trade he plied, learned in a long apprenticeship and symbolized by the kitbag of tools he brought with him to the job. The complex social structure of crafts left indelible marks on the family names that so many Americans bear today—Wheelwright, Carver, Chandler, Taylor, Cartwright, Schneider, Schreiber, Weaver, Shepherd, Farmer, Smith.

Capitalism ate away corrosively at the craft tradition, deskilling artisans and turning them into a homogeneous pool of semi-skilled workers who could master the skills of a factory job in a few weeks and were thus available to be moved easily from job to job by the fluctuations in the market demand for industrial labor. Marx saw this progressive homogenization of the labor force as the correlate to the process by which small independent entrepreneurs were being crushed by competitive forces and absorbed into larger and larger firms driven to expand by a need to achieve control over their input and output prices. He foresaw a world in which a united industrial working class would confront concentrated cap-

ital, until finally, when a major crash had fatally weakened capital, labor would seize control of the means of production and substitute socialist planning for capitalist anarchy.

It was not only an inspiring dream, at least for some of us, but it was also a quite plausible projection of trends that were working themselves out powerfully in Marx's day. But it was not to be. On the side of capital, as Marx anticipated, relentless concentration did take place, leading to the world of vast multinational conglomerates with which we are all familiar. To be sure, a subordinate domain of small business flourished, rather like the flora that live under the soaring canopy in an Amazon rain forest. Nevertheless, Marx got that part of the future right.

It is on the side of labor that things have not progressed as Marx imagined they would. For a time, the growth of industrial capitalism did indeed produce a vibrant labor movement that evolved very much as Marx expected. First individual factories, then entire industries, finally entire national labor forces were organized, giving rise in the United States to the American Federation of Labor and the Congress of Industrial Organizations, while in Europe the labor movement was so successful that it was able to create and sustain major political parties.

But as industrial capitalism gave way to a complex mix of industrial and service firms with huge, bureaucratically managed assemblages of employees, the leveling and homogenization ceased. There came into existence a pyramidal hierarchy of job categories with sharply unequal wage, salary, and compensation schedules. Instead of a world in which the propertyless masses sell their labor and are poor, while the owners of capital hire labor and live on the profits from this unequal exchange, we see today an economy in which even the very rich, by and large, are salaried, and capital is owned by shareholders who exercise little or no control over what is nominally their property. Indeed, comfortably compensated and securely tenured economists like Paul Samuelson, bemused by the reversibility of their equations, have taken to saying that it makes little effective difference to the economy whether capital hires labor or labor hires capital.

This highly unequal allocation of the rewards and burdens of labor has undermined that solidarity on which Marx was counting. Steel workers, miners, and textile operatives could forge some degree of unity, despite their geographic dispersion and the many differences in the nature of their jobs. Even hospital and hotel workers, secretaries and fast food workers, could find some common ground on which to stand in their struggle against the exploitation inflicted on them by capital. But whatever theoretical connections there might be between them and lawyers, middle managers, and tenured college professors, the gap in the salaries

and conditions of labor between the two groups, the utter disparity in their life experiences and life chances, have made a fruitful solidarity out of the question. Workers have grown progressively less unified, until at long last, Organized Labor has come to be, and to be seen, as nothing more than an interest group, on a par with—but often less powerful than—gun owners, retirees, and fundamentalist Christians.

All of us are familiar with this world—for it is, after all, our world—and we understand intuitively that our life chances are determined not by whether we own the means of production, but rather by where on the pyramid of jobs we end up. The shape of the income pyramid in America has changed very little in the past century and more, save to become somewhat steeper. This in itself is odd, when we reflect that over that period of time America has been transformed from primarily an agricultural economy into to an industrial economy, then to a service economy, and now to an information age economy. One might plausibly have expected that so radical a series of transformations would work *some* alteration in the pattern of compensation, but it has not.

Apologists for capitalism, who are now as common as houseflies, like to offer two connected explanations for the inequality in wages and salaries, which taken together are intended as a justification as well. The first rests on a misinterpretation of a famous eighteenth-century mathematical theorem, the second on a common logical fallacy.

Mathematics first.

Leonhard Euler, the great Swiss mathematician, proved a theorem about linear homogeneous functions that was, in the nineteenth century, given an important economic interpretation. The theorem was construed as saying that under certain conditions, the wages paid to workers in a free and competitive labor market exactly equal their marginal contribution to the output of the firm for which they work, or as it is sometimes called, their marginal product. Thus, if a vice-president in an executive suite makes more than a secretary in the steno pool, it is because the vice-president contributes exactly that much more to the productive activity of the firm. It would be both unjust and inefficient to take away some of the executive's pay and give it to the secretary, even though they are both, no doubt, nice people and hardworkers.

The problem with this rationale for unequal pay is that it turns out, upon closer inspection, not to apply to any known or even possible capitalist system. In the first place, the theorem holds only for economies whose production function is linear homogeneous (assuming that it even makes sense to speak of *the* production function of an entire economy), and as is easy enough to show, this is equivalent to saying that the economy is in long-run equilibrium. But as Marx pointed out, and as every

economist since has reaffirmed, capitalism is *never* in long-run equilibrium. A capitalist economy is always engaged in what Joseph Schumpeter, in a famous phrase, called Creative Destruction.<sup>9</sup> Furthermore, it follows directly from Euler's equation that a firm with a linear homogeneous production will, if it pays each of its employees his or her marginal product, make a zero profit, and a firm regularly making zero profit will of course cease to exist.

All of this is quite well-known to all economists, but it has not dissuaded them and their epigones from wrapping themselves in the sanctity of mathematics whenever proposals for wage and salary equalization surface.

So much for mathematics. Now logic.

When economists are asked why some employees are so much more productive than others, and hence deserving of such inflated compensation, their standard answer is *education*, or as they sometimes say in an attempt to make the answer sound more impressive, *human capital*. Actually, that last sentence inverts the real order of explanation and thus participates in the ideological rationalization that I am attempting to debunk. Let me restate the point: When asked to explain the striking inequality in compensation schedules, economists begin by assuming that the inequality must be justified, for to think otherwise would be to call into question both the foundation of American society and their own comfortable compensation. Those of us at the top of the income pyramid must have a much greater marginal productivity, they conclude. And how can that in turn be accounted for? Education.

Now, it is demonstrably true that in America today, your level of education (or, to be more precise, the number of years of schooling you have completed—not at all the same thing) powerfully affects where on the income pyramid you end up. Indeed, it may be the single most significant determinant. There are very few MBAs working on the loading dock, and very few K-through-Twelveers in the executive suites.

But this fact does not imply that the shape of the income pyramid itself is in any way determined by the levels of educational attainment in the work force as a whole. If you have a college degree, your chances of climbing up the pyramid at least to the middle levels are quite good. But if everyone gets a college degree, the pyramid will not flatten out because there are only so many jobs at the middle level.

To think otherwise is to commit what logicians call the Fallacy of Composition, which is simply the mistake of thinking that because some-

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9. JOSEPH A. SCHUMPETER, CAPITALISM, SOCIALISM AND DEMOCRACY 82–86 (Harper & Row 1950) (1942).

thing is true of each member of a group, it can be true of them all. Each of us, we may suppose, can with hard work and determination, be above average, but only in Lake Woebegone can all the children be above average.

Because the American economy is so large, it is easy to lose sight of this simple truth. For each individual, or for all immigrants, or for all African-Americans, or even, within limits, for all women, it is indeed true that greater educational attainment will tend to lead to higher compensation, but that is only because the individuals or the group will over time displace some of those in the favored slots. If all the applicants for jobs at a corporation present themselves to the human resources office with MBAs, the board of directors will not terminate the positions of secretary, mail room clerk, and claims adjuster and make everyone a senior manager!

There is one way in which a dramatic educational upgrading of the entire workforce might conceivably trigger a flattening of the entire income pyramid. With better prepared workers available, corporations might shift to different and more profitable production techniques, and those new techniques might result in an array of job positions with more equal associated compensations. Economists would say that the positions defined by the new production function had more equal marginal productivities, which as we have seen, is nonsense, but nevertheless, the end result might be a flatter pyramid.

Is this likely to happen? Well, for more than one hundred years, the average level of educational attainment in America, as measured by number of years of schooling completed, has been rising. The level of education demanded by the production techniques and job specialties in the American economy has risen correspondingly. And the shape of the pyramid has remained essentially unaltered. Literacy, not to mention computer literacy, is today required even by such poorly paid jobs as department store clerk. And yet, no flattening of the pyramid can be discerned.

What then does explain the shape of the income pyramid? A number of bright economists, willing to challenge the received wisdom, have been puzzling over this question for several generations. More than thirty years ago, Lester Thurow, the MIT economist who served there for a while as Dean of the Sloan School, published a little book called *Generating Inequality* that took a fresh look at the question.<sup>10</sup> But although it is possible to give partial explanations, especially of an historical sort, for

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10. LESTER C. THUROW, *GENERATING INEQUALITY: MECHANISMS OF DISTRIBUTION IN THE U.S. ECONOMY* (Basic Books 1975) (1972).

the pattern of compensation in this or that capitalist economy, the seeming permanence of the steep pyramid, its imperviousness to even the most striking changes in the world economy, remains a mystery.

#### IV. CONCLUSION

Thus, there is little prospect for the labor solidarity on which a successful socialist transformation must be built. It is now the best of times and the worst of times. Economic rationality marches relentlessly on, while poverty and inequality harden into permanent injustice, and racial, ethnic, national, and religious rivalries tear the world apart.

What can we anticipate for the future? What will my grandfather's great-great-grandson, my grandson Samuel, inherit as he grows to maturity? The impetus within corporations to substitute economic planning for subservience to market forces will strengthen, as the managerial class responds to the imperatives of institutional rationality. Meanwhile, the obscene gap between the gilded life chances of the fortunate and the life-threatening poverty at the bottom of the world economy will persist and come to be seen as an inevitable concomitant of the rational workings of the market.

There will always be class traitors like myself who rail against the inequality from which they personally benefit. But though our excoriating tracts may bring us tenure and advancement, the revolutionary transformation they celebrate will seem as fanciful as the *Chronicles of Narnia*.

What then is the future of socialism? If socialism is the substitution of rational planning for the anarchy of the market, it is already upon us. If socialism is the achievement, at long last, of justice and equality, it is a dream that has been aborted in the womb of the old order.