THE SOCIALIST TRANSITION (ECONOMIC POLICIES OF THE LEFT)

LA TRANSITION SOCIALISTE (LA POLITIQUE ECONOMIQUE DE GAUCHE)

212 pages, 1977, Editions du Cerf, Paris

This work analyzes the possibility of reducing economic inequalities and increasing the lowest welfares, relatively rapidly, in respecting economic freedom in a market economy. In particular, it analyzes the reaction of a market system to a policy of fast and important reduction of economic inequalities and poverty. It shows how this policy induces an economic process whose consequences on the evolution of the structure of the distribution of real incomes entails political consequences which lead to the abandonment of this policy one way of the other after a delay which is often approximately three years. The clear and definite pattern of this process has indeed been observed in all the cases in history where such a policy has been attempted.

The conclusion is that either the reduction in inequality and the increase of the low incomes can only be much more progressive and modest, or parts of the economy should be withdrawn from the market system – which raises other problems concerning liberty, economic efficiency, and politics. However, the choice of the appropriate policy tools permits a larger and faster decrease of income inequalities respecting economic efficiency and the free market than has ever occurred.

Actually, there has been a number of cases in history where a genuine political left came to power without either the capacity or the desire to upset the market system. The genuineness of the leftist ideal mainly showed by the desire to establish rapidly a less unequal income distribution and an increase in the lowest incomes. A number of measures were taken for this purpose. Yet, the market system reacted in leading to the development of an economic, social and political process which put an end to the experience after a period often in the order of magnitude of three years. The various cases differed much in their political and economic specifics, and yet the basic process and its final effect were the same.

Among the differences, a basic imbalance was manifested more or less by inflation or by problems of the balance of payments. The initial situation was with full employment or not. The social and economic structures and the political systems were different. Finally, the political end came often by an election, sometimes by a military coup (e.g. Chile and Portugal in the early 1970's), and not uncommonly by a policy reversal which is a simple betrayal of the original ideal (e.g. France 1983). Yet, the same basic economic dynamics developed in all cases.

The process begins with policy measures achieving progressive transfers from richer to poorer, in the fields of taxation, public expenditures, wages, regulations, aid and subsidies, and credit, accompanied by policies concerning money, sometimes foreign exchange, and sometimes the ownership of large firms. Then, demand, rigidities, and various reactions, induce imbalances resulting in public deficits, often inflation, external deficit with sometimes foreign exchange problems, and, then, some reversals of policy. The resulting distribution of real income follows a clear pattern. The upper classes lose on the whole, inducing a more or less important capital flight. The lower class and lower middle class are better off at the beginning, as well as the rest of the middle class when the initial situation is deflationary. Yet, at some point, the real income of these categories decreases, often with the effect of inflation, and sometimes of a lower exchange rate or of shortages. At some moment in time, the real incomes of the lower middle class pass down below their values at the onset of the process. Then, the corresponding categories of the population, such as the *petite bourgeoisie* and skilled workers, cease to support the process and the government and politically join the opposition. The poorer part of the population remains better off than at the beginning of the process, but its political power is standardly not sufficient by itself. A short time after this date, often about three months, the experience ceases by one of the possible political means noted earlier.

This volume analyzes this process, its microeconomic and macroeconomic underpinnings, and the resulting dynamics of income distribution, which leads to the political consequences. It also shows in detail how it worked in a few specific cases. The conclusion is that lowering inequality in a market economy can only be more progressive and more limited than was attempted by the policies in question (Scandinavian countries constitute a case in point concerning progressiveness). Moreover, in all cases the economic policies could have been better on two grounds. One is a better economic analysis concerning notably the dynamics of inflation, exchange rate policy, and the effects of various measures. The other issue is that the instruments of distribution can be chosen to be much less disruptive of market efficiency, notably in basing taxes or subsidies on much less elastic items.

This study was pursued in three ways.

First, it was discussed in a collective volume, *Socialist Solution*, edited by the author, with contributions by a number of scholars (including Jan Tinbergen, Gunnar Myrdal, and Pierre Mendès France).

Second, detailed economic and econometric studies of other episodes in this category were performed.

Third, since the publication of *Socialist Transition*, all governments or political parties considering a fast reduction of economic inequalities in the framework of a market economy have asked the author or other members of his teams for advice (the first instances were all the governments of Southern Europe in the early 1980's). This permitted some advances, and to begin with the avoidance of the most dramatic failures of the previous cases (although advice was sometimes not followed or was misused, and politics has other dimensions).

Contents

SOCIALIST SOLUTIONS
SOLUTIONS SOCIALISTES
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Content

The Political Economy of Socialism, Serge-Christophe Kolm (81p.).
Contributions by: Jan Tinbergen, Gunnar Myrdal, Pierre Mendès France, Memorandum to Léon Blum by Hugh Dalton, Jacques Chonchol, João Martins Pereira, Branko Horvat, Jean Fourastié, Alfred Sauvy, Michel Raptis, Yvon Bourdet, Pierre Naville, Alain Lipietz, Alain Wolfelsperger, Gérard Fuchs, André Granou, Christian Barrère and Pierre Duharcourt.