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“Socialist accounting” by Karl Polanyi: with
preface “socialism and the embedded
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Socialist Accounting
by Karl Polanyi*¹
Translated by Ariane Fischer, David Woodruff, and Johanna Bockman

Introductory Remarks*²

Accounting is generally recognized as the key problem of the socialist economy. Here we propose an approach to its solution.

Before beginning let us cite two distinguishing features of our solution. The first is its simplicity, which we believe can be claimed as an advantage. The second feature—which is its largest disadvantage, and probably in the eyes of many its decisive shortcoming—is that it can be applied only to those systems of socialism that are organized functionally, for instance, guild socialism. The reasons for this limitation and its consequences we will set aside for the time being. In any event, this article contributes nothing to the theory of a marketless economy, since in a certain sense buying and selling at negotiated prices, and therefore if you will a “market,” also exist in the guild socialist economy. We also candidly admit that we consider it impossible to solve the problem of accounting in a centrally administered economy. Thus, we offer here to the dogmatists of the economy without markets, such as those of the Kautsky-Neurath-Trotsky tendency, just as little that is fundamentally new as we offer to the dogmatists of the pure exchange economy. With all the more confidence, therefore, we consider ourselves permitted to turn for understanding to the practitioner of socialism, as well as to that modern socialist theoretician (such as Bauer, Cole, Lenin, or Piatakov) for whom the opposition of socialism versus capitalism is no longer reduced to the stereotype of the marketless economy versus the market economy. After all, one should no more accept that contemporary capitalism represents a free exchange economy

*¹ Polányi, Karl. 1922. “Sozialistische Rechnungslegung,” *Archiv für Sozialwissenschaft und Sozialpolitik* 49(2): 377-420. Published with permission of Kari Polanyi. Translators’ comments are in the footnotes with an asterisk before them and in square brackets within the text and the original footnotes. Original page numbers are in square brackets.

*² The original article had a long table of contents, which merely repeated the headings in the article. Therefore, we have not included it here.

than believe that a large-scale economy can exist without some exchange. In fact, the distinction between socialist and capitalist economies lies elsewhere.

It may be gathered even from these cursory introductory remarks that we were obliged to be conscious of the fact that we were moving in highly controversial territory. As in all economic theory, there are few uncontested terms in this particular debate, but it proceeds with even greater bitterness than is normally the case.

This situation accounts for the third--and rather regrettable--distinctive feature of our analysis: its abstract form. This will be rather disappointing in particular for the practitioner, whom, as we said before, we would very much have liked to address. Moreover, the considerable logical effort behind our explanation is regrettably out of all proportion with the simple nature of our solution! We did not know what else to do. In a field where ambiguous terms and controversial principles lay snares at every footstep, one can only advance with the utmost care. However, since we are also, as indicated, standing between the existing schools of thought, so to speak, it has been all the more difficult for us to follow our own path to the end without wavering, yet also without being misunderstood.

If the system of functional socialism were not for the time being primarily a political-organizational idea, but instead had already developed into an economic worldview, then at least insofar as we followed this system we could have built our case on a foundation of economic theory. As matters now stand, however, this new political and organizational theory of socialism does not even have a rudimentary economic theory. Nothing is more indicative of this than the fact that, in one and the same analysis, sometimes only wages, and at other times both wages and prices, appear as legally defined. Other socialist tendencies, to be sure, have just as little by way of economic theory. While Marx created a theory of the capitalist economy, he always consciously avoided working on a theory of the socialist economy. [380] The only theory of a marketless economy that we have at our disposal

originates from the marginalist school, namely the theory of a closed economy. So paradoxical as it sounds to some ears, a communist administered economy could turn only to this school to found its own theoretical economics. The decision to refrain from so doing stems from the correct feeling that such an approach will only have negative results in practice. *However, the socialist theory of the capitalist economy cannot, through some kind of dialectical inversion, be turned into a theory of the socialist economy.* Neither the old nor the new school of socialism provides therefore a *positive economic theory*. This naturally created a disadvantage for our analysis, for we were obliged to fundamentally separate our consideration of the problem of accounting from the problem of the economy in general, so these questions had to take on not only a highly abstract, but also a rather unworldly, formulation.

This is closely connected to our work's fourth and final distinguishing feature: its strictly formal method. We now want to illuminate just a bit the predicament that gave rise to our choice of method and our objective rationale for it.

The lack of a positive socialist economic theory necessarily raised for us two preliminary methodological questions:

1. Are our current ideas about a socialist economy clear enough in general that we can pose the question of accounting in such an economy with sufficient clarity?

As will be shown below, it is sufficient for our analysis if we know the goals and aims, or in a word, the principles of a socialist economy.

2. Lacking a positive socialist economic theory, is the problem of socialist accounting soluble at all?

It is clear that it can be solved only if the problems of accounting are fundamentally independent from the problems of economic theory. [381] Let us have a closer look at this question, then.

That such a fundamental independence exists is demonstrated by the relationship between accounting and economic theory that we find in capitalism. The system of accounting concepts, as well as accounting procedures, for example that of double-entry bookkeeping, are completely independent from theoretical economic considerations of any sort. Historically, this independence is even more forcefully apparent. History in fact directly points to the inverse relationship of dependence between accounting and economic theory: accounting is historically not a practical application of economic theory; on the contrary, economic theory developed historically through the interpretation, analysis, and systematizing of accounting concepts. The relationship between *economic facts*, *accounting concepts*, and *economic theory* is, therefore, in reality the following:

1. *Economic facts* are phenomena of the first order;

2. *Accounting concepts*, which emerge out of the practical need for a quantitative overview of the phenomena of the first order, are phenomena of the second order.

3. *Economic theory*, which historically emerges primarily from the analysis of these accounting concepts, is a phenomenon of the third order. So the existence of elements of a capitalist economy antedates the system of accounting for them. When *Quesnay* wrote the articles “Farmers” and “Grain” in the *Encyclopedia*, elements of future capitalist agriculture *already* existed, but the idea of capital did *not yet* exist. What *Quesnay* “discovered” were the accounting concepts of the new agriculture, such as fixed capital, circulating capital, and net product.*³ These accounting concepts led him to construct the “Tableau Economique.” The Physiocratic School, as is well known, developed based on the interpretation of this table and thereby created the first capitalist economic theory. [382] Henceforth, this science remained essentially an interpretation of *Quesnay*’s accounting concepts and an investigation of their

*³ Polanyi uses several French terms here, including “avances primitives,” “avances annuelles,” and “produit net,” in French.

interconnections. These concepts lay at the foundation of an accounting system for the economic facts of capitalism.

In some important respects we find ourselves now in an intellectual situation regarding the economic facts of socialism similar to that in which economists earlier found themselves regarding the economic facts of capitalism. That is, we consider our economy today to be undergoing a transition to socialism. This transition is much more advanced on the level of ideas, albeit perhaps less advanced on the practical level, than the transition from feudalism to capitalism was in eighteenth-century France. Another difference is that we confront a much more developed and popularly accepted economic theory, namely that of capitalism, than the physiocrats faced in the so-called mercantilist school. To deal with this difficulty, in analyzing the new ideal and material facts we can push aside this contemporary economic theory just as vigorously as the [physiocrat] economists did in their time. Their attempt to create a value theory on the basis of the economic reality of eighteenth-century French agriculture was certainly premature. So when Quesnay “discovered” the concept “surplus value,” he did not yet know how he was supposed to interpret its units. Landowners did already receive capitalist rent, alongside their feudal rent, but in form it was still partially in kind, and only partially already in money. This explains why physiocratic value theory, despite the great clarity of the fundamental accounting concepts it had “discovered,” was plagued by contradictions. While these contradictions created much confusion, the new accounting concepts unambiguously revealed once and for all the elements of the capitalist economy.

The formal separation of accounting and economic theory thus confronts not a properly methodological difficulty but rather a difficulty of exposition. This difficulty should certainly not be underestimated: there is a certain measure of false naïveté required to be able to look past the manifold theoretical meanings that have attached themselves to the terms

designating basic facts. [383] But likewise it should not be overestimated. One must merely keep in mind that every science ultimately investigates phenomena designated by terms it did not create, which come instead either from naïve common parlance or, if they are more complicated theoretical constructs, from the realm of other sciences. In the case of economic theory, this is true for example of the phenomena designated as labor effort, use-value, utility, scarcity, production, distribution, money, price, income, wages, consumer good, instrument of production, foodstuff, technical productivity, impact of law and so on—whereby we have, as it happens, listed almost all of the “concepts of economic theory” we use here. It is here merely important to associate these terms with nothing more than the common meaning that the layperson associates with them. The error of overestimating these difficulties of exposition (for instance because of phenomenological concerns, which lead to the negation of the distinction between facts and their interpretation) otherwise leads easily to an excessive asperity and precision of technique in definitions and derivations, which in practice can grow into complete obscurity of exposition.

We must therefore strive to keep our discussion of socialist accounting as free as possible from the problems of economic theory. Objectively, this is, of course, impossible. *It is, however, formally possible, and this formal independence of accounting from economic theory must be realized, if the discussion is not to dissolve into a chaos of economic theoretical arguments, which would make our task unsolvable.*

Abstract exposition, a formal method and in the end a solution that does not even promise to be generally applicable – this admittedly does not sound too enticing. Moreover, we wish to add that we will have to repeat much that others have already often and better expressed. [384] In light of all this, there is really no other way we can conclude our introductory remarks except by referring to the significance that the problem of accounting holds for the entire theory and practice of socialism.

Chapter 1 presents the problem, as well as the main difficulties in solving the problem.

Chapter 2 presents the solution to the problem.

Chapter 1: The problem of socialist accounting

Accounting is a quantitative overview of economic activity. The capitalist economy, for example, revolves around profit, so its accounting provides an overview of the relationship of each element of capital to profit. An army's activity confines itself to achieving military-technical goals by expending money and goods, so its overview becomes, in some sense, an end in itself: it enables control and provides for distribution, expenditures, and possibly savings. It makes no difference *why* one engages in economic activity: The quantitative overview of this activity is attained generally by means of accounting.

The manner in which this overview should be accomplished, however, is different for each kind of economic activity because in each case what we want to learn from the overview is different. The task of each *particular* system of accounting is therefore simply the following: accounting has to offer us quantitative answers to the questions we need to pose about the economic activity at hand. The character of these questions determines the character of the accounting system that will provide answers to them. The capitalist economy, for example, makes profit its practical goal, and thus its accounting system is tasked with providing an overview that quantitatively presents the relationship of each of its characteristic elements (the different elements of capital) to the imperative of profitability. Each particular kind of accounting thus must keep in mind the practical goals and purposes of the given form of economic activity. [385] For accounting it must remain irrelevant *whether* these goals are “theoretically” right or wrong, possible or impossible, moral or immoral, contradictory or logical. Accounting depends on the given practical goal, not on its theoretical interpretation.

By a *socialist economy*, we now refer to any economy that has as its goal the meeting of two types of requirements: 1) concerning production, the requirement of maximum productivity and, 2) concerning distribution, the requirement of social justice [*das soziale Recht*].*⁴ (We will return to the contents of these requirements later). This formal independence of the system of production and the system of distribution from each other is the third feature of a socialist economy.

From this follows the *general problem* of socialist accounting:

How can one attain an overview of the economy that quantitatively presents the relationship of each of its characteristic elements to the requirement of productivity, on the one hand, and to the requirement of social justice, on the other hand? (1st Version.).

At this level of generality, the problem contains nothing but unknowns: neither the content of the requirement of productivity, nor the content of the requirement of social justice are known to us, still less the interrelations between the two. How then are we to determine the characteristic elements of the socialist economy and quantitatively determine their relationship to the requirement of productivity, on the one hand, and the requirement of social justice, on the other?

For this it is now necessary 1) to establish the *general content* of the concepts of productivity and social justice, 2) to specify the historical function which belongs to these concepts in the present situation and determines their *concrete content*; and, finally, 3) to discover a *principle* according to which these concepts can be easily differentiated within the characteristic elements of the socialist economy and presented quantitatively. [386]

The desired general definition will emerge from the *analysis* of these concepts; their concrete content will emerge from the historical *critique* of their function within capitalism.

*⁴ The term “das soziale Recht” -- literally, “the social right” -- does not translate easily into English. In a list of suggested translations for terms in this essay, Polanyi proposed “social justice,” which we have adopted here. See Karl Polanyi Digital Archive, “Little vocabulary for the Socialist Accountancy,” <http://hdl.handle.net/10694/155>, last page. Note, however, that Polanyi uses the term in a very specific sense defined below.

The principle that determines the path to the solution will then come to light of its own accord via a simple insight.

Analysis and Critique of the Idea of Productivity and Social Justice

I. Productivity

A. Analysis of the idea of Productivity

*Production*⁵ is a labor process, i.e. a process of conflict and adaptation between man and nature, which serves to satisfy the material wants of men. The *output* of goods produced depends on very different conditions: 1. on the productivity of *nature*, 2. on the expenditure and extent of *labor effort*, 3. on the specific *means of production*,⁶ as well as on the way they are used. However, just as these factors are very different from each other, their significance for us is likewise quite different. The dependence of the output on *nature* is for a given area and for a given period relatively constant and thus, in most cases, without significance for practical purposes (1. the so-called *productivity of nature*). The two other factors depend more or less on people and are therefore fundamentally of greater significance. There is, however, an essential difference between them, for if we attain more output by applying greater labor effort, as we are generally free to do, we won't afterwards feel we've actually gained anything. (2. *amount and intensity of work*). Therefore, we customarily devote our attention to the third determinant of output: given unchanging "productivity of nature" and unchanging amount and intensity of labor, output depends on the specific *means of production* and the way that they are used (3. *technical productivity*).⁷ [387]

⁵ Our term "productivity of production" is closely related to the ambiguous concept "productive power or productivity of labor."

⁶ This is taken in the narrower sense of production tools.

⁷ The *manner of use*, considered in itself, gives rise to the concept of the *rationality of production*, determined by the skills of the worker, the organization of labor, the level of centralization of management, and also by the concentration of production, standardization of the types, labor and material saving processes, the level of chemical and mechanical technology, and so on. This concept is opposed to that of *technical productivity in the more narrow sense of the word*, which, likewise considered in itself, is the determination of productivity by the

The *goal* of technical productivity is therefore the greatest possible increase in goods at the least expenditure of labor and natural resources. This is achieved by way of the full application of ever more highly developed instruments of production. *It is this concept of productivity that underlies the socialist demand for maximum productivity.*

However, a *different concept of productivity* arises if we contemplate not the production process but its result, the product. That the product created serves to satisfy a need, i.e., that it must represent a good, was presupposed as self-evident up to this point in the derivation of the concept of technical productivity. The produced good could, however, be assessed⁸ not only, as usually happens, from the viewpoint of an individual consumer or a group of consumers, but also from the viewpoint of society. It is precisely this latter form of assessment that comes to the forefront for the socialist worldview. This worldview must often evaluate the significance of goods completely differently than an individual or individuals would for themselves. Under otherwise similar conditions, society would evaluate work as more productive when it produces goods that, from the perspective of society, have a higher use value [*Gebrauchswert*]. This consideration of the manufactured products from the viewpoint of social utility gives rise to the concept of the “*social [sozial] productivity*”⁹ of production. [388]

To summarize: technical productivity strives to maximize the number of goods at minimal labor effort; “social productivity,” however, seeks to secure a higher social utility of the products created.

means of production used. *We always use this concept in the wider sense, encompassing the combination of the means of production and their use.*

⁸ This term [*bewertet*] is used in the common sense of word [i.e., Polanyi is stressing that he is not talking about assigning economic value (*Wert*)].

⁹ The expressions “social productivity,” the social direction of production, the higher social utility [*Gemeinnützigkeit*] of production or its direction, etc. will be used from here on as synonymous.

[*Gemeinnützigkeit* might also be rendered as “public welfare” or “common good.” We have chosen to render it as “social utility,” and the associated adjective *gemeinnützig* as “socially beneficial.” Polanyi makes frequent use of the phrase “die soziale Richtung der Produktion,” literally “the social direction of production”; we have regarded this footnote as license to replace this phrase in many instances with the simpler “socially beneficial production.”]

In this general form, technical and “social” productivity still appear as timeless values that any economy whatsoever must pursue. We must ask: what is their concrete content, which turns them into requirements of a socialist economy?

B. Critique of Capitalist Productivity

The concrete content of these concepts, as determined by their present historical function, will emerge from the socialist critique of the capitalist mode of economic life. This critique likewise clarifies the mutual relationship of technical and “social” productivity:

1. In the capitalist economy, *technical productivity* lags behind the theoretically achievable maximum: *small businesses and individual businesses*, especially in industry, generally detract from productivity; competition prevents the *standardization of types of production* even where it would be desirable; in turn, competition is undermined by cartels, trusts, syndicates, and other private monopolistic organizations, which to some extent encourage the *preservation of relatively unproductive businesses* and the suppression of the relatively more productive competition; likewise in the capitalist economy all other natural or legal monopolies, as well as those created by transient economic circumstances, work towards the maintenance of relatively unproductive methods of production and, thus, to an indefinite mass of *unutilized technical methods of production*, among other things, in the area of invention and improvement, etc. (barriers to *relative technical productivity*). [389] – The volume of technical production, i.e. *absolute technical productivity*, likewise lags behind the theoretical maximum: general and private economic crises lead to production *standstills* and *reductions*; the elimination of competition through cartels and related syndicates often leads to the *conscious restriction of production*; the *unproductive expenses* of a competitive economy are considerable (advertising, travelers, agents, packaging), etc.

2. Leaving aside technical productivity, the capitalist economy is subject to another critique, which concerns the social utility of the goods produced, i.e. the “*social productivity*” of the capitalist economy. The anarchic basis of this mode of production precludes at the outset any guarantee of the orientation of goods production to social utility in a higher sense. The significance that man as a conscious social being bestows upon goods remains absolutely without influence compared to that significance he ascribes to them as an isolated individual. Here there is no means by which the *social valuation* of goods in any particular situation can be enforced over their *individual valuation*. It is not the nobler and more enlightened needs, but only the more vulgar and greedy needs, that dominate production. And knowledge of this state of affairs, no matter its generality, cannot change the particular existing situation. The production thus brought into existence when higher values are excluded in turn undermines the morality of needs and leads them astray by artificially stimulating false needs and disorienting the healthy sense of the hierarchy of natural needs. Agricultural and industrial food production, the building and housing industries, the alcohol industry, and the entire circuit of fad and junk production, as well as other no less important areas of the economy, clearly show the organic indifference of the capitalist mode of production to the requirements of orienting production toward higher social utility. Everywhere, a significant expenditure of labor effort creates use values whose rank ordering is inferior from a social perspective, or which even amounts to a counter-value [*Widerwert*].*¹⁰ [390] However, even when we disregard the immediate goal of production, the product, the capitalist economy cannot take into account the perspective of social utility: private industry by its very essence cannot encompass the *repercussions* of the production process on community life. Capitalism lacks the sensory organ to detect how the health, leisure, and spiritual and moral being [*Dasein*] of

*¹⁰ The unusual term *Widerwert* appears to be a coinage of Polanyi's, and intended to express the opposite of a use-value, or something actively harmful. The word *Widerwert* also figures as a neologism in Rudolf Otto's influential 1917 work *The Idea of the Holy*, but its sense there (characterizing transgressions of religious significance, such as sin), would not appear to apply here.

producers and residents in neighborhoods around factories are structured, and how the distant repercussions of this or that orientation or method of production promote or impair the general welfare. Even less can capitalism manage to consciously promote the *positive goals* of general well-being--the spiritual, cultural, and moral goals of community--in so far as their realization is contingent on material means. Finally, the capitalist economy fails completely where economic goals intersect with *general human goals*, like international assistance and peace.¹¹

This critique applies to capitalist production regardless of the level of its technical productivity: from this viewpoint even technically highly productive industries – like, for example, the alcohol and weapons industries – can operate to harm the general aims of the community (and the sooner they become highly productive, the more they do so).¹²

What now emerges clearly from this twofold critique of the capitalist mode of production from the standpoint of productivity is the historical function, and therefore the concrete content, of these concepts [technical and social productivity] as requirements for the socialist economy:

1. *The concrete content of the requirement for maximal technical productivity* is based on an understanding of the concrete obstacles to productivity in the capitalist mode of production. [391] Competitive and private monopolistic businesses are inevitably accompanied by a certain aimlessness in overall production, that is, a lack of integrated management and manufacturing techniques. Understanding these obstacles gives rise to the demand to transcend competition and private monopoly, which necessarily culminates in the program of abolishing private ownership of the means of production.

¹¹ Compare to this passage of R. Goldscheid (*Higher Development and Human Economy*, Chapter 10, Leipzig, 1911) -- Our term “social productivity” is however not identical with the similar expression of G. (Compare Loc. cit., p. 58).

¹² The expressions “collectivity,” “society,” “community,” “total society” are not used here as terms of art and are therefore nearly synonymous. (See, however, fn. 12 [fn. 19] below).

2. *The concrete content* of the requirement of the “*social productivity*” of production similarly emerges from an understanding of the concrete obstacles to social utility within the capitalist mode of production. This mode of production is also obviously of social utility, just as it is also productive to a historically unprecedented degree; however, by its nature the capitalist mode of production cannot be raised above a certain level of social utility. The profit-oriented economy subordinates valuation to the judgment of the isolated consumer. The isolated person, however, judges almost invariably only from an individual viewpoint, not a social one. *Not the mutual isolation of producers, but rather the mutual isolation of consumers is here the obstacle to higher productivity.* The higher, social valuation should direct the entire production process, which would thereby *become a means to realize the material and immaterial aims of the community.* Thus, this requirement too culminates in the program of socializing the means of production, not to produce goods at a higher level of technical productivity but rather to produce goods with higher social utility.

3. *In this precise, developed form, technical and “social” productivity prove to be concepts of different orders.* The first is determined by *natural* factors, which operate within the bounds of the *material* process of production. The second is a *social* concept, which applies to a realm that begins outside of the material aims of production and is in part determined by the *immaterial* factor of the highest community goals. In a socialist economy, the direction of production does not constitute an uncontrolled side effect of the production process; rather, like distribution, it immediately flows from the conscious will of the community.¹³ [392]

*Conclusion: If the concept of productivity is to have an unequivocal meaning, it must be limited to the concept of technical productivity.*¹⁴ The directing of production to social

¹³ The concept of productivity belongs therefore entirely to the realm of production, and its motives emerge exclusively from this realm.

¹⁴ From this point, “productivity” and “technical productivity” are used synonymously.

utility, “social productivity,” should not be subsumed under the concept of productivity. It belongs in the following category:

II. Social Justice

A. Analysis of the Concept of Social Justice

In a socialist society, social justice [*das soziale Recht*] embodies and realizes the ideals of a collectivity that has become conscious of itself. 1. The *distribution* of the exertions and burdens of *labor* on the one hand and the distribution of the produced *goods* on the other hand constitute the social [*gesellschaftlich*] character of the economy. 2. The *direction of production*, insofar as it is defined through a higher social perspective, belongs likewise to the social character of a socialist economy. The distribution of burdens and goods, as well as the direction of production, are regulated by social justice.

B. Critique of Capitalist Distribution

The concrete content of “just distribution” emerges, again, from the critique of the capitalist economy. Historically, the socialist movement springs from this critique.

In the capitalist economy, there are two kinds of income through which goods are distributed: *income from work* (wages, salary, fees, a portion of entrepreneurial profits, a portion of the income of self-employed artisans, farmers, merchants, etc.) and *income from sources other than work* (rent, interest, profit, speculative profits, monopoly rent, the main part of entrepreneurial profits, etc.). [393] But even income from work does not necessarily correspond to the effort and burden of labor, nor to services and utility. Instead, work incomes are often determined by monopolies enjoyed by traditional social groups [*Stände*] or individuals, or those created by transient economic circumstances. The distribution of goods organized through these incomes is therefore *unjust and irrational*. Even this income distribution, however, is *fluctuating*: crises, unemployment, illness, and so on cause the loss

of incomes, which leads to an agonizing uncertainty in the distribution of goods. There is, further, no guarantee that everyone will have an income and thus gain access to the distribution of goods. On the contrary, one is left without income and thus without the provision of goods precisely when one is most in need of them, as in the cases of sickness, pregnancy, childhood, or advanced age. This situation *contradicts* the *right to life*, to which every member of society is entitled.¹⁵

This critique of the capitalist distribution of goods corresponds to the following concrete *requirements* of socialist justice:

Distribution of workload according to ability and of goods according to need (communism), or distribution of goods according to work performance except in the area of basic needs (collectivism).

Distribution is therefore the main role of social justice. In the area of *production*, its role is limited to ensuring the higher social utility of production.¹⁶

Conclusion: By social justice, we mean those principles that ensure socially beneficial production and the just distribution of goods in a socialist society. [394]

Having revealed, through analysis and critique, the concrete content of the requirements of productivity and social justice, we can now describe the *concrete problem* of socialist accounting as:

How can we obtain an overview of the economy that quantitatively displays the relationship of its characteristic elements to the aim of increasing the output of goods, on the one hand, and to the aim of raising production's social utility and ensuring the just distribution of products, on the other hand? (2nd version)

Having thus reduced the problem to economic elements, we can now answer the question of which economic elements should be considered characteristic of a socialist

¹⁵ We have already discussed above that the production of goods should be in the service of *higher social utility*. Realizing this aim, naturally, is part of concrete content of social justice.

¹⁶ Economically, the motives of both functions of social justice emerge from the realm of *consumption*.

economy. These must necessarily be those elements that are common to the two economic goals we have named. What are these elements?

The answer reveals itself from a simple consideration: the natural process of production, determined by the economic goal of *productivity*, employs labor effort and natural resources¹⁷ (raw materials, natural energy, etc.) to produce goods. Labor is endured, goods are destroyed, other goods come into being in their stead: that is the natural process of production. The sacrifice of labor and natural resources caused by the process forms the costs of the goods created. We justifiably attribute these costs to *nature*. When this natural process, however, is affected and altered through the influence of *social justice*, then only one question is of economic relevance: what additional sacrifice of labor and natural resources has this influence caused? Or, in other words: Which costs of the production process are incurred due to *social justice*? [395] We are justified in attributing these costs to the conscious action of *society*.

Now of what sort are these costs?

From the two main aspects of social justice— just distribution and socially beneficial production – we want to consider first the latter.

1. The natural process of production inherently takes place at minimum cost: the technical problem of production should only ever be considered solved when the amount of labor and goods sacrificed in the manufacture of the product is reduced to a minimum. However, each requirement imposed on production by social justice in the name of higher considerations of social utility requires an increase in labor or goods sacrificed over that which would be required from a technical viewpoint alone. It does not matter whether the issue is a change of the type of good itself or only of the quality or quantity, or whether the

¹⁷ For the sake of brevity, we will disregard natural resources from here on and will only speak of the sacrifices of labor effort. For a socialist economy, where the general law of cost determination by socially necessary average labor time naturally does not apply, the sacrifice of natural resources available only in limited quantities (like fertile soil, forest, ore mines, coal mines, oilfields, etc.) is especially significant. For accounting, however, this difference is, irrelevant.

issue is the production location, production process, the materials purchased, or any other element in the production process: in each case the requirement, under the given technical-organizational conditions of production, results in an additional cost, which can readily be attributed to the social direction of production, that is, to “society.”¹⁸

2. How do things stand with the other main aspect of social justice – *just distribution*?

Is not production indifferent to how the goods produced are distributed? This distribution takes place after the production process ends and therefore can neither influence this process nor create costs. It seems to follow from this that only the second function of social justice--which ensures socially beneficial production--is a concern for accounting; by contrast, the first and most general function of social justice --which mediates the just distribution of work effort and consumer goods, of material pain and material pleasure--would seem not to belong to the problem of accounting, and so should be considered separately.¹⁹ [396]

However, this is incorrect. Certainly, from the viewpoint of society as a totality, it makes no difference how labor and goods are divided: the total burden of labor and the total consumption of goods are not influenced by this. From the viewpoint of the totality, neither a just nor an unjust distribution can engender any costs. And yet, from the viewpoint of accounting, the distribution of goods is most significant.

Why?

Because accounting must enable overview and monitoring for each component of the economy, for each separate enterprise, and for each component of the production process in each separate enterprise. For the components of the economy, it does make a difference how labor burdens and the consumption of goods are distributed within these components. Indeed, solely this determines the conditions of production of the affected firm, insofar as they

¹⁸ “Society” is used here in the above sense.

¹⁹ The same concern may also be raised regarding the *distribution of raw materials* as one of the principal means for securing the direction of production to social utility. The answer that here follows applies also to this concern.

depend not on productivity but on social justice. Just distribution by age, gender, merit, marital status, and number of children—the varying of distribution according to varying considerations that is necessary in order to realize the principle of justice—affects each enterprise at any given moment differently, depending on the varying composition of its associates and members. *It is precisely just distribution that brings about a continual change in the production costs of individual enterprises and of individual production phases; the separation of these costs from natural production costs is the main practical task of socialist accounting.*

Costs are therefore the *characteristic element* of the socialist economy that constitutes the real object of accounting. [397] *Productivity* and *social justice* are the goals to which this element should be directed; “*nature*” and “*society*” are the two factors that create the costs, and to which they must be ascribed. Just as the profit-oriented economy differentiates the profitable from the unprofitable elements of capital, so must the socialist economy separate the sacrifices of labor effort and of material resources that nature requires from those which “*society*” requires. (This result also enables the reduction of the problem of accounting for the economy as a whole to the problem of accounting for production).

Our original problem obtains, therefore, its *final form* in the following version:

How does one achieve an overview of production that quantitatively displays how its costs relate to “nature” and to “society”? (3rd version).

Conceptually, the path to a solution now appears to have been opened. Before we can embark upon it, however, there are two difficulties blocking our way:

The two main difficulties in the way to the solution

I. Accounting [*Zurechnung*] for natural and social costs.²⁰

(Qualitative Difficulty)

Inspection of any given part of the natural economic process cannot reveal to what extent it was determined by considerations of technical productivity and to what extent by social considerations. The effects of social justice transforms the entire production process in a socialist economy down to its smallest components. How should the actual process of production be related back to the hypothetical original process, and how should the costs of this hypothetical original process be compared to those that we must ascribe to the effect of social justice? [398]

We wish to designate this as the *qualitative difficulty*.

II. The Cost Principle in Accounting

Distinguishing “Framework Costs” and “Intervention Costs”

(Quantitative Difficulty)

The second difficulty comes from the quantitative task of accounting. The problem of accounting as presented above is quantitatively solvable only if the *principle of the additivity of costs* is assumed; we wish to designate this as the *cost principle in accounting*. It states that the numerical cost of a good, no matter the units in which it is expressed, is the *sum* of the numerical costs of the goods that make it up (services, material goods, natural resources). A

²⁰ The mathematical, juridical, and economic-theoretical problems of accounting are peculiar, and so too is accounting's problem of allocating costs [*Zurechnungsproblem*]. Double entry bookkeeping offers a practical solution for capitalist accounting. The results of this cost allocation are considered data for economic theory (see p. 4 [p. 381 in the original text][Cross-references in the original give page numbers that do not correspond to those in the journal publication. Thus, here and elsewhere we have sought to reconstruct the correct cross-references from context.]). In the following discussion, the cost allocation problem of socialist accounting becomes the center of our discussion. [In the context of marginalist economic theory, *Zurechnung* is usually translated as “imputation” and refers to the problem of mathematically determining how much of a product's price can be ascribed to a particular factor of production. While marginalists sought a mathematical solution to the problem of *Zurechnung*, Polanyi sought a “functional” or “organizational” solution, which he explains in Chapter II below. This organizational form of *Zurechnung* allows for the recording of costs to appropriate bookkeeping accounts. We have translated the term variously, depending on whether it is accounting in general, the bookkeeping operation of recording costs, or the problem of determining to which account particular costs pertain that is at stake in context.]

form of accounting, in which the sums were not expressible in common units, would of course not yield anything rationally intelligible. Now, a socialist economy, as we have defined it earlier in terms of its goals, in no way presumes a purely administrative economy, which unilaterally sets the prices for all goods (fixed prices), yielding figures that can be readily added. Instead, such a socialist economy also allows for these prices to arise through agreement (negotiated prices). Since we thus do not want to make any presuppositions about price formation, we must consider the theoretically most general—and, from the viewpoint of accounting, practically most unfavorable—case. We therefore assume that the economy for which we seek a quantitative overview has all types of price formation, from price formation in a market through the free play of supply and demand to administratively set prices. Whether such an assumption is theoretically valid, or even practically conceivable, remains to be seen. In any event, to reject [the need to develop] accounting for an economic situation of this sort would mean making demands of a socialist economy not easily derivable from the two main goals that we specified earlier. [399]

But here begins the actual difficulty, which we wish to designate the *quantitative* difficulty. Fixed prices can affect negotiated prices at a minimum in two fundamentally different ways, according to whether their effect propagates ‘downstream,’*²¹ meaning the same direction that the production process runs (towards the final product) – or in the opposite direction (towards the raw materials). *The cost principle in accounting implies, however, that only those cost figures arising from the ‘downstream’ effect of a fixed price may be added to one another.*²² A fixed price and all the negotiated prices that arise from its ‘upstream’ effect may be added neither to that fixed price itself nor to the negotiated prices

*²¹ Polanyi uses the terms “forward” and “backward.” For clarity, we follow Françoise Laroche’s French translation and use “downstream” and “upstream.” Polanyi, Karl. 2008. “La comptabilité socialiste.” Pp. 283-316 in *Essais*, Jérôme Maucourant and Michele Cangiani, eds. Paris: Éditions du Seuil.

²² The cause of this phenomenon leads back to the most fundamental principles of theoretical economics. It originates from the historical character of the economy, from the irreversibility of time. For accounting, its validity derives from the formal causes elaborated here, without regard to the considerations of economic theory.

arising from its 'downstream' effect. *Only the following cases therefore conform to the cost principle in accounting:*

1. *Fixed prices may be added to one another*

2. *Negotiated prices may be added to one another, if they have arisen as the result of the 'downstream' effect of a single fixed price;*

3. *Negotiated prices that have arisen from the 'downstream' effect of single fixed price may be added to this fixed price itself.*

(Quantitative difficulty, 1st Version).

Any large-scale undertaking in accounting takes countless figures as its material. Inspection of these figures does not reveal what kinds of influences went into their creation. Even if we were able, by assuming just a single fixed price, to ensure its effects were included only in permissible calculations, what sort of overview could be offered to us by such calculations, which would not be comparable with one another? [400] Incidentally, the cost principle will be made irrelevant if we accept even *one* additional fixed price, instead of a negotiated price, as a downstream effect of the first fixed price, thus exerting a double [downstream and upstream] effect on the series of negotiated prices wedged between the two fixed prices.

Expressed in this manner, the difficulty seems insurmountable. Therefore we want to try, without veering into economic theory, to restate the problem differently by simultaneously generalizing it and finding an example in reality. We carry out this *generalization* on the basis of the consideration that the fixed price represents only one instance of the effect of law on the economy. The capitalist economy shall serve as our *concrete object*, for the following reason: From the point of view of the possibility of unified accounting for different kinds of cost categories, there is no fundamental difference between an exchange economy of negotiated prices, in which prices fixed by law can also be found,

and a socialist economy, where, rule and exception having switched roles, there can be both prices fixed by law and elements of exchange with negotiated prices. In both cases, accounting deals with the following question: how can one adhere to the cost principle despite the dual effects of legally fixed prices?

In the capitalist economy as it exists today, one can also draw a distinction between *two sorts of effects of law on the economy*, namely effects that do not interfere with the cost principle and those that negate it. Among the effects of the first group, for example, are all *legal regulations* that engender the following costs: costs created via an import tariff, or through the setting of raw materials prices, such as for iron ore or coal; or those costs which arise from the effect of the legal establishment of a land monopoly via pure land rent and so forth (*the framework* [Rahmen] *of the economy*). The second group includes all effects [of law] on the free pricing of goods, primarily any administrative price fixing for a final product or an intermediate product, such as for machines or textiles (*intervention in the economy*).

[401]

The reason for this difference will become most clearly apparent in our analysis of the distinction between the effect of fixing the price of a raw material on the price of a product made from it, on the one hand, and the effect of fixing the price of a product on its raw material, on the other. A fixed price for a raw material does not negate cost calculation with regard to the product made from it (*framework effect*). However, a fixed price for a product does negate cost calculation with regard to its raw material, which is to say that the price of the raw material is no longer a function of its production cost but rather of the fixed price of the product (*intervention effect*).

One can of course trace the same phenomenon not only with regard to the fixed prices of two different goods, but also with regard to the fixed price of a single good, for instance an intermediate product. Here, the consequences can be traced in two directions: ‘downstream’,

towards the final product, the fixed price's effect does not negate production cost calculation; 'upstream', towards the raw materials, the effect of the fixed price is to turn the cost principle into its opposite, that is, the determination of the price in line with that of the final product.²³

What determines, then, whether a legal regulation must be considered a framework or an intervention is not the nature of the legal regulation as such, nor is it the kind or object of its effect in general; rather, it is entirely the specific role played by this effect within the stages of the production process in each particular case.[402] Now, the capitalist economy reacts in two fundamentally different ways to the two *roles* of law: *each intervention in the economy* (be it a fixed price or something else) negates the cost principle and thus the calculation of production costs; *a framework of the economy* (be it a fixed price or something else) does not interfere with the most exact calculation in the slightest. *It follows then that framework costs clearly conform to the cost principle, while intervention costs, on the contrary, negate the cost principle.*

This means that to maintain the cost principle in accounting within a socialist economy, we must resolve the following difficulty: *We must find a principle with which to distinguish framework costs and intervention costs in order to eliminate the latter from cost calculations. (Quantitative Difficulty, 2nd Version).*

From the two primary goals of every socialist economy, we derived the twin foundational concepts of socialist accounting: the costs of nature and the costs of society. The

²³ This shows that each fixed price acts as both framework and intervention. It acts as a framework 'downstream' in the direction of the production process, and as an intervention 'upstream' in the opposite direction to the production process. The reason that, in spite of this, we can disregard the intervention impact of certain fixed prices and simply refer to them as "frameworks" is because their upstream influence practically falls outside the sphere of price setting. This influence affects, for example, other countries, as in the case of import duties; or the evaluation of land as in the case of raw materials, which also tend to be imported; or the free exchange of labor and land, as in the case of a land monopoly. Thus, viewed from within a wider context, this legal or coercive framework, however one might call it, appears as an intervention in the economy, for example, from the perspective of world trade, the exploitation of subsoil resources, or common land. Viewed from within the more narrow context of the particular economic area, one can, however, easily differentiate in reality between legal effects that are frameworks of the economy and those that are interventions in the economy. However, as is well known, a socialist economy must always be understood in theoretical terms as a closed economy.

various secondary goals and purposes that follow from these two primary goals must provide further concepts for socialist accounting. Only with their help can we succeed in overcoming the difficulties laid out here.

It is therefore a long way from drawing theoretical distinctions between concepts to differentiating in practice those elements of reality that correspond to these concepts. However, the closer we can get to this reality, the more hope there is that we will find in it those elements needed to accomplish such a differentiation.

To realize this aim, we will assume a type of functionally organized socialist society.

Chapter II. The Concepts and Mechanism of Socialist Accounting [403]

I. A hypothetical type of functionally organized socialist transition economy

Social justice in the community is established by agreements of the ‘commune’ with the ‘production association’ [*Produktionsverband*].²⁴ The commune is considered to be the owner of the means of production. A direct right of disposition over the means of production, however, is not tied to this ownership. This right rests with the production associations, to be understood as associations of a particular industrial branch, based on a system of councils,²⁵ which administer this branch of industry on behalf of society.²⁶ The democratic system of representation among the workers in the workshops, offices, and administrative agencies thus becomes a production association as soon as it takes on direction and management of a particular branch of industry or services on behalf of society. Individual production

²⁴ “Commune” serves as a general expression for political community, local association, functional state, democratic territorial offices, power of the councils of the worker delegates, socialist state, and so on. – “Producer association” stands likewise as a general term for productive cooperative, guilds, “self-managed factory,” “business partnership [*sozietäre Geschäftsform*],” “social workshop,” “autonomous enterprise,” producing trade union, industrial union or producers’ general labor association, One Great Union [in English in the original], and so on. Since the commune understood in this way functions simultaneously as a consumer organization, we also specifically mention the “consumer cooperative” as a second consumer organization, alongside the commune. – However, we always understand by the expression “the two main associations” 1) the commune and 2) the production association.

²⁵ Work committee, workers’ council, and so on.

²⁶ We want to remark here that agriculture does not constitute a separate issue for the formal problems of accounting. In economics, however, it is a completely different matter.

associations combine to form into a regional association, and the regional associations combine to form a congress of production associations, which represents production as a whole. This congress is a functional association of all industries, as well as all the administrative and service branches, and it is placed on an equal footing with the other chief functional association of society, the commune. The sphere of influence of the commune is narrower than that of the contemporary state, although its complexity might make it appear more varied. [404] The commune is not only a political organ, but also the real representative of the higher goals of the community. These two chief functional associations have legislative and executive rights, each in its own domain. As noted at the outset, the agreements between these two chief functional associations embody the highest power in society.²⁷

Alongside the production association, the second economic association is the *consumer organization*, which is partly constituted by the commune itself in its function as *consumer representative* and partly constituted by consumer cooperatives. The specific function of the different consumer organizations results from practical considerations. For example, personal and household needs, which do not usually go beyond the local area, belong to the domain of the local consumer cooperative, conceived of as a communal association created through social justice. Localized community needs – such as water, gas, electricity, local transportation, and so on – are subject to the consumers’ representatives through the local commune, which divides itself into specialized functional representative bodies for cultural needs, such as schools, theaters, or libraries, and needs relating to technical-economic issues.

²⁷ The fundamental idea of every functional constitutional form is that distinct functional representative organs (associations) of the same individuals can never fall into irresolvable conflict with one another. For case-by-case resolution of conflicts, provision is made for either a common committee of the commune and the production association, or a kind of higher constitutional court – coordinating organs, which, however, do not have legislative authority and have only limited executive authority (adjudication, security service, etc.).

In all the associational forms, the territorially higher association has superior executive, managerial, and decision-making authority, whether it concerns the organization of labor through the production association or the organization of consumption through consumer organizations (representative organs and cooperatives). *When necessary, the effective coordination of these functions will be secured at the regional [Land] level.*

The fundamental *function of social justice* in the broadest sense of the word is self-evidently that on which this form of society and its organizations, along with these organizations' spheres of activity and modes of operation, are constructed. [405] Justice now turns into the concept of social reality [*soziale Wirklichkeit*] and embodies the ideal content of this concept.*²⁸

The basic principles of social justice also include the two requirements which are directed at securing the just distribution of goods in society, the requirements that give rise to the concepts of “just wages” and “just prices.”

1. The *just wage* governs the money income of each member of society according to considerations that are in principle identical. The second requirement, just prices, brings about the distribution of goods on the basis of this income. The independence of incomes, and thus of the distribution of goods, from the process of technical production and technical distribution, as well their independence from the surpluses or shortfalls of accounting units, thereby becomes the primary requirement of social justice.

The wage is therefore the universal form of income. The basic wage is determined through the agreement of the chief associations.²⁹ Gradations according to age, kinds of

*²⁸ While “social reality” may seem like a bland sociological concept, Polanyi most likely meant the term “social” in the sense of “aimed at social benefit,” making “social reality” equivalent to socialism itself. Thus, by expressing the “ideal content” of “the concept of social reality,” Polanyi’s “social justice” offers a specific formulation of what socialism requires, in particular, the active, functionally organized society he describes here. See further discussion in the preface.

²⁹ The difference between “at the direction of the commune” and “by agreement of both main associations” is not significant for our discussion.

work, etc. are put in place by the congress of producer associations and through its functional and territorial parts, down to the workshop, office, and agency committees.

2. The *just price* of goods, which of course determines the actual distribution of goods as much as the wage does, is also based on based on social justice. The magnitude of the price is left to the agreement of the consumer organizations (representative bodies and cooperatives) with the producer associations. The surplus beyond the cost of production displayed by an accounting unit can never become “profit” because no one can accrue any personal benefit from this surplus. The determination of all incomes in the community through social justice abolishes the economy of profits and profitability at its foundation.

[406]

The *distribution*³⁰ of consumer goods is generally left to the agreement of producer associations and the consumer cooperatives. For example, the products of a particular enterprise or production association are acquired, at cost, by the next higher association to which it belongs. Then, with the appropriate consumer organization, they agree upon a price that is deemed to be the just price. The difference between the cost and the just price is registered as a surplus.

The *distribution of producer goods [Produktivgüter]* occurs in two fundamentally different ways depending on what kind they are: 1. *Part of the raw materials* is subject to the immediate social distribution to each individual production branch and partly to individual branches of consumption. Therefore, disposition of these raw materials does not fall into the purview of the producer associations from which they emerged; rather, it is subject to the agreements between the chief associations. These raw materials’ fixed prices we term the *social prices for raw materials*. 2. Distribution of *other raw materials*, as well as all other producer goods in general (machines, tools, intermediate products, auxiliary materials, and so

³⁰ The expression “distribution” here does not have the additional meaning of distribution in an administrative sense as opposed to distribution through a market. It is here not a technical term for a “distribution economy” but rather the common correlate of “production.”

on), rests with production associations in the same manner as does the distribution of consumer goods, and proceeds in *basically the same way*

The *surpluses* of individual local production associations combine to form the surplus of the regional association, and the surpluses of the regional associations combine to form the surplus of the congress of producer associations. Disposition of this surplus is subject to the agreement of both the chief associations as follows: the surplus is invested in production after deduction of the *rent from production*. This rent serves to finance all the commune's economic and non-economic expenditures stemming from social justice in the widest sense of the term. Allocation of the rent from production to individual industrial branches, and all the way down to individual enterprises, is managed by the congress of producer associations and, in stages, by means of its appropriate functional and territorial parts. [407] The manner of *investing* of the production surplus remaining after the deduction of the rent from production is governed in two ways. Investments relating to the *directing of production* [to social benefit] are subject to social justice, and hence are subject to agreement between the production association and the commune. Investment of the remainder of the surplus, and the *technical-economic* side of investment generally, are completely under the control of the production association.

If an accounting unit—for instance, one of the above-mentioned higher-level production associations overseeing distribution of the goods of the companies and associations beneath it—has a surplus exceeding the amount set by its superordinate association, a report must be made to this superordinate association. At this point, the superordinate association must intervene, if necessary, in order to bring the production of goods into harmony with demand. Should the surplus of the entire industrial branch rise above the allowed maximum, the congress of producer associations must intervene in the same manner to bring the production of different associations into harmony with each other.

(Of course, it is also possible that such harmony is deliberately not restored, for example in the case of luxury goods, so that other goods can be sold more cheaply.) This regulatory role of the admissible surplus thus operates exclusively in the framework of social justice.*³¹ The total amount of the surplus is ultimately apportioned, as we have seen, to the *rent from production* and to *investment*.

Accounting for the rent from production yields the *commune accounts*. Accounting for production operations yields the *production accounts* (the accounting of production associations). The latter is divided into the accounting of 1. *production costs*, 2. *surplus*, and 3. *investment*.

2. The Accounting of Production Costs

This mode of accounting is built on two accounts, the “production association” account and the “commune” account, which each production unit has to maintain. [408] In the first account are entered all the costs to be charged to the production association that are incurred during the production process, such as labor, raw materials, auxiliary materials, wear and tear on the means of production, depreciation on the buildings, etc. In the “commune” account, the production association enters all the costs the commune’s directives create for the production process. Should such costs accrue on the “production association” account, when the balance is struck they will be removed and transferred to the “commune” account.

The “production association” account and the “commune” account are in this way maintained absolutely separately.

We now consider the formation of these two accounts in greater detail:

A. *The following costs created by the commune’s directives would be charged to the “commune” account:*

*³¹ “Das soziale Recht” – Polanyi takes advantage of the meaning of “Recht” as law. We have used “social justice” but could have used “social law” instead.

1. Just distribution

a) Allocation of money to producers;

b) Allocation of goods to producers or consumers at production cost, below production cost, or for free.

For example,

a) The allocation of an exceptional bonus to certain members of companies or a special benefit for soldiers in combat.

b) 1. Providing milk at production cost to local infants; 2. concessionary prices below production costs, either by a certain percentage or by the fixing of a maximum price (*the social price for consumers*); 3. donation of linens from a linens factory to new mothers, who are workers of the enterprise, etc. – *Social costs*.

2. Socially beneficial production

Supplemental costs created due to directives regarding place of manufacture, specialization, or manner of manufacture that are technologically relatively unproductive, whether these costs were calculated beforehand or established afterwards (*Quasi-social costs*).

B. To the “production association” account are charged: [409]

1. All the production costs that are created by the need for the production tools, buildings, forces of nature, and natural resources, as well as damage caused by the elements – (*Natural costs*).

These costs are also charged to the “production association” when their quantity is determined entirely or partly by the commune, such as, in particular:

2. Wages (*Quasi-natural costs, first group*),

3. Social prices for raw materials, so far as they are fixed (*Quasi-natural costs, second group*).

What we thus call the quasi-natural costs represent the counterpart to the *quasi-social costs* in the commune's accounts (A.2) in that the *quantity* of quasi-social costs is determined by the natural production process, even though they *exist* because of a directive of the commune [i.e., in the case of quasi-social costs, natural features of production account for the *quantity* of supplemental costs involved in deviating from the lowest-cost technical solution, but it is only because the commune decided on such a deviation that the costs *exist*. Correspondingly, quasi-natural costs *exist* because the natural process of production requires labor and raw materials, but their *quantity* is determined by commune directives setting wages and raw materials prices.-Tr.]

Thus, after transfer of all entries to the correct account, we find:

On the "commune" account, the costs *imposed* by the commune on the production association (*social costs*), even when their quantity is initially recognized on the "production association" account (*quasi-social costs*).

On the "production association" account, the costs *entailed* by the natural process of production (*natural costs*), even when their *quantity* is determined in whole or in part by the commune (*quasi-natural costs*).

Here we want to pause.

Let us now consider this two-fold division of the costs more precisely and substitute in our minds the term "nature" for production association and "society" for commune. What else then is the separation, elaborated above, between the "production association" and "commune" accounts, if not *the sought-after differentiation between the costs that nature demands and the costs "society" demands?*

Now let us ask how we attained this result.

It seems that the *conceptual differentiation* between natural costs and social costs amounts to the obvious *functional differentiation* between the commune and the producer association. [410] Why? Because the two economic goals – productivity and social justice – correspond to different motives, which here exist separately in different subjects. If both motives are united in one subject, such as in a Supreme Economic Council, then they will be given consideration there, but only the *outcome* of this consideration emerges as the “motive” of the economic will. In this “motive,” the original motives now appear to be cancelled out, and it is no longer possible to give an *accounting* of how much they each contribute to the formation of the economic will. This is why even capitalist bookkeeping uses subjects, albeit *fictitious subjects*, as holders of the different accounts [to which entries are made]. It is thus the task of socialist accounting to locate these subjects in *social reality*, by *assigning separate functions to the organizational expressions of the separate motives, and then through these organizational expressions elevating these functions to the status of a subject*. The conscious social will expressed through the commune entails costs in the same way that the task placed on the production association entails costs. *There is a fundamental difference, however, between the two in terms of their motives and assigned functions*. Because of this difference, we perceive the sacrifice that the realization of the will of the commune requires as a sacrifice for the general welfare, for just distribution, for higher goals and purposes, for our conscious ideals, that is, as a sacrifice, in the name of social justice, for *society*. The exertions and pain of work resulting from the tasks assigned to the production association, on the contrary, are perceived as costs imposed on us by the imperative of maximum productivity, and therefore by *nature* itself.

The functional differentiation of the two main associations here leads, via the different motives that constitute their organizational basis, to the sought-after attribution [Zurechnung] to ‘nature’ and ‘society’ of the costs these associations choose to create. [411]

The *first difficulty* for the practical solution of our task, the *qualitative* difficulty, has therefore been overcome.

But how about the *second, quantitative, difficulty*? How can the effects of social justice be separated into those that do not interfere with the cost principle (i.e., the additivity of the component costs) and those that negate the cost principle? In other words, how are framework costs, which enter readily into cost calculations, to be differentiated from intervention costs, which negate cost calculation? And how are intervention costs to be excluded from such calculations?

We suddenly find an answer to these questions as well. The key to the solution is already contained in what has been discussed above and can simply be taken from there.

Observe: Which effects of social justice on production have we placed in the “society” account and which in the “nature” account?

This table serves as an overview.

Table of the Effects of Social Justice on Production Costs

<i>Purpose Giving Rise to Costs</i>	<i>Cost Types</i>	<i>Account</i>	<i>Cost Group</i>	<i>Effect Type</i>
1. Just distribution	1. Wages	Nature	Quasi-natural	Framework
	2. Distributions	Society	Social	Intervention
2. Socially beneficial production	3. Social price for raw materials	Nature	Quasi-natural	Framework
	4. Supplemental costs	Society	Quasi-social	Intervention

The nature account contains wages and social raw material prices, two cost groups with framework effects, meaning that they do not interfere with the cost principle. [412]

The society account contains all allocations (apart from wages), which are intended to ensure just distribution through case-specific, temporally or regionally distinct measures. It also includes supplemental costs (apart from the social price for raw materials), which are

intended to bring about socially beneficial production. These two cost groups act as interventions in the economy and negate the cost principle via their upstream impact on preceding elements in the sequence of costs. *As our table indicates, these two cost groups are excluded from production costs via the “Society” account.*

How did this simple solution to the problem of distinguishing between framework costs and intervention costs arise?

Law shaped by social justice, too, has an effect on production in part as framework and in part as intervention. Whereas in the capitalist economy these effects are often hidden behind anonymous legal institutions, like the land monopoly, and behind financial regulations, like taxes and tariffs, they emerge clearly and distinctly in our case. This is the reason that the effect of social justice never leads to the curtailing of the cost principle: the legal regulations aimed at just distribution and socially beneficial production are of two kinds, namely those that constitute a framework and restrict themselves to determining the quantitative measure of the costs *originating* from nature, and those that constitute an intervention, the costs of which, because they *originate* from society, are altogether excluded from the calculation and thus cannot interfere with the cost principle.

The validity of this solution to the quantitative difficulty in its *second version* can also be seen in the fact that it likewise proves to be correct for the *first version* of the problem of the cost principle in accounting:

In the nature account one finds either 1. fixed prices added to fixed prices (as with wages and social prices for raw materials), or 2. negotiated prices added to negotiated prices (in general, the prices of goods for the production association are negotiated prices)³² or, finally, 3. negotiated prices added to those fixed prices (like wages and social raw material

³² Recall that fixed prices for these goods (social prices for consumers) are, in relation to their deviation from negotiated prices, allocated to the “society” account (see p. 29 [p. 408 in the original text]), thereby removing the upstream effect of this fixed price on the sequentially preceding costs (intervention effect). *However, as production goods, these goods also have these negotiated prices* (see p. 27 [p. 406 in the original text]).

prices) that [have had only ‘downstream’ effects on these negotiated prices, i.e., that] stand at the beginning of the particular production sequence in which the relevant negotiated prices emerge. [413]

Finally, the *inner connection between* the solutions of the qualitative and quantitative difficulties is the reason why these difficulties can in fact be solved in a unified manner; it becomes evident in the following formulation of the formation of the “nature” account and the “society” account:

In the calculation of the cost price, quasi-natural costs of production (wages and social raw material prices) constituting the *framework for production* are directly included with the other natural costs. Costs of social justice that represent an *intervention in production* are either registered at the outset in the “society” account (social costs) or afterwards removed from the “nature” account and transferred to the “society” account (quasi-social costs).

Thereby the separate accounting of natural and social costs, as well as the cost principle itself, appear to be secured.

The *mechanism* of socialist accounting now lies clearly before us:

The manner of accounting discussed here offers, in the “nature” account, an accurate representation of the natural course of production, as it occurs in the framework of social justice, and restricts itself to excluding from this picture all the interventions of social justice in the economy by means of the “society” account.

Summary

We have thus arrived at the end of our description of a hypothetical type of socialist transition economy.³³ It has provided us the sought-after mechanism of socialist accounting, as well as a number of the most important socialist accounting concepts in general. [414] We realize, as already discussed in the introductory remarks, that this solution is only applicable to the functional type of socialist economy. Indeed, the entire logic of our analysis was aimed at illustrating the fundamental relationship between a functional organization of society and the possibility of accounting in the socialist economy of a society so organized.

Our solution is most simple. In essence, it offers a way of calculating production costs that is a historical extension of the existing mode of accounting, and whose quantitative and qualitative validity is not impaired by the price and production policy interventions that social justice demands because the costs of these interventions are excluded from the cost of production by means of a separate account.

The two basic concepts of socialist accounting that we encountered along the way were *natural* and *social costs*. They are of comparable importance to the concept of *net product* (or *surplus value*) in the capitalist economy. In one form or another, they will have to serve as the starting point of any future socialist economic doctrine. These concepts derive from the economic goals of socialism and therefore apply to any conceivable socialist economic organization. Their general validity may excuse our giving a quick summary of the line of thought that enabled their conception. This will also offer an opportunity to illuminate in greater detail the real meaning of the concepts of ‘framework of the economy’ and ‘intervention in the economy,’ as well as to clarify the nature of the difference between a functional and a centrally-administered organization of society from an accounting perspective.

³³ The description of the accounting for the surplus, the investment sum, as well as for the commune accounts is omitted here; they have for our task no immediate interest. The passing of one cost group to another (transition of social into natural costs, etc.) we do not wish to discuss here.

Maximal *productivity*, on the one hand, and rule of *social justice* in both the distribution of the burden of labor and the consumption of goods, on the other hand, are the two economic goals of socialism. [415] Their analysis reveals quite quickly, however, that the above formulation of these goals has a clear meaning only if a very definite content is assigned to the concepts of both productivity and social justice. This is because the productivity of production is defined by a ratio in which the denominator stands for the incurred labor effort and the numerator for the utility of the created goods. This utility (use value), however, can be evaluated not only from the viewpoint of the needs of the isolated consumer – as is the rule in capitalist market exchange – but also from the viewpoint of the community. In fact, the latter assessment is the more important one for the socialist worldview. Further, these two assessments do not necessarily coincide. As a result, in a socialist economy the concept of the productivity of production becomes ambiguous. To restore clarity, we here understand this concept as providing a measure of the productivity of the production process only with respect to a given particular good of a given utility. “Social productivity,” as we have called the determination of productivity based on various kinds of utility assessments for produced goods, must remain categorically excluded from the content of the concept of productivity, which is therefore reduced strictly to the concept of *technical productivity*.

The economic aim that determines “social productivity,” which is so fundamental for the socialist economy, here shows a striking analogy with the aim that we above termed “social justice.” The requirement of “social productivity,” of the social direction of production, is essentially the requirement that produced goods have higher social utility. It is not the interests of producers, but rather those of consumers that are directly expressed in this requirement, demonstrating its deep kinship with the principles that govern distribution. These principles also express the demands of an ideal, just as social justice embodies the

demands of ideals. The directing of production to social utility, i.e. “social productivity,” thus emerges, together with the demand for equality, as the meaning of *social justice*. [416]

The *redefined* concepts of productivity and social justice give rise *directly* to the accounting concepts of natural and social costs. *Natural costs* express the sacrifices that the natural process of material production requires, according to the character of the production task involved. *Social costs*, on the other hand, are that extra sacrifice that society’s will imposes on us via the effort both to ensure just distribution in every instance and to secure production with higher social utility.

It is evident that separate quantitative recording of these cost groups (natural and social costs) is the main, practical task of socialist accounting. Without the recording of natural costs, production would have no reliable, infinitesimally precise guidelines, operating instead on intuition and approximation. We wish to point out here with particular emphasis that without the recording of social costs, the political-moral side of socialism would be no more realizable than the technical side would be without the recording of natural costs. Humanity will only be free when it understands what it must pay for its ideals. Only then will humanity come to recognize that the realization of these ideals depends exclusively on humanity itself. Then too, however, humanity will find the strength to realize its ideals. For only when the connection between the sacrifices to be made and the progress we hope to achieve along the path to the realization of our ideals becomes visible in a direct, verifiable form, specifiable down to the minutest quantities, can we as humans develop the drive to walk the upward path unwaveringly, to adapt this path to our capacities, and to proceed with joy and satisfaction.

We are not going to elaborate once again the *qualitative differentiation* of the costs nature creates from those which society creates by means of the separate accounting of the commune and the production association. Only the fundamental idea underlying this solution

shall be expressed in a quite general form here: Where the economic will emerges as the outcome of a complex consideration of different motives, it is only possible to attribute different cost elements to the motives that produced them if these motives are represented by different subjects. [417] The main reason for this fundamental phenomenon is that two opposed motives in one and the same individual necessarily influence each other, through penetrating and thereby transforming one another. However, once a unified will emerges, these motives are then cancelled out in this will. The resulting will replaces its component motives. Only through memory can we thereafter successfully recall a more or less pale shadow of our original motives. An exact, quantifiable assessment of their intensity ratio is now out of the question. A cobbler, who has to make a pair of shoes and wishes them to be both durable and attractive, will be unable after completing his work to specify what share of the costs in work time, care, and materials went to their durability, and what share to their cut and decorative elements. At best, he can rely on his feelings, i.e., he can give an approximation, but there can be no precision whatsoever. Certainly, our cobbler does not need to be able to distinguish these costs, since he does not need to record in different accounts the costs of the durability of the shoes on the one hand and their attractiveness on the other. Were he to attempt this anyway, however, he would quickly fall into despair. As in the small, so in the large. If, for example, a Supreme Economic Council had to build a shoe factory that also had to meet the requirements of some social ideal, like placing the factory in an agricultural area, it would also be unable, on completion of its work, to specify how much the side of the project motivated by ideals had actually cost society. This is the reason why it is impossible in principle to solve the problem of accounting in a centrally administered economy. After all, how is a technical calculation of production costs possible in a situation where alongside the motive of achieving technical productivity another motive affects the process, adding to it unnoticed costs, which cannot be excluded after the fact?

The separation of natural from social costs is therefore possible only in an economy in which the motive of technical productivity and the motives of social justice and socially beneficial production are represented through two different subjects. [418] We do not want to repeat here how this requirement can be realized in a functionally organized economy.

Our effort to ensure the *quantitative validity* of our accounting for production costs led us to the concepts of the *framework of the economy* and *intervention in the economy*. Of course, formally this distinction is certainly not possible in principle for every kind of socialism. However, since we have for practical reasons just removed the centrally administered economy from our discussion, the distinction once again gains a broader, general meaning, because, aside from the organizational form mentioned, it maintains its validity for all other forms of socialism. We therefore view it as an indispensable conceptual aid for the socialist economic theory that needs to be created.

We have defined as frameworks of the economy those cost-creating effects of law that do not negate the cost principle in accounting. As interventions in the economy, by contrast, we have defined those effects of law that negate the cost principle. This distinction, which is valid in principle for every economy (with the above exception), is especially fruitful for the socialist economy. Every economy is not only “regulated externally” but also has a legal framework. It is inaccurate to say that the socialist economy is different from the capitalist economy principally because the socialist economy demands legal regulation and the capitalist economy rejects it. *Only the means of legal regulation differentiates these two economies from each other.* We have sought to show what forms this legal regulation can take without negating the framework character of its effects. This clearly established the fundamental connection that exists between the regulation of wages and some raw materials prices, on the one hand, and the possibility of some manner of negotiated prices for all other goods, on the other. Insofar as the socialist economy also intervenes in the economy (in the

above sense), the costs of these interventions should be separately accounted for, in order to prevent the calculation of production costs from becoming illusory. [419] However, to maintain the notion of an intervention, there must exist both an intervening subject and another subject (the economy), in which the intervention occurs. A political-economic Supreme Economic Council, which combines these two categories, cannot therefore successfully attribute costs to the intervention that created them. After all, how is a will, which arbitrarily determines the course of society at every single moment, supposed to distinguish the different elements within in its own totality, in particular the element that generates the “framework will” for the “economic will,” and on occasion also the element generating an “intervention will” that overrides the “framework will” in order to intervene in the “economic will”?

Even if it were theoretically possible to solve the problem of the qualitative distinction between natural and social costs in a centrally administered economy (which we just disputed), we would still be a long way from overcoming the quantitative difficulty of accounting in such an economy. Or, in other words, the validity of the cost principle in accounting can only be secured when the costs of interventions in the economy, which would otherwise negate this principle, are accounted for separately. In a centrally administered economy, however, such a process is unthinkable.

Now we can also understand the reason for, as well as the significance of, the fact that our socialist accounting is only applicable in a functionally organized economy. The reason is that only in a functional system do the accounting concepts of natural and social costs, which flow from the principles of socialism itself, become quantitative magnitudes that can be recorded. The significance of this restriction is, therefore, that accounting in a centrally administered economy is fundamentally impossible.

At any rate, regardless of our position on the subject of the relation between a functional economy and a centrally administered economy, the mechanism of social-political accounting, as we have developed it here, definitely applies to a functionally organized economy. [420]

Our line of thought has intentionally bypassed the economic-theoretical problems that have confronted us in the form of the factual presuppositions of our theses. We have neither claimed nor proved anything regarding the possibility or impossibility of these presuppositions, and we therefore contributed nothing to bringing the main problem of a socialist economic theory closer to a solution.

However, we do believe we have demonstrated one thing: that if one presupposes a functionally organized socialist economy, accounting would be possible in it.