
In this stimulating and thoughtful book, Branko Horvat attempts to develop a theoretical framework for analyzing problems of economic planning. The purpose of the treatise, as stated by him, is "to discuss the possibility of designing an efficient economic system, i.e., a system which would generate maximum product, potentially achievable in the historically given social-economic conditions." The author uses the rate of growth of social product as a measure of economic efficiency of a particular socio-economic system. Economic efficiency, in turn, is based on consumers' valuations.

The efficiency of both private capitalism and state capitalism is imperfect. From the economic point of view, the institutional set-up of private capitalism is far from being rational. The absence of coordination in decision-making results in business fluctuations and waste of resources. Moreover, economy based on private ownership leads to irrational distribution of income. It is irrational because economic welfare can be increased by a more equal distribution of income possible under a different socio-economic set-up. The system is irrational for an additional reason; it diminishes the potential productive efficiency. Productive efficiency is maximized when health, education, and incentive to work are maximally enhanced. Excessive inequality of income prevents this maximization.

State capitalism based on state ownership and central planning implies bureaucratic economic organization based on hierarchical principles. Such a state-owned economy reduces economic efficiency for the reasons similar to those hampering a private enterprise system. As Horvat states it: "Co-ordination is less than optimal. Social mobility is less than potentially possible because the sons of those holding offices—like the sons of those owning wealth—are necessarily privileged in a hierarchical society. And, . . . the operations of the hierarchical principal produces social polarization, social polarization generates conflict and conflict is not conducive to efficiency."

After pointing out the deficiencies of both private and state capitalism, the author posits a central question of his work: "Is there any other feasible . . . socio-economic system which is more desirable on economic grounds?"

In a theoretical search for the answer, the writer is eclectic in the sense that he uses the contributions of both "Western" and "Eastern" economic thinkers. He deplores the deficiencies of the theories built on a too narrow basis of purely economic logic, because they exclude decisive socio-political and other institutional factors. He adheres to a dynamic view. As economic institutions change, both economic theories and basic analytical concepts must be revised. The heart of the book consists in an evaluation of numerous analytic concepts and theories and their applicability to an economy of the Yugoslav type.
Horvat defines planning as "perfection of market choices in order to increase the economic welfare of the community." In a free-market non-planned economy the "Market" is the Planning Authority. To transform such an economy into a planned one, it is necessary to correct the automatic decision-making mechanism in four respects. Adjustments must be made for the following defects: (1) irrationality of consumers' choices; (2) differences between real social cost and money cost and between real social benefit and price; (3) un-economic production solutions caused by the uncontrolled price system; and (4) potential deviation of distribution of income and of the social product as between the investment and consumption from the optimum. If all these adjustments are properly made, an ideal planning will emerge, a planning which leads to a maximization of the rate of growth of economic welfare.

Social welfare is maximized when social product is maximized. Horvat classifies definitions of social product in three distinct categories: the Russian Definition, the American Definition, and the Kuznets Definition. None of these definitions satisfy Horvat. For him "social product is conceptually and statistically derived from potential (statistical) product by subtracting the cost of the social system." Furthermore, if replacement and maintenance costs are deducted from the social product, the remainder is social income. But maximization of income is a matter of valuations and not just a matter of physical volume of goods and services. The most elementary choice between productive efforts and leisure cannot be further analyzed in terms of economic efficiency. The real difficulty is to find out what the genuine valuations of the members of the community are. And this is a problem to be solved by politicians and sociologists.

The author defines the term "Planning Authority" as "organs of economic coordination above the level of individual enterprises." These organs are "servomechanisms of a complicated self-regulating machine of planning which must be designed in such a way as to keep the economy on the path of production maximization." To avoid the evils of bureaucratism, initiative and responsibility must be kept close to the place of work. In an efficiently planned economy, the enterprise or the working kolektiv must be the basic decision-making unit. It enters market relations with consumers and other enterprises. The market is an extremely useful part of the co-ordinating mechanism. It performs a large part of planning automatically. However, market must be supplemented by the units performing horizontal and vertical co-ordination.

As an organ of horizontal co-ordination, the author proposes the Commune defined as "a social-territorial community of citizens bound together by the common interests as producers as well as consumers." The Commune must provide a co-ordinating apparatus and "establish a representative body whose valuation will be superior to that of a single kolektiv or an individual in matters concerning the interest of other kolektivs and individuals."

The function of vertical co-ordination includes the complex relations of the various levels above the enterprise. It is vital for the economic system as a whole. It contains five main components parts: Industrial Associations; Planning Bureau; Trade Unions; Parliament with the Government; and the Bank.

Horvat ends his book on a hopeful note. He predicts a process of evolution toward more decentralized planning as welfare increases. In his words:

Increase of economic welfare with corresponding increase in leisure time and equalization of incomes, elimination of class antagonism with the corresponding equalization of opportunities, and scientific progress—including the progress of the economic science as well—are likely to diminish the need for valuations in economic matters above