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CONVERGENCE THEORIES AND
OWNERSHIP OF PROPERTY

KENZO KIGA

In 1920, when Ludwig von Mises wrote his first critical essay\(^1\) on the possibility of rational planning in a socialist economy, there were signs of economic collapse in Soviet Russia. Lenin’s retreat to the New Economic Policy in 1921 seemed to reinforce Mises’ theoretical predictions. Some Western observers expected a decisive failure of the Soviet experiment and the revival of market mechanisms in that economy.

Since the late 1950s there have appeared in Soviet academic and political circles reflections on the defects of the strictly centralized planning system of the Russian national economy. And again the expectation has grown among observers in capitalist countries that a socialist economy of the Soviet type—a centralized, planned economy—would move toward something resembling a capitalist market economy. No one predicts a return to laissez-faire capitalism, but many look for something halfway between a planned and a market economy or between socialism and capitalism.

At the same time the theory is abroad that the capitalist system has modified itself and is changing the course of its economic development, dropping some aspects of its original theory while absorbing a measure of the socialist approach. We can identify two general positions regarding this point. The first finds the causes of the trend in the technical development of production methods and management. The second sees the bases for the change in a social willingness to remold economic organizations more rationally as well as to improve their economic efficiency. We may call the former the objectivists and the latter the subjectivists.\(^2\) Of course too much emphasis cannot be placed on the distinction between the two.

Both take similar factors of economic development into consideration. For instance, both sides point to the separation of capital ownership from control in large modern corporations as a distinct characteristic of modern industrial society that has weakened the power of private owners of capital. The managers and salaried executives who exercise the day-to-day decision-making powers in industry suffer little interference from the nominal owners of capital, the share-holders. They are not necessarily motivated by profit maximization. Instead, they are

\(^1\) Ludwig von Mises, Die Wirtschaftsrechnung im Sozialistischen Gemeinwesen Archiv für Sozialwissenschaften und Sozialpolitik, April 1920.

\(^2\) John Galbraith may be taken to represent the objectivist point of view and Jan Tinbergen the subjectivist.
more adaptable to public control, recognizing the need for increased long-range planning to promote corporate growth and security.

However objectivists and subjectivists, differ in their interpretation of this tendency. John Galbraith, whom I take to represent the objectivists, believes that the process of industrialization inevitably will decide the character of an economic system. In the United States as well as the Soviet Union, he says, the imperatives of organization, technology and planning at a highly industrialized stage of society operate similarly and demand a similar economic structure. Modern large-scale production requires control of prices and quantities. The managers, executives and technocrats of big business, whom he characterizes as the "technostructure," enjoy control over the corporation, are not necessarily restricted by shareholder interests and demand planning and cooperation with the State. Socialization of large industries is, according to Galbraith, inevitable.

Compared with him, C.A.R. Crosland and Jan Tinbergen may be cited as representatives of the subjectivists. According to Crosland, in modern big business private ownership of capital is no longer desirable. This leads him to assert that capitalism is evolving into socialism. However, at the same time he underlines other social and political factors that contribute to the evolutionary process. These include a keener sensitivity by business leaders to the public interest, the aggravating importance of industry's social responsibility—to workers, consumers, the environment—and greater emphasis on co-operation, participation, democratic leadership and permissive management. We could say that politically Crosland is oriented toward the Socialist goal, while Galbraith would be defined as a determinist.

As another type of Subjectivist I would like to cite Jan Tinbergen. He believes in the convergence of the two economic systems, and in a free market for Western countries and central planning for Eastern countries. His theory is based on changes he sees being worked in both camps. Western economies have become increasingly controlled by their governments and dominated by the public sector, while the private sector and private capitalists have been becoming less significant. Socialist countries are also changing as they tend to introduce market mechanisms into their centralized economies. Tinbergen thinks of an optimum national economic structure as lying somewhere between a plan and a market system. People in both camps reflect the defects of their own economic systems, he says. They learn from each other through exchange of information and experiments in

(5) J. E. Meade calls Galbraith a Historicist, while he himself is a Social Engineer. This distinction he borrows from Carl Popper. cf. Meade, "Is the New Industrial Society Inevitable?" Economic Journal, June, 1968, p. 675.
planning techniques. As they try to remodel their structures, an optimum society will devolve, he says, in which the economic systems of West and East will finally converge.

Thus, the objectivist relies solely upon the historical development of economic or technical determinants to justify their predictions. They describe the process of transition as if it were moving automatically in a single direction, regardless of the popular will. The subjectivists, however, while extrapolating certain current tendencies, emphasize the popular will to a better, more efficient structure in a growing society, taking into consideration political, ethical or rational factors. It seems to me that the determinists are wrong in exaggerating certain trends while neglecting others that are also important in directing the course of economic development. An economic system is a composite of various social, political and legal organizations adapted to human needs. Some of them are rooted in technical or emotional elements and are difficult to change. Others are instituted for given economic, social or political ends. They are deliberate in the sense that they are products of cooperation, compromise or coercion between divergent groups of people. Predicting the future of an economic system is not like forecasting the weather. Rather it has points in common with business forecasting: One can change, to a certain extent, market conditions to try to bring about stability, prosperity or whatever objectives with which one may be concerned.

The system of command economy in Soviet Russia offers an example. Communist ideology, despotic Party power, Russian traditions, the world situation as it affected the Soviet State—all these contributed to the formation of the Stalinist type command economy. At present, we see symptoms of change in the Soviet economic system. Command seems to give way to contract. The carrot seems to replace the whip. How far the change may be extended is now a matter of growing interest among Sovietologists. In trying to predict the future of the trend, however, we might fall into serious error if we make a simple deterministic extrapolation of past trends.

What I want to try to discuss here is the directions of the development of the capitalistic and socialistic systems of economy, taking account of historical conditions. Is convergence of the two systems inevitable? If not, what are the reasons and how might convergence occur? What are its alternatives? These are difficult and broad questions and I shall be able to deal with them partially in the allotted space. (7)

(7) Supporters of convergence are mostly inclined to ignore the significance of the institution of property. Peter Wiles is an exception. See his lecture, "Zur Frage der Konvergenz ostlicher und westlicher Wirtschaftssysteme," Kieler Vorträge, Neue Folge, No. 55, 1968.

He clearly admits a limit to convergence in respect to the rights of property. Different property systems will accompany differences in investment disposition, in bankruptcy and in the distribution of capital gains and earnings from capital. But for Wiles, who manages invested capital, not who owns capital, is the main concern. As to the behavior of these managers, he finds no distinction among the Capitalist, Socialist and Yugoslavian systems. At this point our views diverge.
I define capitalism as an economic system based on the institution of private property and private enterprise with free competition among them. My definition of socialism is that system based on public ownership of the means of production and public enterprise subservient to a centrally planned mechanism. According to this definition, most western countries are capitalist and the countries of the Eastern Bloc are socialistic. My main proposition is that although there are a number of signs in the countries of both sides that tend to cloud the above definitions, these changes will not nullify the basic traits either of capitalism or of socialism. Hence, I believe the probability of convergence is very low, in spite of a growing tendency toward similarities in various aspects between two systems. At the same time the capitalistic system is, I believe, more compatible with human needs and more consistent with general economic welfare than the socialistic system. Therefore the submergence of socialism to capitalism is desirable, but the opposite is not.

The convergence theories are based on four fundamental observations. First, modern technology in a highly industrialized society is accompanied by large-scale corporations, and they are managed not by owners of capital but by professional managers and technocrats. Corporations under their control behave differently from traditional capitalist enterprises in that they have the power to control their market and they demand government planning. The whole climate of the capitalist system will be determined by them, while private ownership of capital, individual entrepreneurial activities and the force of the free competitive market will be powerless to influence this climate. It will impell capitalism to approach socialism.

Second, expansion of the public sector compared with private sector is one of the marked tendencies of modern capitalism. It is accompanied also by an increase of public control over the market, and this brings about capitalism's evolution to socialism.

Third, the role of governmental planning is increasing in significance in the market economy. Progress in economic knowledge and of economic planning techniques will encourage both Western and Eastern economic systems to construct a rational, optimum structure toward which both systems will converge.

Fourth, the Eastern countries have loosened their tight central planning system and are trying to introduce market mechanisms into their planned economies. The central planning system does not work well at the present stage of industrialization. In order to improve its efficiency, the leaders of the Communist states have had to reflect upon their planning systems. Moreover, the development of scientific knowledge has induced them to become more familiar with Western techniques of economic planning. De-ideologized, they will come nearer to capitalism.
Regarding the first reason stated above, it is true that the development of the joint-stock company has made it possible to separate ownership of capital from its control. In modern large-scale enterprises, most individual share-holders have no direct influence on the disposition of the capital they have invested. The enterprise runs the business from its own standpoint. It may seek profit, but not merely in the interest of its shareholders but for its own sake, to insure survival. Large corporations need not depend upon individual capitalists for investment. The greater part of their capital is provided from profits that they earn and do not distribute. The advocates of convergence theories insist upon the decreasing significance of the ownership of capital. If they are right, shall we have to admit the degeneration or transmutation of capitalism?

I find it difficult to agree on two points: first, to imply that capitalists are now powerless either as owners or as investors is an exaggeration. Second, the convergence advocates underestimate the role of entrepreneurship in free private enterprises.

It is true that share-holders in big businesses have almost no influence on the daily activities of managers. But as owners of capital they are concerned with the records of the company. As bearers of risk, investors and managers are joined by a common interest. The development of the joint-stock company has brought about the division of labor between saving, investment and management. Owners, investors, and managers can be different persons. The market for investment, credit and stocks is the organizations that connect the interests of these three functions. Joint-stock companies, however big they may be, almost without exception cannot be independent from them. They are the ties that connect owners and managers. They exist, stand and fall with the system of private ownership of capital. There will be no such market in a socialist society, where capital and companies are owned by the State. It is an exaggeration to say that mature corporations are wholly independent from capitalists and that private ownership of capital is irrelevant to the capital formation of big business.

As to the entrepreneurial function, socialist-oriented observers suppose that it will be assumed by managers and technocrats in big businesses and that capitalists will be no more than interest recipients. Moreover, those managers can, they assert, undertake the entrepreneurial function with less risk than the capitalist-entrepreneur because the market is governed by the power of big business. And since they work not for the sake of their investors, but for the sake of their business, the function and the behavior of the managers will not be fundamentally different from that of managers of socialist corporations.

Schumpeter once predicted the downfall of the entrepreneur as a result of auto-

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matization brought about by a "perfectly bureaucratized giant industrial unit." (9)
In the place of the capitalist-entrepreneur, he imagined a socialist organization in
which every innovation would be spread through governmental decree. He said,
"In the capitalist order improvements occur as a rule in individual concerns and
take time and meet resistance in spreading...In the socialist order every improve-
ment could theoretically be spread by decree and substandard practice could be
promptly eliminated." (10) The fact is now well known that the reality is just the
opposite in the Soviet Union. Entrepreneurship will be brought into full play
only under the condition that "disposition over capital which permits the enlarge-
ment of existing undertakings, the contraction of others and the bringing into being
of undertakings that are completely new" (11) is left to the capitalists and speculators
and not to the socialist state.

Quantitative increase of the public sector compared with the private sector is a
trend quite evident in the recent economic development of capitalist countries.
At the same time, the increasing measure of public expenditure means a growing
tax burden upon the citizenery. This phenomenon restrains relatively the extent
of the consumer's sovereignty in the market. Similarly, increased public invest-
ment certainly restricts the sphere of resource allocation through the market
mechanism. Moreover, various kinds of public control are spreading which re-
gulate or often restrict the behavior of private enterprises in the market. It may
be reasonable, or at least not strange, if one finds among these currents a tendency
called "socialistic."

The problem here is whether as a result of the growth tendency of the public
sector the market economy will be displaced some day by publicly financed and pub-
icly managed enterprises. The answer clearly is no. In the mixed capitalistic
economy, both sectors are not always in competition, but in essence complement
each other. Thus the public sector relies, on the one hand, upon the private sector
for its existence and growth, while the latter is nourished by the former. The
public sector receives its annual revenue, with the exception of earnings from public
property, through taxes, either direct or indirect, collected from wages and profits
earned in the private sector. On the other hand, money spent by public authorities
as social overhead capital will provide private enterprise with new investment oppor-
tunities, which may react favorably for the public sector. It will be very difficult, of
course, to make clear quantitatively the degree of correlation. But we can say that a
country with a relatively high level of wages can bear a relatively higher tax bur-
don than a country with lower level of wages. The fact that there is a correlation

(9) Josef A. Schumpeter, Capitalism, Socialism and Democracy, 1942, p. 134.
(10) Schumpeter, ibid., p. 196.
(11) Mises, Socialism, p. 141.
between the two sectors will induce the public authorities to be prudent and circumspect both in the extent and method of tax collection and with the nature of public expenditure. Moreover, it is important to note that both sectors are supplied with common denominator, the market price. The public authorities collect a certain sum of money from the population, spending it according to its own preference scale. However arbitrarily the public authority prefers one item of expenditure to others from the consumers' standpoint, and whatever satisfaction it enjoys (which is independent from that of the population), the preference itself may be right for the authority, so far as it is internally consistent. However, the cost of each satisfaction by the public authorities is expressed quantitatively by market prices. Thus, taxpayers can make some sort of economic comparison about public expenditure with their own. Market price as the common denominator works as a means of economic communication and calculation between the two sectors.

The situation is totally different in a mixed socialistic economy, where property is publicly owned and business is run by the public authority according to a centrally determined plan. The public sector is there supreme and the private sector dependent upon it. In the Soviet Union, the public sector includes the entire capital goods industries. Production of consumer goods also belongs to the public sector. The sphere not governed by the public authority is limited to the extent that consumers prefer one to another among the goods supplied by the authorities. If the government concedes more to consumers and allows production of goods by public enterprises according to consumer preference, there will then come into existence of a market where consumer sovereignty will be admitted. In such a sphere the kinds, qualities, quantities and prices of consumer goods will be determined not by the public authorities but by competition of sellers and buyers. This may be called a mixed socialistic economy. The actual situation in the Soviet Union does not yet conform to this model, however.

It is extremely improbable that a private sector with its own market can be formed inside the centralized Soviet economy. The only exception is the so-called kolhoz market, where kolhoz peasants sell their products at free market prices. Even though the total amount of eggs, vegetables, and other items sold is quite significant, its role is narrowly limited to providing city people with daily necessities. Another, more important private sector, which exists outside the Soviet Union and has a growing influence on the Soviet economy, is the world market. The Soviet Government faces here two completely different economic systems, each with its own preference scale and production possibilities. The price structure of each system is, of course, different. Determining what to import and what to export is an almost impossible task for the Soviet Government to calculate rationally. The advantages of the international division of labor cannot be calculated by the Soviet standard and cannot be used as a principle of foreign trade for the Soviet Government. The Socialist type of mixed economy
will be accompanied by innate disadvantages from the standpoint of general consumer. (12)

Some experimentation has been seen recently in a branch of the textile industry wherein enterprises are allowed to produce items that reflect consumer preference. It is reported that the experiments have been successful. But difficulties soon occurred. The enterprises often were unable to get sufficient raw materials, which were rationed by a planning authority. Prices of the garments, which were officially determined, were not sufficiently remunerative to cover costs. This story underlines one of the basic contradictions between plan and market in the socialist type of mixed economy.

Still, is there no probability of introducing a consumers' goods market on a broader scale? If in the future affluence arrives, will consumer sovereignty not be admitted as a principle of resource allocation? If so, there will have to be a market for consumer goods. To make it work effectively, a market for producer—goods will also have to come into existence. It will mean abolition of the central planning system. This is very improbable. Present Party leaders seem to be considering trying to manage affluence not only by extending the sphere of consumer choice, but also providing them with a wide sector of collective consumption. The patriarchal nature of the latter is more compatible with socialist idea than the idea of consumer sovereignty.

The third factor that is supposed to encourage the convergence of capitalism with socialism is the trend of planning expansion in the capitalist countries. Galbraith predicts that plan will displace market because of the economic needs of large corporations. (13) Tinbergen foresees that the progress of scientific knowledge regarding economic mechanisms and planning techniques will tend to control the market economy while loosening the strict central planning system of the socialist countries. Galbraith's planning relates to corporation planning while Tinbergen is speaking of planning by public authorities either for the public sector or for the private sector.

According to Tinbergen (14) the planning of 20 years ago in Western countries was of a macro-economic nature, aiming at the adjustment of market fluctuations.

(12) Jan Drenowski discussed a mixed economy of the socialist type in his article, "The Economic Theory of Socialism: a Suggestion for Reconsideration," in the Journal of Political Economy, August 1961, p. 341-54. According to him, there are two sets of preference scales: that of State and that of consumers. There are also two sets of prices. He writes, "Both systems of prices are rational and 'correct' in their particular way. The 'state prices will be applied to all dealings between state enterprises and will be applied in all national accounting calculations. The 'consumers' prices will apply to sales by state enterprises to consumers.' If both systems of prices are independent from each other, and if resources allocated to consumers are decided by the State, then it is of vital concern who judges the rationality and correctness of the State's preference. Drenowski seems to believe that state's preference function is correct because state decides it.

(13) The Galbraith's conception of planning is different from that of the socialist concept is rightly pointed to by Meade. Ibid., p. 378.

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Today knowledge about market behavior has made remarkable progress. Quantitative analysis of the laws of production, of demand structures and statistical research are expanding to prepare for rational planning, planning for an optimum society. Eastern countries have been reflecting on their defective planning methods and are trying to improve planning measures and techniques. Communist ideology seems no longer to be an obstacle to the introduction of mathematical economics, econometrics and other bourgeois economic methodologies. Therefore, the exchange of economic knowledge and planning techniques between West and East will make for mutual understanding by both sides, which will probably lead both systems to an optimum societal structure. Furthermore, he notes that the economic goals recently on both sides are coming nearer to each other. That is to say, he believes that national welfare with the most equal possible distribution of income will be the common goal of West and East.

It seems to me too optimistic and too simplistic to expect only a single optimum societal structure. For instance, the goals of the economic systems, that is, general welfare and the most equal possible distribution of income, are very vague conceptions. General welfare consists of a number of factors, national and individual, far-reaching and immediate, cultural and material.

How to calculate, how to measure the general welfare is an insoluble question. The progress of economic analysis and planning techniques may make comparison of economic efficiency possible with certain standards. One may compare the economic efficiency of the two systems, for instance, by the criterion of growth rate or by a military power standard. Whatever the correct conclusion, it may not necessarily induce convergence, although it may be useful for self-examination and may stimulate mutual economic improvements.\(^{(15)}\)

In the Communist countries the monopoly of political power by the Party is closely tied to the system of public property and central planning. The economic reforms now going on in these countries seem to be limited to the extent that they will not compromise the authority of Party or the system of central planning and public property.

Inherent defects of the central planning system have been, first, the lack of an adequate mechanism for adjusting supply and demand, second, the lack of personal incentives for innovation, third, the lack of rational criterion to measure the economic contribution of one's performance. These deficiencies are not new to the Soviet system. Under Stalin and even under Khrushchev they were not of great political concern for the Party leaders, whose main economic goal had been

\(^{(15)}\) Karl Tahlheim remarks that planning techniques such as input-output analysis and linear programming are neutral to an economic system just as the techniques of production in an ironworks are neutral to any economic system. "Bedeuten die Wirtschaftsreformen in den Ostblockländern einen Systemwandel?" Wirtschaftsplanung im Ostblock, 1966, p. 57.
rapid industrialization. The policy of a high investment rate in basic industries had been sustained by coercive saving and centrally planned allocation of resources to these industries.

Since the late 1950's the growth rate has declined, various unbalances between industries have become serious and complaints have increased among the populace about the inferior quality and the shortage of daily consumption goods. Khru-shchev reorganized frequently the administrative institutions of central planning to improve the situation. But the reorganizations have not had much effect. Since early 1960's, planning methods has been the subject of serious reflection.

Then came Kosygin's reform. This will be summarized briefly under three points: (1) decentralization, (2) the use of economic levers, (3) the adjustment by prices.

(1) Decentralization, if it is to be undertaken consistently, should lead to abolition of central planning itself. This would eliminate directives from above and each manager would be free to set his own production target, looking after the particular interest of the enterprise. What has happened, actually, has been merely a loosening of directives, so that managers have been given slightly less indices for plan fulfillment. The reform has not in this respect changed the dependency of enterprises upon the central authorities at all. Some experiments have been reported in free sales of producer goods, but there seems to be no sign of expansion of wholesale market.\(^{16}\)

If Soviet managers would be allowed to trade with others, certainly decentralization in a true sense of the word would come into being. However, Kosygin's plan does not envision the realization of a free wholesale market, but rather a "shift to the planned distribution of national resources through wholesale trade,"\(^{17}\) where the State Planning Commission or territorial agencies of material and technical supply are in charge of allocating funded and unfunded materials to consumer enterprises. The following excerpt from a speech of Kosygin at the 1965 plenum clearly shows the character of his decentralization idea:

"The ministries will carry out planning, will guide production and will decide questions of technical policy, material and technical supply, financing, labor, and wages. The research institutes for the branch of industry will also be under their jurisdiction. This will ease the production and economic work of enterprises, since all major questions of principle in the production and economic activities of the enterprises will now be decided in one agency—the ministry."\(^{18}\)

(2) The idea of economic levers aims at improving efficiency of production through material stimulation. Instead of commanding directives, the new measures anticipate increased efficiency through economic motivation. The system of profit sharing, rewards in proportion to profits, capital supply through credit


rather than through grant, production targets measured by sales amount: these all are designed to stimulate managers and officials who are responsible for the performance of an enterprise.

In the market economy, the price mechanism functions for the measurement of, remuneration for, and stimulation of management performance. In the planned economy each of these functions must be dealt with by various bureaucratic organs. There are organs that lay down plans, organs that allocate capital, organs that control resource distribution, and organs that decide prices. Each organ has its own criteria for carrying out its task. Relation between them have been inconsistent, causing confusion and contradictions. The reform was intended to improve the situation through a partial revision of the planning system. The whole commanding and directive power of the central authority is retained in the hands of the Party. And I think that the fundamental causes of this half-hearted reform program lies in the totalitarian nature of the Communist State, which shows a clear and sharp contrast to political democracy and the private property system of capitalism.

(3) One of the most embarrassing problems in the Soviet economy is to keep a balance of supply and demand at the micro-economic level. Theoretically, input and output are to be balanced for each enterprise when the plan is determined. A shortage of supply is chronic in many capital goods sector's inaccurate and incorrect planning, over-estimation of demand, underfulfillment of plan targets and the awkward bureaucratic process of planned distribution are among the chief reasons. These reasons may be eliminated or lessened by improvements in the planning system, but it will be very difficult at this highly industrialized stage to develop a perfect plan.

But the inherent defect of the Soviet central planning system in this respect is that it lacks a price mechanism that functions as a measure to balance supply and demand. The Soviet system of fixed prices aims first of all at the calculation of production costs and seriously considers neither the adjustment of supply and demand nor criterion of preference. Officials fixed prices unbalances the picture more often than balance it. Because they do not express scarcity, managers prefer, so far as they are allowed, to demand scarce and low-priced goods on the one hand, and to supply excess goods on the other hand.

Kosygin's reform has caused a re-examination and revision of the whole capital goods price-structure since 1966. It has taken into consideration the allocative function of prices and price as a scarcity value to a certain extent. But cost calculation as the principal function of price has remained unchanged. It will be almost impossible to remove from the Soviet planning system of this function of price. To leave adjustment of supply and demand to price would mean giving up central planning. It might be possible in a very limited area to introduce the market mechanism into a planned economy so that it would not eliminate the planning system, but it would hardly play more than a subsidiary role just to cover up the shortcomings of planning.
All considered, in the foreseeable future it is very unlikely that we will see an acceleration toward convergence in the development of the centralized planning system of the USSR. One may question further whether it is inevitable, in spite of Soviet leadership's intention to maintain its traditional system, that industrial development will displace central planning with a market economy, public with private property. I cannot be so deterministic as to answer the question. What I can say is that technical necessity or the economic efficiency demanded by industrial development are not the only factors that determine the pattern of economic society.\(^{(19)}\)

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\(^{(19)}\) The Yugoslavian economic system may be cited as an example of convergence. However there are many problems still to be solved. I am not sure that it has given us a final answer. See the sketchy summary and comment on the Yugoslavian economy of George Halm: "Will Market and Planned Economy Converge" in Road to Freedom; Essays in Honor of F. A. von Hayek, 1969, p. 75–88.