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A metaphoric system of economy: the Herring Barrel Metaphor

by

Jan W. Owsinski

Systems Research Institute
Polish Academy of Sciences
Newelska 6, 01-447 Warszawa
Poland

The paper presents a simple metaphor for an economic and political system based upon the principles of shortage and distribution. This metaphor provides an effective measure for describing a certain class of economic, social and political phenomena well known from the experience of the "real socialism" countries. It gives the rationale for the working of the system in conditions of apparent equality, full employment, ineffectiveness, lack of true information, dual economy etc. The paper goes on to show the most important difficulties of transition to an open economy and democratic society.

1. The system

Imagine a country, whose government, due to a war or a natural catastrophe, had to recur to special anti-speculation measures. Moreover, in order to avoid inflation, which might result from scarcity of many important goods, market mechanisms were virtually totally abandoned. For a better insight into the consequences of such moves let us look at a small shop selling herrings.

Each morning a van comes bringing a barrel of salted herring. The barrel is then normally put behind the counter. (This is important insofar as behind the counter no customer can see how many herrings are there still in the barrel.) In conditions of — already commonly known — shortage there is every day a queue of people waiting for the herrings. The herring seller is paid flat salary, independent of the sales of herrings, upon which, anyway, he has very little influence.

Queues, however, exist not only at the herring shop. The herring seller is fully aware of this. He himself is looking for several goods and services, for which queues are being formed every day. He is not sure whether he shall get all of these, especially so as he has his work to do. But, on the other hand, he also knows that, from time to time, sellers of these other goods and services shall line up for the herring. That is where his hope is. As long as there is a queue, and as long as there is uncertainty as to whether everybody in the line shall have his demand satisfied, the herring seller may hope that he can exchange herrings at his disposal for these other goods and services.

True, if everybody were sure of getting what they want, even at a cost of some lining-up, there would be no motivation for such an exchange of goods and services among sellers (or, more properly: distributors). But the uncertainty is there, so that the herring seller is performing his behind-the-counter trick in order to secure herrings for those of value for him.

Hence, the herring seller owes his capacity of getting the needed goods and services to the uncertainty as to obtaining herrings in his shop. Therefore, he is interested in maintaining the expected proportion of the length of queue which gets served from day to day at, say, 80 to 90%, so as not to cause rebellion on the one hand, and to retain his exchange power on the other. Of course, his control over the situation in the herring shop is limited, but it is sufficient to absorb slow changes in supply and/or demand. Thus, even if one day there were plenty — or, say, enough — of all those searched for goods and services the herring seller shall use all of his tricks to get rid of the “surplus” and cut down the served proportion of the queue to “normal” dimensions, i.e. 80–90% of the line. This can be done, e.g. by giving a little more to his better clients and telling them this is a special opportunity before the price hike, or by simple dumping (the “surplus” has a negative value for him). On the other hand; in exactly the same way, the herring seller is unable of looking behind the counters of his exchange partners, and so he shall never know what goes on with the other goods and services, and his interest in the shortage of herring shall persist.

Thus, we have reached the first truth about such a system: all those in power of distributing goods and services are positively interested in a certain (“optimal”) degree of shortage. It is from this shortage that power is reaped. And therefore power, not economy, and shortage, not wealth, are the motive force of the system. This, though, is not everything.

By keeping the non-served proportion of the queue at a certain low level the herring seller is keeping away the threat of counteraction from the customers, since the probability that a customer not served one day may get served on another day is “sufficiently” high. This, however, is usually not enough. The customers are in fact asking why there are still not enough herrings, although the catastrophe (or war) that started the system occurred so long ago. On the other hand, the superiors of the herring seller may know that the supplies are on the increase, and may still hear of inadequacy of supplies. What then? Then, the herring seller, the sole owner of his, albeit very narrow, truth, is recurring to another set of tricks, although quite old and worn out ones. The first is: “the speculators and those who amass reserves are buying too much”. Such explanation is plausible in conditions of — known — shortage, cannot be easily verified and is quite satisfactory, as we shall see, for the herring seller’s superiors. The other trick consists in waving conspicuously his finger in the direction of some “them” (who have installed and still run the system, that is), which may effectively channel the public discontent. The situation is similar with the other sellers/distributors.

Thus, the system is characterized by the inherent lack of true information, not only concerning supply and demand — in fact lack of truth in general. It is in the interest of all sellers to conceal the truth, and there is no mechanism to make it surface.

Now, at a certain time point the herring seller may, if the system is working properly, give up completely his salary. Wow! Look! What a new era for humanity: not only are distributors not gaining more than humble you, but they are actively fighting for your well-being at, virtually, no cost to you. True, the only risk (other than revolution) for the herring seller is that he may get fired or that more herring shops are opened, so that eventually everybody gets served. In fact, only the first threat is real.

Since the positions of herring sellers are highly valued, people are also, although in a different way (it takes, first of all, knowing how to), lining up to get these positions. Non — everything that has been said of the line in the herring shop applies to this superior-level line as well. There is no market at

this level, neither, and the position of the superior who assigns people to the herring-selling jobs is valued only when there is adequately short supply of such positions, even though the ultimate demand for herring would require more herring shops. A person lining up for a herring seller's position may be a son of someone who distributes cars, wife of someone who might give you a construction plot ("down with land speculation and skyrocketing land prices!"), or brother of the toilet-paper plant director. This way one is really able to get — almost — everything.

The setting repeats itself at consecutive levels up to the top and thereby a coherent system of shortage, distribution and personal power is formed, internally cognized and maintained.

The system has two ethical (and legal) sides: the external one, showing equality, stability, full employment, lack of "individualistic greed" and "animal-like competition", and the internal one, reserved to those in positions of power, where only subordination, strict execution of orders, exchange relations and maintenance of the system count. This system is in a way organized and run like mafia — no written orders, no traces, and double morality, where any member of the (big) family can be destroyed if not by killing then simply by exposing him to the official (external) justice, for the border between acquiring things in a formally proper manner ("I was standing in this line"), though, perhaps, a bit more effectively, and getting them quite "informally" is very, very thin indeed, the more so as the mechanism is in both cases the same. This system is, however, far beyond mafia in that it totally shapes and maintains both these ethical codes — the external and the internal ones — on whose difference it preys.

The motivation to shortage turns into motivation to inefficiency. Productivity decreases and thereby full employment is easily assured — nay, even just to secure the "optimum shortage" of goods there may not be enough labour.

2. The change

There is a race between the decrease of effectiveness, induced by the "optimum shortage" philosophy, and the increase of employment. There is an end to this race, of course. But when this end comes the system is no longer able to cope with the challenge: how to preserve the "optimum shortage" level while there is not enough labour. This would require enhancing productivity, which nobody

knows how to do any more, and in fact, there is still motivation within the system to maintain the optimum shortage philosophy.

One of the ways out seems to lie in massive infusion of foreign resources. These, however, get easily completely sucked away by the insatiated system of distributors, so that in a short time nothing is left and no enhancement occurs.

Another way out, perhaps, lies in a change of principles governing the system.

Any attempt at a partial change must of necessity fail, being absorbed and/or annihilated by the system, keeping to well understood own interest, strictly connected with preservation of the basic features of the system (disposal, shortage, personal power, duality, . . .).

Things may become, however, so bad (the average served proportion of the queue falling down to 60–70%, for instance) that it is necessary to attempt a complete change of the system. Obviously, for many, the only alternative worth considering is market economy and far-reaching privatization or re-privatization of economic assets (although, in fact, this is by no means the only alternative). When looking closer at it, however, one easily guesses that many of the herring sellers have very little against total privatization as long as it is being carried out while they are still in positions of power. (“You wanna capitalism? Sure, why not — but we gonna be the capitalists”.) One of the sources of their motivations is the threat that in conditions of falling efficiency their exchange power may be eroded, or that a revolution may occur, but for some — it is also the perspective of better gains with the new order.

Privatization may proceed by giving away, by selling, or in a concealed manner as a quasi-managerial-revolution, and in all these cases it is herring sellers, their likes and superiors who are the first ones in the line. No wonder, it is them who have the resources and power to seize the new opportunity in a well organized manner. Once there, the herring sellers are mostly interested in preservation of group-monopolistic economy, for then they do not have to make big efforts to make money. Thereby, they are not only acting against the intended purpose of the change, but also partly against themselves. They are, however, presently in a state of collective paranoia (meaning a consistent system based upon a crazy foundation).

Although the herring sellers may relatively easily avail themselves of shops, plants and enterprises, many of them feel that the free market principles are, in the long run, against their interests. Thus, the actual behaviour is threefold: * become a true capitalist, * take money and run, * sabotage. Since only very few of the herring sellers know how to become a true, effective capitalist, the

resulting situation is that they become the owners of (a large part of) economy, and simultaneously they in fact sabotage this economy. A parasite gone mad? Eating really up his host?

No, a coherent, though paranoiac strategy, even if not always quite conscious. For what the herring sellers do during such a change is, at the same time, automatic and quasi-optimal. It is namely a consistent and powerful realization of the principle "the worse — the better". Hoping for the people to yell "Come back the herring seller!" But if this does not work out — at least they are left with more economic power.

3. The cure

1. It then turns out that simple financial measures (taxes, interest rates, . . .) are insufficient. In a quasi-monopolistic situation costs shall be borne by the same people as always.

The only true cure is the micro-politico-economic one. Namely, before any financial measures are undertaken and before prices (market?) are proclaimed free the truly equal access to the economic assets which are eventually distributed or sold out or given to manage must be ensured, and this equality must be verified in practice. Thus, everything must be done to prevent formation of the quasi-monopoly of herring sellers before anything else is done.

4. Two OR problems and a paradox

Within the herring-barrel (i.e. shortage-and-distribution) system the main politico-economic OR problems consists in finding, strategically, tactically and operationally, depending upon the level of authority and therefore resolution, the optimum relative length of the served queue. This means: knowing the demand and its elasticity, as well as other parameters related to a given good and its provision, to determine the percentage of people served each time (e.g. 80% or 90%), i.e. expected relative length of the served queue, together with standard deviation of this length, the latter bearing upon the probability that a customer not served today shall get served tomorrow, which must also be optimized. Optimization is performed under two objectives: first — maximization of the exchange power, and second — minimization of the risk of rebellion.

And that is what is being done. Only — who knows demand when it is never satisfied?

In organization of the new system, though, queues would appear as well, even if just for a transitory period. The most important of them is the privatization–reprivatization queue. There are, in fact two such — parallel — queues in which the same people or groups of people stand. One of these queues waits at the door of legislators, while the second — at the door of still powerful distributors.

The first ones in the queue are previous distributors, then there are previous owners, people who somehow managed to become really rich (always in some connection with the distributors who might have helped them by creating supply gaps), foreign investors and, last but not least, perhaps, employees of the privatized facilities, and, yet behind, and really, it seems, least — people in the street. In setting up the rules of the game one has to take into account two objectives: ★ desired maximum efficiency of national economy, together with smooth transition period and minimum loss of budget money for, say, privatization oriented credits (see that these are in reality three criteria which may not necessarily be directed in the same way), and ★ obligations with regard to electorate (which may be to some extent translated into “moral obligations”).

These two objectives act to a large degree in opposite ways. But this is not the main problem. Namely, due to working of the previous system nobody knows what are the facilities worth, and whether they can be bought at all (bidding or not bidding) having in mind financial resources of potential buyers and of the state budget. Suggestions range from straight giving away (moral rights of the employees gained through years of work at low salaries) giving rise to a resuscitation of the distributing system, to equal-rights free bidding (bidding for what?) in which previous distributors would get certainly an upper hand.

