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MARKETS
AND SOCIALISM

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Markets and Socialism

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University of Minnesota for excerpt: Oscar Lange and Fred M. Taylor (1938), *On the Economic Theory of Socialism*, 72–98.

University of Pennsylvania Press for excerpt: Zhou Shulian (1982), 'The Market Mechanism in a Planned Economy', in Lin Wei and Arnold Chao (eds), *China's Economic Reforms*, 94–113.

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Lawrence Wilde for his own article: 'The Demise of the Swedish Model', unpublished paper.

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Introduction

When historians come to write their accounts of the twentieth century one of the dominant themes will be our considerations of the role of the market in society. The market, or aspects of market activity, have been the subject of controversy for several centuries; however, it was only in the twentieth century that conflicting opinions about the market came to have such profound consequences. At one time or another in the past eighty years all of the earth's corners have felt the practical ramifications of the debate about the market. Communist regimes in Russia, China, Latin America and Africa immediately spring to mind, as do reformist social democratic governments in Western Europe, as well as the economic policies of the fascist regimes. A historian who examines the relationship between the market and its alternatives of our century will have to be truly global in outlook. In this collection we focus upon the critique of the market put forward by the German thinker Karl Marx.

Can there be a market in a socialist economy? Marx answered unequivocally 'No'.¹ Commodity production, that is production for exchange, for sale, will be replaced by production for use. Capitalism will have solved the problem of scarcity, socialism will be a world of abundance, with enough to satisfy the reasonable demands of all. Such categories as wages, prices and profit will disappear, along with the division of labour. Men and women will no longer be subject to the impersonal forces of the market and of the law of value; labour will become 'directly social', the alienation of Man from the product of his or her own labour will be ended. It will all be 'perfectly simple without the so-called value', wrote Engels. Planning under socialism will be 'child's play' (*ein Kinderspiel*) wrote Bebel. The producers will meet in a comradely way and decide what to do and how best to do it, their view unobstructed by class division and exploitation. True, Marx also noted that 'all labour in which many individuals cooperate necessarily requires a commanding will to coordinate and unify the process', but gave no hint as to how.

He had in mind not a return to primitive self-sufficient communal societies, but on the contrary a highly developed industrial economy, with therefore multi-million interconnections between the enterprises producing goods and services, and millions of individuals with varying tastes and desires. As Barone in 1908 was one of the first to demonstrate, it would *not* be simple to plan in these circumstances; it would be very complicated.² To replace the market would require a multitude of officials, offices, calculations and instructions. Marx and his followers left vague such vital questions as: the machinery of decision-making, the criteria which would guide the decision-makers as to what constitutes the common good, the means by which consumer demands and the needs for material inputs and capital translate themselves into actual production and distribution. How is one to ensure that mutually consistent plan instructions, once drafted, are in fact implemented? What of the dangers of bureaucracy, dangers rendered likely by the functional necessity of a bureaucracy, hierarchically structured, if there is no market?

The Russian revolution and war communism brought with them an attempt to realize Marx's dream in practice; or at least a particular interpretation of that dream. Of course, the attempt

was made in conditions of war and semi-anarchy. The Russian maverick-Marxist A. Bogdanov, already in December 1917, warned his comrades that they were in danger of confusing wartime emergency measures (rationing, requisitioning, regulation of production), measures which were also introduced in capitalist warring countries, with the introduction of 'socialism'. It was he who first used the words 'war communism' in just this critique, and this before the full onset of war communism in Soviet Russia in 1918.³ His warnings were ignored, and over-enthusiastic comrades, such as Bukharin and Preobrazhensky in *The ABC of Communism* (an extract from which appears in this book), welcomed the nationalization of (almost) everything and the 'disappearance of money'.

It is in this context that a seminar was held in Petrograd about how to operate a moneyless economy. We have included here L. Yurovsky's account of the various schemes which were discussed, an account that he wrote seven years after the event (the author, a talented monetary economist, perished in the Stalin terror, as did many of the other participants in the seminar).⁴

Another observer of the logic of the marketless model of socialism was Boris Brutzkus. As can be seen from his contribution to this volume, he was able to rise above the immediate vicissitudes of war and of politics, and draw from the theory and practice of this kind of socialism a series of far-reaching conclusions. Incredible as it may seem, Brutzkus's article was actually published in Soviet Russia, in an independent journal in 1921. The reaction of the authorities was to seize and close down this journal, and Brutzkus was deported, along with many other prominent intellectuals (for example, Berdyaev, Sorokin) in 1922. He then re-published this same article in Berlin. In due course it came to the attention of both Mises and Hayek, and made a most important contribution to the whole 'socialist calculation' debate.⁵

We have included Lange's well-known and frequently reprinted reply to the Mises-Hayek critique. In so far as this critique was based on the neoclassical paradigm, and on the argument that marketless socialism would require the solution of too great a number of simultaneous equations, Lange had an answer. Lange's case would seem to have been reinforced by the invention of the computer, which can compute thousands of equations in seconds.

However, as pointed out by Hayek in his contribution to this volume, first, Lange's was a (imperfect) *market* solution: socialist managers would respond to prices, citizens would exercise choice with money. Second, it was far from clear why the Central Planning Board and socialist managers should behave in the manner prescribed. Third, in line with neoclassical theory, it was assumed that all the needed information would be contained in prices, and the world that was envisioned was static (growth and investment were not on the agenda). So while Lange and Lerner⁶ were important milestones in the debate, they were of little relevance in practice. Neither in the Soviet Union nor in postwar Poland (to which Lange returned) were the theories put into practice.

Stalin's long reign had the effect of silencing serious discussion on economics. In his essay in this volume R.W. Davies discusses the debates on the role of the market in a socialist economy, inspired by Birbraer's call for the establishment of a socialist market, which took place in the USSR in the early 1930s, and shows how this debate was extinguished through dismissals and censorship in 1933.⁷ Trotsky, an avid reader of the economic press in the USSR, was not ignorant of the troubles besetting the Soviet economy. As Birbraer was calling for market reforms inside the USSR, outwith the country Trotsky was demanding a combination of 'state planning, the market, and Soviet democracy' as essential if the Soviet

economy was to have any semblance of rational development. Trotsky had been an advocate of the co-existence of plan and market since the early 1920s, although he undoubtedly thought that planning would replace the market when 'real socialism' was achieved.⁸ However, Stalin rid himself of Trotsky, first by having him exiled in 1928 and then, in August 1940, by having him killed. Later he himself contributed to the debate on the role of the 'law of value' in the USSR. Stalin's essay is not included in this volume, but his ideas can be briefly summed up as follows: prices matter when property changes, as in the case of the purchase of consumer goods by a citizen, but sales within the state sector (for example, of coal for a steelworks) do not constitute real sales, and their prices (and the 'law of value') affect neither production nor incomes, though they are a useful evaluative device. Economists were told that practical problems of planning were for them off limits; they were the responsibility of the political organs. Yaroshenko, who thought otherwise and said so, had to spend time in prison for his views. (He survived. I saw him in Moscow at the end of 1989! – A.N.)⁹

Stalin's death made possible a serious discussion of centralized planning and of the relationship between value and price under socialism. This had been the topic of a short-lived debate in the twenties, before Stalin eliminated both the debate and the debaters. Men such as Brus in Poland, Kornai in Hungary, Nemchinov and Liberman in the USSR, began to speak of the inherent defects of the planning system, its overcentralization, bureaucracy and its 'cost-inducing' waste. They were still within the Marxist framework, concerned with improving rather than replacing socialist planning. However, major elements of Marx's thinking undoubtedly underwent revision. The first of the Brus essays in this collection, for example, argues for commodity relations under socialism. In his discussion on the compatibility of efficiency and socialist values Kornai states that one cannot, as Marx thought possible, have an efficient economy *and* socialist ethics; the two contradict each other. Selucky thought that Marx's concept of the market has to be revised in order to construct a self-managing socialist economy.¹⁰

The possibilities offered by the computer led some theorists into what proved to be a blind alley; what came to be called computopia.¹¹ They were not alone in imagining that market-less planning could be saved by mathematics. Peter Wiles noted the parallel between 'perfect competition and perfect computation'; and one of the editors recalls Lord Robbins, in private conversation, expressing alarm: if the Soviets adopt linear programming, they could become efficient. This was because he believed that the key lay in the speed with which simultaneous equations could be solved; with a meaningful 'objective function' determined by the political leadership. We now know that the key lay elsewhere.

But if the centre was unable to cope with the enormous task of telling all enterprises what to do, and allocating to them administratively the inputs that would enable them to do it, even with the help of computers, then what was the alternative? In Poland, Hungary, Czechoslovakia, and gradually in the USSR too, ever-louder voices were raised to the effect that the product mix should be decided by negotiation with customers, that material inputs should be purchased from suppliers and not allocated by bureaucrats. Also that prices and profitability should stimulate the desired pattern of output and economy of inputs. While, especially in the USSR, the word 'market' (or the concept 'market socialism') was still at that time taboo, the idea could not but gain ground. It emerged explicitly as the basis of the Hungarian 'New Economic Mechanism', adopted in 1968. Earlier, the split with the Soviet Union induced Tito to adopt an alternative mode, 'workers' self-management', which clearly

implied a major role for markets as the only alternative co-ordinating mechanism. In this collection this case is put most forcibly by the Yugoslav theorist Branko Horvat.

Marxists in the West contributed little to the debate. Indeed, some of them (Bettelheim, Mandel, Sweezy and Ticktin), while aware of the deformations of Soviet-type centralized planning, persisted in the belief that there was some practical alternative which dispensed both with bureaucracy and markets. A critique of this view by one of the editors appears in the present volume. Surely men and women would have to make the intensity of their needs and preferences known by 'voting' with their money-incomes, and for productive enterprises the only alternative to applying for an allocation of inputs is to purchase them.

A critique of Marxist non-market economics does not mean, however, total acceptance of a non-regulated market economy. Some theoreticians in the West argued for their own conceptions of market socialism. In his contribution to this volume, Stauber seeks to overcome the financial and political inequalities of American capitalism, and Lange-based models of market socialism, by pointing to Austria's experience of publicly-owned but self-governing corporations as a viable form of market socialism.¹² Lawrence Wilde illustrates the pressures which led to the disintegration of a functioning market socialism; in this instance in the Swedish case. He concludes that market socialist strategies have to be constructed on a multinational basis. Raymond Plant seeks to combine the market and socialism by focusing upon 'starting-gates'. One has to retain the efficiency of the market and guarantee that people enter the market place on a more equal footing; a goal achieved by *state* intervention. Plant's model has been rejected most vociferously by Anthony de Jasay, who argues from a free market liberal standpoint thus:

Dead-heat is engineered by stripping the contestants at the starting-gate of their *alienable* advantages, such as wealth ... while compensating for *inalienable* advantages by a system of head starts and handicaps. ... However, racing history suggests that perfect handicapping is probably impossible ... since there is no Day One ... we are dealing with an infinite regress of 'races'. ... How often during a race ... is equal opportunity to be restored by equalising end-states? ... The sole logical market socialist answer, of course, is that to secure equal opportunity, we have to keep removing advantages all the time *as they accrue*, while confidently expecting that people will keep on accumulating them. We are invited to believe that they will not get wise to the fact that [an] end-state principle is being busily applied to their income, wealth, education or anything else that helps them win 'races' or 'lotteries', and makes for a competitive economy.¹³

Meanwhile in Eastern Europe and the USSR one had the revival of the Mises-Hayek attack, directed this time at the 'market socialist' model: without private ownership of capital there could be no proper valuation of producers' goods, or effective entrepreneurship. Privatization became, in the eyes of such critics, a precondition for a functioning market economy. The disappointing results of partial marketization in Hungary after 1968, the series of crises in Poland under Gomulka and Gierek, and finally the failure of partial reforms in, and the collapse of, the Soviet Union, fuelled a widespread retreat, in all of Eastern Europe, from the idea of socialism itself.¹⁴ The sort of model of so-called 'feasible socialism' outlined in the present volume was by-passed, left far behind, in the rush forward restoring capitalism.¹⁵ Naishul's essay recounts the failure of Soviet socialism, and concludes that 'material interests, both individual and collective, must be guided by the concept of the market'.¹⁶

For some in Eastern Europe the process of pro-market reforms entailed an absolute rejection

of their previously held views. Kornai mark 2 is one example.¹⁷ Others were less willing to declare themselves as total converts to the market. Although Brus's views have moved from an insistence that the market be controlled by the central planning agencies to a much larger role for the market, in his second contribution to this collection he attempts to construct a model of 'market socialism proper'.¹⁸

Meanwhile many of his former colleagues in the 'East' have adopted the free market ideology in its more extreme form, as preached by Gary Becker and Milton Friedman in Chicago. Not only the formerly social democratic Sweden, but such welfare-state capitalism as that of France and Germany, are regarded as excessively 'socialistic' and all forms of self-management and co-operative ownership are looked on with undisguised suspicion. Indeed, now that recession and unemployment in the West are leading to a swing away from the simple remedies of Chicago ideology, it is in the East that one finds the most uncritical devotees of Reaganism-Thatcherism. However, the high cost of 'shock-therapy' transition, the steep decline in output and particularly in investment, is making of *laissez-faire* a less attractive option. So some economists there are studying the role of government in the recovery and reconstruction of Japan, South Korea, Taiwan, and of Western Europe in the first post-war decade. But of course these are not models of socialism.

Perhaps the best hope for market socialism is China. Zhou Shulian's contribution to this collection places the market/plan debate in its historical context in China, outlining how market solutions were sought within the framework of a plan from the 1960s onwards.¹⁹ In the period from 1985 to 1993 China seemed to be travelling the 'market socialist' road.²⁰ This has not been an untroubled period for the Chinese; the events of 1989 led to the brake being applied to economic reform. However, in their model of the Chinese economy as it stood at the end of last year, Martin Weitzman and Chenggang Xu examine the successful role played by 'town-village enterprises', a form of non-state but collective ownership, in the continuing reform process in China; a mixture of legitimized private enterprise and foreign investment, while large-scale state industry survives. Weitzman and Xu explain the 'TVEs' success with reference to China's culture, and perceive China as moving towards a variant of Japanese-style capitalism. Whether this will be a mere transition towards capitalism with a Chinese face, or represents a model of a socialist-type mixed economy, is a question which future history will decide.

Alec Nove

Ian D. Thatcher

Notes

1. This is the opinion of both editors and our selection of Marx's writings follows on from this. For an account of how Marx's positive comments about the capitalist market may lead to the retention of the market under socialism see, for example, David Miller, 'Marx, Communism, And Markets', *Political Theory*, 15 (2), May 1987, pp. 182-204.
2. E. Barone, 'The ministry of production in the collectivist state', in F.A. von Hayek (ed.), *Collectivist Economic Planning*, London, 1935.
3. 'Socialism is above all a new type of cooperation, a comradely organisation of production; war communism is above all a special form of social consumption, an authoritarian-regularised

- organisation of mass parasitism and destruction. One should not confuse them. ... But the socialist content of the current belief and dreams of the maximalists have, moreover, a certain base in life itself. This is the ideological reflection of the colossal development of war communism ... its sharp contradiction with the usual forms of individual appropriation creates a mirage in which a confused image of socialism is taken for its realisation ... but at the same time this is doomed to failure, politically and ideologically. They [some Bolsheviks] have put their trust in soldiers' bayonets, and the day is not too far away when these same bayonets will destroy their faith if not their bodies. And herein lies the real tragedy.' (Extracts taken from 'War Communism and State Capitalism' and a 'Letter to Lunacharsky', in A.A. Bogdanov, *Voprosy sotsializma*, Moscow, 1990, pp. 335-44 and 352-5). Bogdanov's prescience is really quite remarkable.
4. For an excellent exposition of Yurovsky's views on the market in the 1920s and how his conceptions compare with other economists of the time see Vincent Barnett, 'At the Margins of the Market: Conceptions of the Market and Market Economics in Soviet Economic Theory during the New Economic Policy 1921-29', PhD Thesis, Institute of Russian and East European Studies, Glasgow University, 1992.
 5. For a discussion of Brutzkus's views see John Howard Wilhelm, 'The Soviet Economic Failure: Brutzkus Revisited', *Europe-Asia Studies* (formerly *Soviet Studies*), 2, 1993, pp. 343-57.
 6. Lerner, whose *The Economics of Control* appeared in 1946, thought that the 'public interest' should govern whether an industry should be in private or public hands. However, he excluded the possibility of only one form of ownership and argued for a *rapprochement* between socialism and capitalism.
 7. Although, as Professor Davies points out at the end of his article, 'several of the reforms proposed in 1932-33 reemerged in later Soviet practice'. For his most recent discussion of market and quasi-market aspects of the Soviet economic system under Stalin, see R.W. Davies, 'Economic Aspects of Stalinism', in A. Nove (ed.), *The Stalin Phenomenon*, London, 1993, especially pp. 56-62.
 8. Thus, for example, in 1923 Trotsky wrote that 'For the next period we shall have a planned economy allying itself more and more with the market and, as a result, adapting itself to the market. ... The present selling crisis is a harsh warning the peasant market is giving us. ... The correct work of our state planning commission ... [is] not by suppressing the market but on the basis of the market' (cited in A. Nove, *An Economic History of the USSR 1917-1991*, Harmondsworth, 1992, pp. 125-6). However, in the pamphlet *New Economic Policy of Soviet Russia and Perspectives of World Revolution*, also of 1923, Trotsky outlined how planning would outgrow and eventually supersede the market.
 9. For Stalin's discussion of the law of value under socialism and his critique of Yaroshenko, and others, see J.V. Stalin, *Selected Works*, California, 1971, pp. 316 ff.
 10. For a 'Marxist' critique of Selucky's views see H.H. Ticktin, 'Socialism, the Market and the State. Another View: Socialism vs Proudhonism', *Critique*, 3, Autumn 1974, pp. 65-72. For a discussion between Brus and Ticktin see W. Brus & H.H. Ticktin, 'Is Market Socialism Possible or Necessary?', *Critique*, 14, 1981, pp. 13-39.
 11. For some of the contributions to the debate on the role of the computer in planning, see Alec Nove and D.M. Nuti (eds), *Socialist Economics*, Harmondsworth, 1972, pp. 399-488.
 12. In one of his articles Stauber argues that the effect of public ownership in Austria has been an absence of the cult of 'great personal wealth' and hence its negative consequences of economic inequality. See Leland G. Stauber, 'Macro-Economic Management and Market Socialism in the West: An Exploratory Essay', *Coexistence*, 24, 1987, pp. 309-29. For Stauber's most recent account of a working model of market socialism see Leland G. Stauber, 'A concrete proposal for a market socialism for large enterprises: Reactions from West and East and further discussion', *Coexistence*, 3, 1993, pp. 213-35.
 13. A. de Jasay, *Market Socialism: A Scrutiny 'This Square Circle'*, The Institute of Economic Affairs, London, March 1990, pp. 26-31.
 14. The idea of market socialism became very popular as the aim of Gorbachev's economic reforms. In the Soviet context this also entailed a re-examination of historical figures such as Trotsky, Bukharin and Yurovsky as the party theoreticians sought a market socialist Bolshevism. See, for example,

- Ian D. Thatcher, 'Recent Soviet Writings on Leon Trotsky', *Coexistence*, 27, 1990, especially pp. 161–2; Vincent Barnett, 'Recent Soviet Writings on economic theory and policy from NEP', *Coexistence*, 29, 1992, pp. 257–75; and Alec Nove, *Glasnost in Action*, London, 1989, Chapter 8.
15. Nove's model of feasible socialism has also been questioned by thinkers of a non-Marxist orientation. For example, Don Lavoie includes Nove's model as an example of market socialism based on an 'overly narrow formulation of the cognitive problems that markets need to solve'. See, Don Lavoie, 'Computation, Incentives, and Discovery: The Cognitive Function of Markets in Market Socialism', *Annals of the American Academy of Political and Social Science*, 507, January 1990, pp. 72–9. For Stauber, '[Nove's] prescriptions are cast in the form of broad principles and stop short of any concrete and detailed proposal for any alternative system of ownership that could serve as a general replacement for the capitalist mode of ownership in the corporate sector of modern economies'. (L.G. Stauber, *A New Programme for Democratic Socialism*, Carbondale, 1987, p. x.)
 16. Of course Naishul' is one of many Soviet economists who have reached this conclusion. In his survey of Russian economists, Vincent Barnett found that 95 per cent of respondents indicated that the market is the best mechanism to regulate economic life. See 'Conceptions of the Market Among Russian Economists: A Survey', *Soviet Studies*, 44, 1992, pp. 1087–98. Some Russian thinkers have also accepted the classic liberal case that respect for property is the only way to guarantee civil liberties. Thus A. Tsipko, for example, argues that 'today it has become clear that private property to a greater extent creates ... justice, law, belief in one's words, helps a person become a personality preserving his own achievements and honour. Property gives economic and then social protection, it engenders belief of oneself in citizens who have something to protect and something to worry about. Private property, and above all private property of the tools of one's labour, handed down to descendants as a result of one's labour, turns a simple man into an interested, thinking, entrepreneurial, inquisitive person.' (A. Tsipko, 'Esli by pobedil Trotskii...', *Daugava*, 9, 1990, pp. 94–5.)
 17. There have been many studies which can be used to support Kornai's view of the absolute failure of market socialism. See, for example, Jacek Rostowski, 'Market Socialism is not Enough: Inflation vs. Unemployment in Reformed Communist Countries', *Communist Economies*, 1, 1989, pp. 269–85; Joze Mencinger, 'The Quagmire of Socialism', *Communist Economies*, 1, 1989, pp. 385–93; and Peter Gey and Wolfgang Quaisser, 'Planning System, Development Strategy and Economic Reform in Socialism', *Communist Economies*, 1, 1989, pp. 395–407. For a contrary argument, that the collapse of communism in the East makes the case for market socialism even more pertinent, see James A. Yunker, 'New prospects for East–West ideological convergence: A market socialist viewpoint', *Coexistence*, 3, 1993, pp. 237–67.
 18. For the extent to which Brus has changed his outlook compare W. Brus, *The Market in a Socialist Economy*, London, 1972 and W. Brus and K. Laski, *From Marx to the Market. Socialism in Search of an Economic System*, Oxford, 1989. Vincent Barnett employs Peter Wiles's 'sliding scale' to describe the shift in Brus's position. According to Barnett, Brus has moved from somewhere between a Centralized Market ('decisions as to intermediate resource allocation are centrally planned, but choices of consumers, workers, and land/capital allocation are taken on free market criteria. Industry distributes resources on market criteria but by central planned administration.') and a Capitalist War Economy ('planners choose the pattern of final production, but managers are free to bid on the market for labour and material to fulfil these plans') in 1972 to a model somewhere between a Regulated Market ('indirect controls on the profit motive for the purpose of combating monopoly and market failure etc.') and a Full Market ('no controls on the profit motive, competitive markets, and decentralised decision-making.') in 1989 (*At the Margins of the Market*, pp. 6–7 and 24 n. 15).
- It would be possible to claim that Brus has conceded so much to the market that his model of 'market socialism proper' is a variant of capitalism. Brus himself was aware of this problem in 1989, although he refused to declare himself; it was 'too early to say'. In his latest writing on this matter Brus argues that one has to guarantee the functioning of the market: 'the former glamour of the question of plan-market compatibility as an element of a battle royal between two diverging principles of economic coordination has gone; the real issue is rather that of painstaking

pragmatic tests of validity of government intervention in particular areas of economic activity under particular circumstances.' (W. Brus, 'The compatibility of planning and market reconsidered', in Anders Åslund (ed.), *Market Socialism or the Restoration of Capitalism*, Cambridge, 1992, pp. 7-16).

19. The moderate and cautious reformer's position is best summed up in a statement attributed to Chen Yun: 'Our managers are in too narrow a cage. They cannot spread their wings. We must provide them with a bigger cage. But we must keep them in a cage, otherwise they will fly away.'
20. Certainly this was the intention of the reformers. For a summary of the reformers' positions and their relation to Marxism see Su Shaozhi, 'Rethinking Socialism in the light of China's Reforms', *China Information*, 5, 1991, pp. 10-21.

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