

MARKET SOCIALISTS' THREE FALSE PROPOSITIONS

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The collapse of socialism in the Soviet Union and Eastern Europe did not make the left in the West lose their faith in socialism. This is shown by the emergence of market socialism since the mid-eighties. But market socialism has not met with general acceptance so far. Some consider that "market socialism is a practical impossibility, undesirable, and certainly has nothing to do with socialism." (Hillel Ticktin, *Market Socialism-The Debate among Socialists*, edited by Bertell Ollman, Routledge, 1998, p.55) Some believe that it is good for the political prospects of socialism that market socialism is being brought to the fore, but that it is at best second best, because it does not fully satisfy socialist standards of distributive justice and the value of community. (G.A. Cohen, *Why Not Socialism?*, unpublished manuscript, 1998, p.30, 31) I agree with the opinion of the former in principle.

In this article, I will concentrate my efforts to clarify and criticize market socialists' three false propositions: 1) developed capitalist countries cannot practise the planning economy envisaged by Marx when they are moving towards socialism; 2) in any complex society, it is intolerably difficult to know what to produce and how to produce it, without the information provided by the market; 3) producers and managers will not work hard and innovate actively without market incentives. I hope that this article will be able to offer a new point of view for designing a blueprint of socialism.

PROPOSITION ONE: DEVELOPED CAPITALIST COUNTRIES CANNOT PRACTISE THE PLANNING ECONOMY ENVISAGED BY MARX WHEN THEY ARE MOVING TOWARDS SOCIALISM

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An important part of the historical background to the emergence of market socialism is the collapse of socialism in the Soviet Union and Eastern Europe. We can regard its emergence as, in some sense, deriving from a reflection on the reasons for that collapse.

In the view of market socialists, there are various forms of socialism and the Soviet mode of socialism is only one of them. Thus, Roemer states: "Clearly the soviet mode of socialist society is dead, but that does not mean that other forms of socialism should be buried along with it."¹

What was the root cause leading up to the failure of socialism in the Soviet Union and Eastern Europe? The market socialists' answer is that these countries practised a centrally planned economy. From this they further deduce the conclusion that market socialism "is the only form of socialism that is, at the present stage of human development, both viable and desirable. Non-market forms of socialism are either economically non-viable or normatively undesirable, often both at once."² Thus the task of socialists is "to propose and defend a new model that combines the strengths of the market system with those of socialism."³

In the above mentioned conclusion, there are two ambiguous but crucial terms which particularly need to be clarified: 1) The term 'non-market forms of socialism' not only means the planned economy of the Soviet Union and Eastern Europe, but also that envisaged by Marx, because market socialists often emphasize that "[n]ineteenth-century Marxism included a general condemnation of markets; to this one may trace the intellectual origins of the pervasive planning of Soviet-type economies."⁴ The term of 'at the present stage of human development' means that non-market forms of socialism are 'either economically non-viable or normatively undesirable' not only in (formerly) so-called socialist countries like the Soviet Union and those of Eastern Europe, but also in developed capitalist countries like Britain and the United States. Thus, their first proposition is implicitly contained in that conclusion.

1 John E. Roemer, *A Future for Socialism*, Verso, 1994, p.1.

2 David Schweickart, 'Market Socialism: A Defence', in Bertell Ollman, *Market Socialism- The Debate among Socialists*, 1998, p.10.

3 Roemer, 1994, p.2.

4 Roemer, 1994, p93

It is undoubtedly true that the failure of socialism in the Soviet Union and Eastern Europe was closely related to their centrally planned economies. The crux of the matter, however, does not lie in this fact (which is emphasized by market socialists), but in whether this first proposition can be deduced from it. Through careful analysis we shall show that their proposition is, logically speaking, utterly unjustifiable.

First, the centrally planned economy practiced in the Soviet Union and Eastern Europe was not that envisaged by Marx, and, therefore, the failure of the former cannot prove that the latter, too, is bound to fail.

According to Marx's historical materialism, the development of the economic formation of society is a process of successive movement from pre-capitalist natural economies to capitalist commodity economy (i.e., market economy) and then to communist planning economy (socialism being the first phase of communism). Natural economy, market economy and planned economy respectively represent three different stages of the economic development of society. Market economy comes from a higher development of natural economy; likewise, planning economy comes from a higher development of market economy.

Marx emphasized many times that the presupposition of establishing a planned economy is the full development of a market economy. Was this presupposition satisfied in the Soviet Union and Eastern Europe? Obviously it was not. Let us take the Soviet Union as an example.

Before the October Revolution, Russia was a country in which natural economy played a leading role, although the market economy was developed to a certain extent. In the early days after the October Revolution, Lenin tried to abolish the market economy and establish a planned economy, but soon failed. The experience made him realize that it was impossible to leap over the stage of full development of the market economy and directly establish a planned economy in Russia, where small-scale peasant economy was still a leading factor in national production. For this reason, he proposed the well-known New Economic Policy (NEP), which was based on the idea that only through the intermediary of the market economy of state capitalism could socialism be established in Russia. But Lenin's NEP was not really carried out, since he died too early and Russia was faced with a variety of exceptional circumstances at home and abroad. In the mid-thirties, when

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peasant production was still sizable and the market economy had not attained full development, Stalin forcibly established the Soviet mode of a centrally planned economy. Since the planned economy as envisaged by Marx did not exist in the former Soviet Union, any attempt to equate the Soviet mode with that of Marx is unjustifiable. To lump them together and to use the failure of the former to deduce that the latter is erroneous.

Second, the fact that relatively underdeveloped countries such as those of the former Soviet Union and Eastern Europe could not realize the planned economy envisaged by Marx does not mean that developed capitalist countries cannot do so.

According to Marx's historical materialism, natural economy, market economy and planning economy are three kinds of economic formation of society. Each is based on a given stage of development of the productive forces. Natural economy is appropriate to the productive forces at a low level, market economy is appropriate to the productive forces at a higher level, and planning economy is appropriate to the productive forces at an even higher level. "No social order ever perishes before all the productive forces for which there is room in it have developed; and new, higher relations of production never appear before the material conditions of their existence have matured in the womb of the old society itself." (Marx, 'Preface' to the *Contribution to the Critique of Political Economy*)

The level of productive forces of the Soviet Union and Eastern European countries was relatively low when they established their planned economy. What was compatible with the level of productive forces at that time was not the 'social order' of the planned economy, but the 'social order' of the market economy. Thus the planned economy had to be established forcibly and, although it made great achievements in its early days (due to the specific historical conditions of the time, especially WWII), the extent of the incompatibility between the development of the productive forces and the 'social order' began to reveal itself as the economy entered the stage of peaceful construction (especially after the 1960s). Its subsequent failure and the present movement to a market economy show that what was compatible with the existing level of productive forces of the Soviet Union and Eastern Europe was not a planned economy, but a market economy. It is only where the productive forces have been developed to the point where they become a

fetter on the further development of the market economy that they can be replaced by a planned economy.

The level of productive forces of developed capitalist countries is obviously higher than that of the Soviet Union and Eastern Europe. In developed capitalist countries, the market economy has become a fetter on the further development of productive forces. This manifests itself, on the one hand, in all sorts of economic and social problems in these countries, such as unequal distribution of wealth, unemployment, economic crisis, pollution of the environment, all of which relate to the existence of market economy, and, on the other hand, in the development of some non-market or semi-market economic elements or social elements, such as the share of public sector, state-guidance plan, government intervention in the economy, various welfare projects and so on. This means that these countries to a great extent possess the prerequisite for realizing the planning economy envisaged by Marx. Therefore, the issue of how to realize socialism is not that of how to continue and develop the market economy, but of how to abolish the market economy and establish a planned economy, step by step.

Whether or not market socialists agree with Marx's historical materialism, they cannot deny two facts: 1) the planning economy practised in the Soviet Union and Eastern Europe was not that envisaged by Marx; 2) the level of productive forces of the Soviet Union and Eastern Europe was below that of developed capitalist countries. In the light of these two facts, it is obvious that their conclusion cannot be reached, and their proposition is therefore utterly unjustifiable.

PROPOSITION TWO: IN ANY COMPLEX SOCIETY, IT IS INTOLERABLY DIFFICULT TO KNOW WHAT TO PRODUCE AND HOW TO PRODUCE IT WITHOUT THE INFORMATION PROVIDED BY THE MARKET

This proposition is mainly abstracted from the failure of the planning economy in the Soviet Union and Eastern Europe. David Schweickart pointed out:

The Soviet economy and those economies modelled on Soviet economy always suffered from efficiency problems, and these became steadily worse as the economies developed. Information problems that were tractable when

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relatively few goods were being produced, and when quantity was more important than quality, became intractable when more and better goods were required. It is not without reason that every centrally planned economy has felt compelled to introduce market reforms once reaching a certain level of development.

He concludes, “a modern industrial economy is simply too complicated to plan in detail.”⁵ David Miller offers a more concrete explanation:

If we forgo the signalling function of the market, we must look for some other way of co-ordinating our behaviour as producers of goods and services with our demands as consumers. The early socialists seem to have thought that what needed producing was so obvious that only informal co-ordination was required. Perhaps in a small community with a simple style of life this might be so. But if we think of a large industrial society producing an enormous range of goods and services, the only feasible alternative is state planning... A planning agency must allocate labour to enterprises, tell each enterprise what to produce and in what quantities, and price the resulting goods and services so that supply matches demand. There has been a lengthy debate (the so called ‘calculation debate’) about whether the problems this poses are theoretically soluble. Even if they are, practical experience reveals that planned economies in fact have great difficulties solving them. The more advanced the economy, the greater the magnitude of the task, because, as the range of products increases (and the products themselves become sophisticated), it becomes progressively more difficult for planners to control production in a way that will meet consumers’ demands. Hence the familiar experience from Eastern European economies...of the over- and under- supply of many items, of poor quality goods, and so forth.⁶

In short, in any complex society it is intolerably difficult to know what to produce and how to produce it, without the information provided by the market.

Is this proposition tenable? Let us clarify its precise meaning first.

⁵ *ibid*, 1998, p.12-13)

⁶ in *Market Socialism*, edited by J. Le Grand and S. Estrin, Oxford University Press, 1989, pp.30-1.

What is the meaning of ‘complex society’?⁷ It means “a large industrial society producing an enormous range of goods and services”,⁸ in which “more and better goods are required.”⁹ Thus, both existing capitalist society and the socialist society which market socialists want to realize can be called a ‘complex society’, because both are ‘complex’. Market socialists are, of course, discussing a complex socialist society.

The belief that “it is intolerably difficult to know what to produce and how to produce it, without the information provided by the market”, is also ambiguous. First, it does not concretely point out for whom it is intolerably difficult to know what to produce and how to produce it. They can be understood as either the central planning agency that controls the whole production of the society, or a plurality of separate collectives with independent managements. Which one do market socialists mean? It must be the former, because “without the information provided by market” means that the market does not exist, and, therefore, that there is not a plurality of separate collectives with independent management, but a planning agency which controls the whole production of society. Second, it does not indicate what is the purpose of the production. Is it for making money to the maximum? Or is it for meeting the needs of all people to the maximum? The answer should be the latter, because, in any case, the purpose of production in a socialist society is not to make money, but to meet the needs of people. Third, it does not explain what kind of information the market provides. Is the information provided to be used to make money or is it to meet the needs of people? It must be the latter otherwise it will conflict with the purpose of production.

In the light of these clarifications, the market socialists’ second proposition can be explained as follows: in a complex socialist society, it is intolerably difficult for the planning agency to know what to produce and how to produce it to meet the needs of people without the information concerning those needs which is provided by the market. If this interpretation is in keeping with the market socialists’ original idea, then their second proposition is also untenable for the following two reasons.

7 Roemer, *ibid*, 1994, p.27.

8 Miller, *ibid*, 1989, p.30.

9 (Schweickart, *ibid*, 1998, p.12.

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The first is that the market does not provide information on the needs of people. What the market provides is only information on the price of every product, from which the producers are able to determine whether producing this or that product will make money, i.e., when the price of a product is higher than its cost of production, the producer will make money; when the price of a product is lower than its cost of production, the producer will lose money. Of course, price information can reflect the needs of people to a certain extent through the operation of supply and demand. But price information cannot *generally*, *accurately* and *promptly* reflect the real needs of people.

Firstly, price information cannot *generally* reflect the real needs of all people. One typical example is the housing problem. For instance, members of the homeless population are clearly in need of housing. However, since they cannot express this need in terms of money (effective demand) it is rendered invisible: hence, not reflected in the price information. Secondly, it cannot *accurately* reflect the needs of people. It can reflect which kind of product is wanted, but cannot reflect the quantity and the quality of the products that are wanted. This is illustrated by the fact that a lot of products are stockpiled and cannot be sold for a long time, and especially by the fact that economic crises occur periodically. Finally, it cannot reflect the needs of people *promptly*, because there is a longer or shorter tortuous process by which the needs of people are reflected in price information. Sometimes price information fails to reflect the pressing needs of people; sometimes it reflects the out-of-date needs of people.

It is true that the needs of people are somehow met more or less through the information provided by the market in capitalist society, but it is also true that meeting them is at the cost of the enormous waste of manpower and material resources. What socialist production requires is information on the needs of people, but what the market provides is only information on the price of every product, in other words, information about how to make money or how to make more money. It is clear that the information provided by the market is incapable of realising the purpose of socialist production.

The second reason is it is not intolerably difficult in a complex socialist society for the planning agency to know what to produce and how to produce it to meet the needs of people without the information provided by

the market. However complicated the needs of people, they are not determined by market information, but by man's physiological need as well as the economic, cultural and historical conditions of a given society. Without information provided by the market, people still know what they need. For instance, a man needs a certain amount of food every day, which is determined by his physiological need; and what kinds of food he wants, bread or rice, wine or Coca-Cola, are determined by the economic, cultural and historical conditions of the society. An individual can know what he needs, so does a family, or a small community. Thus a society can know what it needs as well, for the needs of a society are nothing but the sum total of the needs of each individual, each family or each small community.

Certainly, the planning agency requires a technical capacity to gather and sort out the information of the needs of each individual, each family or each small community, and to translate it into the information about the needs of the whole society, but there is no insurmountable technical barrier to that, especially now that computer technology is highly developed. This agency can be constituted by a central planning agency and local planning agencies at different levels, so that the work of gathering and sorting out the information can be carried out level by level. We can reasonably presume that, in the not too distant future, each individual, or each family will have a computer, and each planning agency at all levels will have a giant ultra-high-speed computer. The former can send the information on his or their needs at any time to the latter by computer network, and the latter can gather and sort out the information rapidly and thereby know what is wanted by whole society.

There are two points that need to be emphasized here. First, in the socialist society, people's demands are still limited by their income. The socialist society still cannot practise distribution according to need, but distribution according to work. Thus each individual will receive a certificate permitting him to withdraw an amount only corresponding to his labour time from the social stock of means of consumption. Limited by his income, no one will make unrealistic demands, such as travel to the moon. Second, the degree to which social production can meet the demands of people is still limited by the level of the development of productive forces. This means that some demands of people may not be met at once. Thus the problem of what should be produced will appear. This problem can be solved democratically in light of the principle of meeting the needs of all people to the maximum.

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For example, if there are only sufficient building materials available to build ordinary houses to meet the needs of most people, the demand for building magnificent houses will be put off. A family can reasonably arrange its expenditure to meet the needs of each member according to its income, and so can a society.

Summing up this section, it is not intolerably difficult for the planning agency to know how to organize the activities of production to meet the needs of people without the information provided by the market. Just as with people's needs, however complicated may be the activities of production, the activities themselves are not determined by market information, but by the level of productive forces, science and technology and management of a certain society. Without the price information provided by the market, the planning agency can take labour-time as a measure and thereby maintain the correct proportion between the different functions of labour and the various needs of people. The planning agency can reckon in advance how much labour, means of production and means of subsistence it can spend on the different branches of industry in order to meet the needs of all people to the maximum. Though the activities of production will become more and more complicated along with the increase of the needs of people, the complexity of the activities of production does not mean that the activities of production cannot be carried on without the information provided by the market. We have full confidence that, no matter how complicated the activities of production are, they can be carried out efficiently with the high development of computer technology. As to the failure of the planning economy in the Soviet Union and Eastern Europe, that is another matter, for which we have given an explanation above.

In short, if the purpose of production is not to make money, but to meet the needs of people, production can be carried out efficiently without the information provided by the market.

PROPOSITION THREE: PRODUCERS AND MANAGERS WILL NOT WORK HARD AND INNOVATE ACTIVELY WITHOUT MARKET INCENTIVES

'Producers and managers' in this proposition obviously does not mean those in existing capitalist society, but those in the future socialist society which market socialists hope to realize. This proposition is also mainly abstracted

from the failure of the planning economy in the Soviet Union and Eastern Europe. According to the experience of the planned economy in the Soviet Union, Schweickart points out:

If output quotas are to be set by the planning board, then enterprises have little incentive to expend resources or effort to determine and to provide what consumers really want. If both inputs and outputs are to be set by the planning board, enterprises will be inclined to understate their capabilities and overstate their needs, so as to make it easier to fulfil their part of the plan. They also have a large incentive to lobby the planning board for lower production quotas and for ample supplies of raw materials. If employment is guaranteed, but incomes are not tied to enterprise performance, workers have little incentive to work. If the planning board is responsible for the entire economy, it has little incentive to close inefficient units, since that will either contribute to unemployment or necessitate finding new jobs for the displaced workers.¹⁰

In other words, producers and managers will not work hard without market incentives. Roemer concedes that, in the post-war period from 1950 to 1970, the Soviet-type economies did quite well. He continues:

By the 1980s, or perhaps earlier, growth in economic welfare depended much more on the ability of an economy to innovate, to adopt new technologies producing improved commodities. At this, the Soviet-type economies failed dismally...[because]...without the competition that is provided by markets – both domestic and international – no business enterprise is forced to innovate, and without the motivation of competition, innovation, at least at the rate that market economies engender, does not occur.¹¹

Thus, “there is ample reason to believe that the failure of Soviet systems is ascribable not to the egalitarian goals of Communism but to the abrogation of markets and, therefore, to the loss of incentives and competition that followed.”¹² To sum up, the third proposition of market socialists is that the producers and managers in the future socialist society will not work hard

10 1998, *ibid*, p.13.

11 1994, *ibid*, p.44.

12 *ibid*, p25.

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and innovate actively without market incentives. This proposition also cannot bear close scrutiny.

What are the grounds for the proposition? Roemer's answer is that "most people could not motivate themselves, for a lifetime, by serving only the public good: people responded to their immediate situation much as they do in capitalist societies, by trying to look after their material interests a good proportion of the time."¹³ From this we can see how their proposition is deduced. First, they suppose that most people, whether in existing capitalist society or in the socialist society that they hope to realize, try to look after their material interests a good proportion of the time. That is to say, they act from selfish motives. Next, they suppose that people's selfish motives can be mobilized only in a market economy because the market economy is a kind of competitive economy, and the competitive mechanism can better promote the material interests of those who work hard and innovate actively. Finally, they conclude that the future socialist society must incorporate a market economy, otherwise people will not work hard and innovate actively. But this deduction is unjustifiable.

First, the major premise of the deduction is untenable. People's motives are not unchangeable, but changeable. They depend fundamentally on the economic and social circumstances in which they live. For example, in primitive society, people's motives were to serve the interests of their commune, because the ownership of the means of production at that time was a kind of primitive public ownership. People's selfish motives arose from the emergence of private ownership, which reached its extreme in modern capitalism. The socialist society, even in the view of market socialists, will replace capitalist private ownership with socialist public ownership, so people's motives in the future socialist society must be different to those in existing capitalist society. Adapting to socialist public ownership in order to serve the interests of society will be the people's main motive for action.

Why do market socialists suppose that people's selfish motives are unchangeable? Market socialists do not give a definite answer. Roemer said: "I therefore remain agnostic on the question of wholesale change in human nature. I prefer to put my faith in the design of institutions that will bring

¹³ *ibid*, pp.38-9.

about good results with ordinary people.”¹⁴ On the one hand, he emphasizes that people try to look after their material interests a good proportion of the time; on the other hand, he remains agnostic on the question of wholesale change in human nature. It is quite evident that ‘agnostic’ is a subterfuge, for his market socialism is based on the belief that people’s selfish motives are unchangeable. As I have argued, however, the view that people’s selfish motives are unchangeable is clearly untenable.

Second, the minor premise of the deduction is also untenable. Why is the market supposed to provide incentives that make people work hard and innovate actively? Market socialists believe that, because the market economy is a kind of competitive economy and competition means the existence of winners and losers, people can satisfy their material interests more if they work hard and innovate actively. But this is not true. What is undoubtedly true is that competition in the market economy means the existence of winners and losers, but in many cases the losers will not be those who do not work hard and innovate actively, and the winners will not be those who work hard and innovate actively. In the market economy, the value of a product can be realized only when it is sold, that is to say, people’s material interests can be satisfied only when their products are sold. And whether a product can be sold, or whether it can be sold at a reasonable price, does not depend to a great extent on how hard the people work or how actively they innovate, but on the demands of people that they (e.g., entrepreneurs) hardly grasp.

We find that in many cases the producers and managers in an enterprise did work very hard, but their enterprise went bankrupt since its products could not be sold. This illustrates a basic feature of the market economy, i.e., people’s fates are not consciously controlled by themselves, but by an invisible hand, namely, the law of value which works spontaneously. If the market economy cannot guarantee that those who work hard and innovate actively always better satisfy their material interests, it fails to provide the incentives for people to work hard and innovate actively.

Third, the conclusion of this deduction cannot be deduced from its major premise and minor premise, even if they are true. The market socialists’ conclusion is that the future socialist society must practise market economy,

¹⁴ *ibid.*, p.114.

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otherwise people will not work hard and innovate actively, but their two premises have nothing to do with the future socialist society. Their major premise is that most people, whether in capitalist society or in socialist society, try to look after their material interests a good proportion of the time, that is to say, their motives are selfish. But do people's selfish motives have anything to do with the future socialist society? Their minor premise is that in the market economy people can satisfy their material interests more if they work hard and innovate actively. We know that the market economy in the view of market socialists is neutral, i.e., that it can serve both capitalism and socialism. Thus the minor premise also has nothing to do with the future socialist society. If both the major premise and the minor premise have nothing to do with the future socialist society, the conclusion can only be that both capitalist society and socialist society must practise a market economy, otherwise people will not work hard and innovate actively. Is that the market socialists' original intention?

The main purpose of advocates of market socialism is not to say how to realize socialism in countries like Russia, but in developed capitalist countries like Britain and the United States; this is evident from the various statements by market socialists. One of their mistakes, however, is that they do not base their argument on the existing problems in developed capitalist countries, but on an incorrect deduction from the failure of socialism in the Soviet Union and Eastern Europe.