

Alternatives to Markets

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Socialism

- System of social organization in which private property and the distribution of income are subject to social control. There are differences in:
 - The extent and the kind of property that society should own or control.
 - The way in which society is to exercise its control of property and other resources.
- Socialism also includes various political movements aimed at putting that system into practice.
- The term was first used to describe the doctrines of Charles Fourier, Henri de Saint-Simon, and Robert Owen, who emphasized non-coercive communities of people working noncompetitively for the spiritual and physical well-being of all (“**utopian socialism**”).
- Karl Marx and Friedrich Engels saw socialism as a transition state between capitalism and communism. Both appropriated what they found useful in socialist movements to develop their “**scientific socialism.**”

Utopian socialism

Sir Thomas More (1478-1535)



- English humanist and statesman, chancellor of England (1529–32).
- Beheaded for refusing to accept King Henry VIII as head of the Church of England.
- In May 1515, More was appointed to a delegation to revise an Anglo-Flemish commercial treaty in Brugge and visited other Flemish cities, the key centers of emerging capitalism.
- As a result, he publishes a treatise *Utopia* in 1516, which was an immediate success.

More's Utopia (1516)



- Utopia is a Greek name of More's coining, from ou-topos ("no place"); a pun on eu-topos ("good place").
- A satirical essay that describes a world in which there is total religious toleration.
- All people work according to their abilities and consume according to their needs.
- There is no poverty and free education for men and women alike.
- Advocates communal, not private, ownership as a way of controlling the sins of pride, envy, and greed.

Tommaso Campanella (1568-1639)



- Italian philosopher and poet.
- Best remembered for his socialistic work *La città del sole* (1602; "The City of the Sun").
- His ideal commonwealth was to be governed by men enlightened by reason and of equal dignity, with every man's work designed to contribute to the good of the community.
- Private property (source of ill), undue wealth, and poverty would be nonexistent, for no man would be permitted more than he needed.

Henri de Saint-Simon (1760-1825)

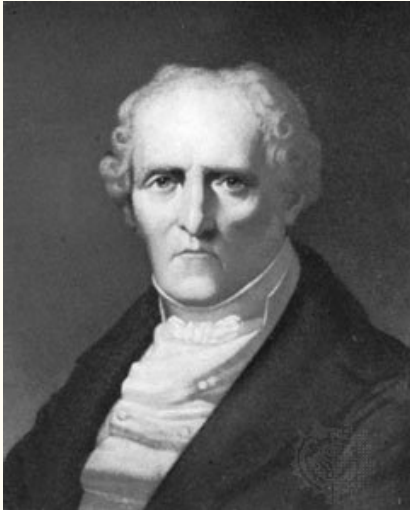


- French social theorist.
- He correctly foresaw the industrialization of the world: science and technology would solve most of humanity's problems and called for social and economic planning.
- Saint-Simon proposed that scientists take the place of priests in the social order.
- Needs of the working class needed to be recognized and fulfilled to have an effective society and an efficient economy.
- Saint-Simonians demanded the ownership of goods in common, the abolition of the right of inheritance, and the enfranchisement of women.

Saint-Simon's utopian socialism

- He did not call for public ownership of productive property, but he did advocate public control of property through central planning, in which scientists, industrialists, and engineers would anticipate social needs and direct the energies of society to meet them.
- Such a system would be more efficient than capitalism, but it even has the endorsement of history itself.
- Saint-Simon believed that history moves through a series of stages, each of which is marked by a particular arrangement of social classes and a set of dominant beliefs.
 - For instance, feudalism, with its landed nobility and monotheistic religion, was giving way to industrialism, a complex form of society characterized by its reliance on science, reason, and the division of labor.
 - In such circumstances, Saint-Simon argued, it makes sense to put the economic arrangements of society in the hands of its most knowledgeable and productive members so that they may direct economic production for the benefit of all.

François-Marie-Charles Fourier (1772-1837)



- French social theorist and philosopher.
- He claimed that modern society breeds selfishness, deception, and other evils because institutions such as marriage, the male-dominated family, and the competitive market confine people to repetitive labor or a limited role in life and thus frustrate the need for variety.
- By setting people at odds with each other in the competition for profits, moreover, the market, in particular, frustrates the desire for harmony.
- A key was schools for young children (no child labor up to 10 years of age), as he argued that character is wholly formed by one's environment.

Fourier's utopian socialism: Phalanx proposal

- Fourier envisioned a form of society that would be more in keeping with human needs and desires, which he called **phalanstery**.
- A largely self-sufficient community of about 1,600 people organized according to the principle of “attractive labor,” which holds that people will work voluntarily and happily if their work engages their talents and interests.
- All tasks become tiresome at some point, however, so each member of the phalanstery would have several occupations, moving from one to another as his interest waned and waxed.
- Fourier left room for private investment in his utopian community, but every member was to share in ownership, and inequality of wealth, though permitted, was to be limited.

Robert Owen (1771-1858)



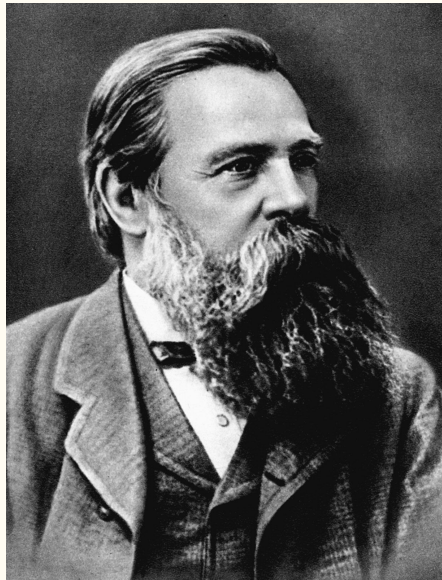
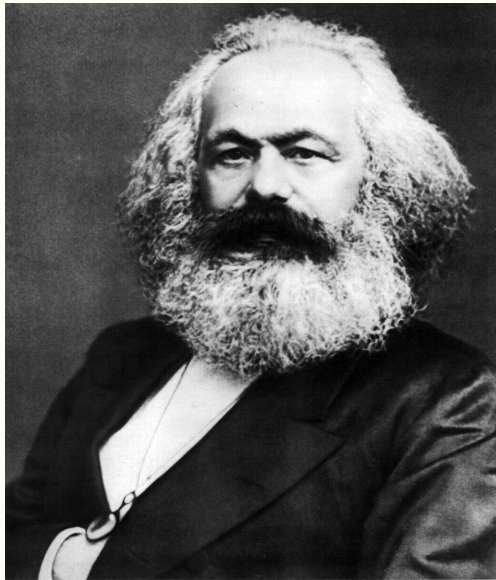
- British social reformer, industrialist, philanthropist, and early supporter of labor unions.
- Lanark cotton mill in Scotland - a highly profitable mill, which by the standards of the day was remarkably humane with innovative social and industrial welfare programs, including improved housing.
- He focused on good working conditions and dignified living standards.
- A key for him was schools for young children (no child labor up to 10 years of age), as he argued that character is wholly formed by one's environment.

Owen's New Harmony, Indiana (1825-28)

- He sponsored several experimental utopian communities of “Owenites” in Britain and the U.S. - all short-lived.
- A cooperative community based on plans for humanity's salvation through “rational” thinking, cooperation, and free education.
- This was to be a self-sufficient, cooperative community in which property was commonly owned.
- About 1,000 settlers responded to Owen's public appeal. Still, most were misfits who ate his rations, argued over the government, and were unable to perform the menial tasks vital to such a community.
- Farms and workshops lay idle while virtual anarchy reigned.
- Owen lost most of his fortune in New Harmony and returned to England.

Scientific socialism

Karl Marx (1818-1883) and Friedrich Engels (1820-1895)



Marx and Engels: Overview

- Marx, the most important theorist of socialism.
- Attached the derogatory label “utopian socialism” to Saint-Simon, Fourier, and Owen, whose “fantastic pictures of future society” they contrasted to their own “scientific” approach to socialism.
- The path to socialism proceeds not through the establishment of model communities that set examples of harmonious cooperation to the world, according to Marx and Engels, but through the clash of social classes.
- “The history of all hitherto existing society is the history of class struggles,” they proclaimed in the **Manifesto of the Communist Party** (1848).
 - The principal programmatic statements of the European socialist and communist parties in the 19th and early 20th centuries.
- A scientific understanding of history shows that these struggles will culminate in the triumph of the working class and the establishment of socialism.

Marxian critique of capitalism, alienation of workers, and class conflict, I

- For Marx, capitalism is both a progressive force in history and an exploitative system that alienates capitalists and workers alike from their true humanity.
- It is progressive because it has made possible the industrial transformation of the world, thereby unleashing the productive power to free everyone from necessity.
- It is exploitative in that capitalism condemns the proletarians, who own nothing but their labor power, to lives of grinding labor while enabling the capitalists to reap the profits (so-called surplus value).

Marxian critique of capitalism, alienation of workers, and class conflict, II

- The **inevitable** result will be a war that will end all class divisions.
- Under the pressure of depressions, recessions, and competition for jobs—all inherently built into capitalism—workers will become conscious that they form a class, the proletariat.
- That is oppressed and exploited by their class enemy, the bourgeoisie.
- Armed with this awareness, they will overthrow the bourgeoisie in a series of spontaneous uprisings, seizing control of factories, mines, railroads, and other means of production until they have gained control of the government and converted it into a revolutionary dictatorship of the proletariat.

Marx and Engels on economic planning

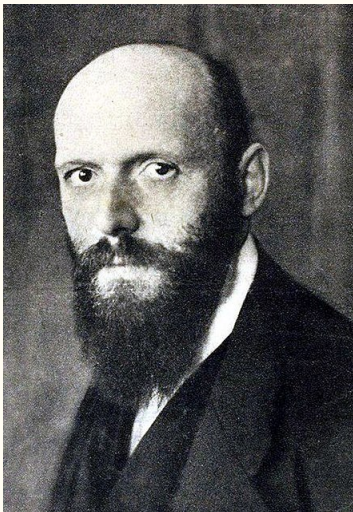
- Marx and Engels never elaborated on the specific institutions that would exist in socialism or on processes for conducting planning in a socialist system.
- The category of value would be replaced by calculation in terms of natural or physical units so that resource allocation, production, and distribution would be considered **technical affairs to be undertaken by engineers and technical specialists**.

Soviet economic history

- **War Communism:** economic policy applied by the Bolsheviks during the period of the Russian Civil War (1918–20).
 - Expropriation of private businesses, the nationalization of industry, centralized planning, and forced requisition of surplus of food products from the peasantry by the state.
 - Crops, labor productivity, and industrial output plummeted, causing starvation in many cities.
- **New Economic Policy (NEP)**, the economic policy of the government of the Soviet Union from 1921 to 1928, representing a temporary retreat from its previous policy of extreme centralization and doctrinaire socialism.
- Stalin's program of forced **collectivization and industrialization** (1929-1933)
 - policy that transformed traditional agriculture into a system of collective farming (kolkhoz).
 - From 1928 to 1940, the number of Soviet workers in industry, construction, and transport grew from 4.6 million to 12.6 million, and factory output soared. Stalin's first five-year plan (1928-1933) helped make the USSR a leading industrial nation.

The Socialist calculation Debate

Otto Neurath's proposal



- During peacetime, production in market economies is driven by the search for profits, but this leads to recurrent periods of over-production and unemployment.
- In wartime, production is no longer driven by profit-seeking, and the war effort ensures that productive capacity is always fully utilized. The price system is suppressed, which is replaced by extensive planning of materials management from the center.
- Wartime planning should continue in peacetime with a "natural accounting center" set up to run the economy as if it were one giant enterprise and money would not be needed.

Ludwig von Mises's (1881-1973) response



- Economic calculation in the socialist commonwealth (1920).
- Mises took as a starting premise that under most forms of socialism, factors of production are owned by the state, and that, as such, there is no market for them.
- Socialist managers have no way to tell when choosing among a huge array of economically feasible and technologically feasible input combinations.
- “Where there is no free market, there is no pricing mechanism; without a pricing mechanism, there is no economic calculation.”

Rebuttals of Mises by market socialists

- In the absence of prices, people would not know what it meant to economize - to balance the costs and benefits of alternative activities.
- Rational calculation under socialism was at least theoretically possible. Because a Walrasian system of equations could formally represent any economy, Dickinson claimed that, in theory, there is no difference between capitalism and socialism: In a capitalist system, the equations are "solved" by the market, whereas in a socialist system, they could be solved by the planning authorities.
- The main response to Mises came from a group of economists who have come to be known as "market socialists": H. D. Dickinson (1899-1969) and Oskar Lange (1904-65).
- They argued that it was possible to design an economy that was socialist in the sense that the state owned the means of production but in which there were markets for consumer goods and labor.

Oskar Lange and Friedrich von Hayek (1899-1992)



Lange's blueprint for market socialism (1936)

1. Allow a market for consumer goods and labor allocation.
 2. Put the productive sector into state hands but provide strict production guidelines to firms. Namely, inform managers that they must price their output equal to marginal costs and produce that level of output that minimizes average costs.
 3. Adjustments can be made on a trial-and-error basis, using inventory as the signal.
- “In short, these production guidelines will ensure that productive efficiency is achieved even in a setting of state ownership of the means of production by groping toward the conditions of perfectly competitive equilibrium similar to Walrasian tâtonnements.”

Rebuttals of Lange and market socialists by Hayek, I

- The most forceful response to this came from Hayek in a series of articles, the first of which appeared in 1935.
- He argued that market socialists had not shown that rational calculation was possible under socialism. They had just shown that if one had complete knowledge of all the relevant data (including knowledge of consumers' tastes and of all the technical possibilities for producing goods), it would be possible to solve a set of equations to determine what goods should be produced.
- However, this did not solve the problem of how efficiency could be achieved under socialism. In a real-world economy, full information on the technical conditions of production does not exist.
- What does exist is engineers with techniques of thought that enable them to discover new solutions when confronted with new problems.
- In other words, the knowledge required by socialist planners does not exist - it needs to be created.

Rebuttals of Lange and market socialists by Hayek, II

- The problem with socialism is not merely a computational problem: **it is one of generating the information required for the system to operate.** The market socialists, by taking technical conditions as given, assumed the problem away. Hayek also raised further problems with.
- Hayek also raised further problems with the market-socialist arguments. In equilibrium, prices can be calculated by solving a set of simultaneous equations. But the economy is never in equilibrium.
- Prices conveyed information that would not otherwise be available to decision-makers.
- Competition was not only a means of moving the economy towards equilibrium but also a procedure for discovering new ways of doing things.
- **Road to Serfdom** (1944): Hayek argued that planning itself constituted a significant step along the road toward the totalitarian state.

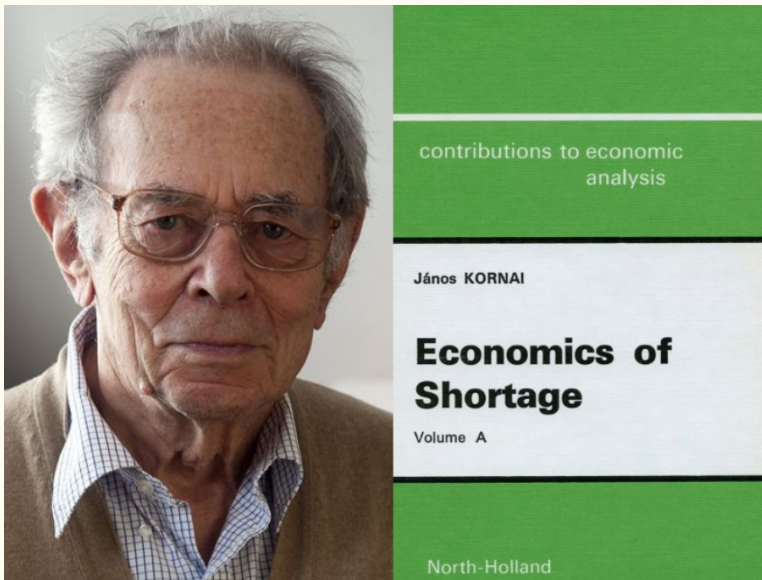
Socialism in practice

Boris Yeltsin grocery shopping in the US (Sep. 1989)



Consequences of the socialist economy

- Czech Television ArchiveL <https://www.youtube.com/watch?v=OyvJ3CaY3Yc>.
- This is a compilation of rare instances when the state television reported about shortages.
- A typical feature of the so-called real socialism in communist Czechoslovakia was the regular shortage of various goods.
- So sometimes, there were no menstruation pads or toilet paper; in summer, there was a shortage of swimming suits, and in winter, there was a shortage of Christmas trees.
- People were used to waiting, often even several hours, to get a short supply of goods.

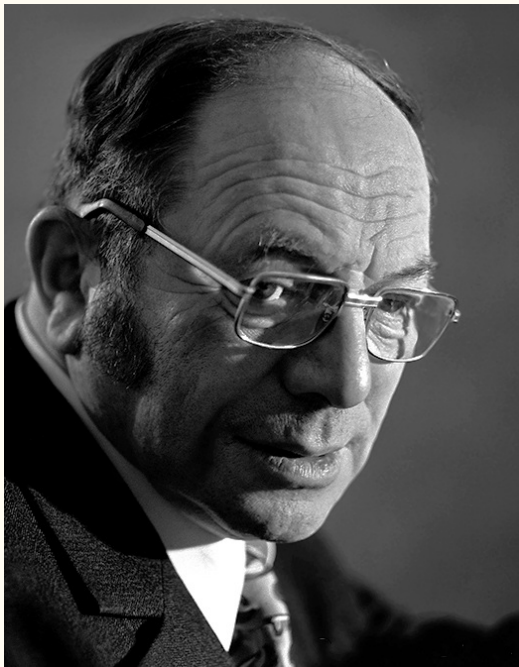


The shortage economy

- Analyzed and criticized command economies and coined the term shortage economy to describe frequent, intensive, and chronic shortages in socialist economies:
 - Systemic flaws, not the consequences of planners' errors
 - Government-enforced price ceilings cause an imbalance of demand and supply.
 - Mis-timing of production orders which arrive too late
 - Queueing and waiting lists
 - High search costs and purchase of substitute goods or unrelated goods, forced savings
 - Paternalistic attitude of planners who blamed the shortages on consumers demanding "wrong things."
- **Soft budget constraint** in which producers form expectations of always being bailed out by central authorities, i.e.no bankruptcy rules.
- Repressed inflation resulting from pent-up demand.

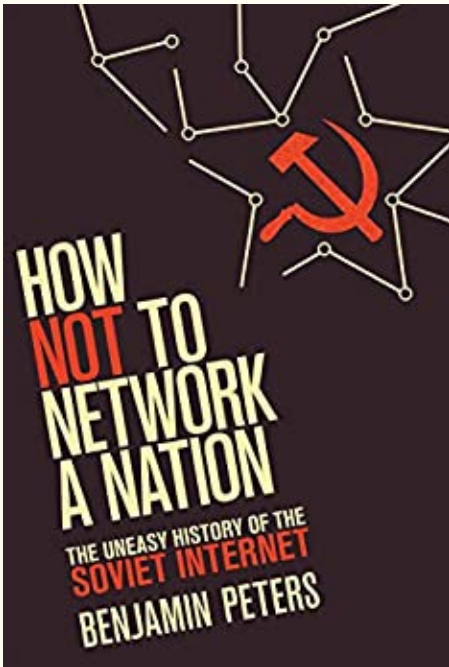
How to improve planning, I

- The idea that mathematical methods and computational power can implement central planning and circumvent the shortcomings of “actually existing socialism” is not new.
- Grigory Feldman (1884-1958), Leonid Kantorovich (1912-1986), Wassily Leontief (1905-1999), and many others pioneered these ideas.
- However, during Stalin’s reign, nothing much is done. Stalin had a deep suspicion of economists in general and of mathematical economists in particular.
- More deeply: Stalin believed in the supremacy of politics over economics and mathematical planning is incompatible, in his assessment, with this supremacy.



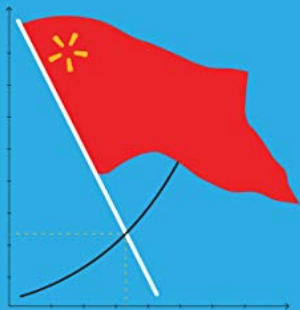
How to improve planning, II

- After Stalin's death, some new possibilities are opened.
- Research program championed by Vasily Nemchinov (1894-1964).
- Practical implementation:
 1. Victor Glushkov (1923-1980) proposed the construction of a "National Automated System for Computation and Information Processing" (OGAS), a Soviet "internet" that would allow the transmission of information from thousands of production units to a center, which in turn would send instructions back to these units.
 2. The "System for Optimal Functioning of the Economy" (SOFE), led by Nikolay Fedorenko (1917-2006), and the Central Economic Mathematical Institute in Moscow.



The future of market socialism

Leigh Phillips & Michal Rozworski



PEOPLE'S REPUBLIC OF WALMART

HOW *the* WORLD'S BIGGEST
CORPORATIONS ARE LAYING *the*
FOUNDATION *for* SOCIALISM

Opinion **Big Data**

The Big Data revolution can revive the planned economy

Some, notably in China, think oceans of information will refloat
centralised systems

JOHN THORNHILL

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Coming back to Hayek's argument, there was another aspect of it that has always bothered me. What if computational power of central planners improved tremendously? Would Hayek then be happy with central planning?

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Impossible to know the answer to this, but some believe that advances in AI are taking us towards this type of supercharged computational power. In my mind, this does not make central planning anymore attractive (whether it is in the hands of the Communist Party or Google).

On the virtues of technosocialism/digital socialism

Jack Ma, founder and chairman of Alibaba Group, declared in 2016 that:

Over the past 100 years, we have come to believe that the market economy is the best system, but in my opinion, there will be a significant change in the next three decades, and the planned economy will become increasingly big. Why? Because with access to all kinds of data, we may be able to find the invisible hand of the market.

The planned economy I am talking about is not the same as the one used by the Soviet Union or at the beginning of the founding of the People's Republic of China. The biggest difference between the market economy and planned economy is that the former has the invisible hand of market forces. In the era of big data, the abilities of human beings in obtaining and processing data are greater than you can imagine.

With the help of artificial intelligence or multiple intelligence, our perception of the world will be elevated to a new level. As such, big data will make the market smarter and make it possible to plan and predict market forces so as to allow us to finally achieve a planned economy.¹

Is this time different?

- Can technological advances in computation replace the competitive discovery process that takes place within the context of the market?
- Technosocialism represents a restatement of the old case for market socialism, which incorrectly framed the “solution” to economic calculation under socialism as one of **computing data**, rather than the discovery of context-specific knowledge that only emerges through the exchange of **property rights**.
- Economic calculation is not about computational complexity but about sorting from the numerous technologically feasible ways to pursue a variety of production plans to find that subset of economically viable production plans.

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