

Socialism

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Socialism—defined as a centrally planned economy in which the government controls all means of production—was the tragic failure of the twentieth century. Born of a commitment to remedy the economic and moral defects of capitalism, it has far surpassed capitalism in both economic malfunction and moral cruelty. Yet the idea and the ideal of socialism linger on. Whether socialism in some form will eventually return as a major organizing force in human affairs is unknown, but no one can accurately appraise its prospects who has not taken into account the dramatic story of its rise and fall.

The Birth of Socialist Planning

It is often thought that the idea of socialism derives from the work of Karl Marx. In fact, Marx wrote only a few pages about socialism, as either a moral or a practical blueprint for society. The true architect of a socialist order was Lenin, who first faced the practical difficulties of organizing an economic system without the driving incentives of profit seeking or the self-generating constraints of competition. Lenin began from the long-standing delusion that economic organization would become less complex once the profit drive and the market mechanism had been dispensed with—“as self-evident,” he wrote, as “the extraordinarily simple operations of watching, recording, and issuing receipts, within the reach of anybody who can read and write and knows the first four rules of arithmetic.”

In fact, economic life pursued under these first four rules rapidly became so disorganized that within four years of the 1917 revolution, Soviet production had fallen to 14 percent of its prerevolutionary level. By 1921 Lenin was forced to institute the New Economic Policy (NEP), a partial return to the market incentives of capitalism. This brief mixture of socialism and capitalism came to an end in 1927 after Stalin instituted the process of forced collectivization that was to mobilize Russian resources for its leap into industrial power.

The system that evolved under Stalin and his successors took the form of a pyramid of command. At its apex was Gosplan, the highest state planning agency, which established such general directives for the economy as the target rate of growth, the allocation of effort between military and civilian outputs, between heavy and light industry, or among

various regions. Gosplan transmitted the general directives to successive ministries of industrial and regional planning, whose technical advisers broke down the overall national plan into directives assigned to particular factories, industrial power centers, collective farms, or whatever. These thousands of individual subplans were finally scrutinized by the factory managers and engineers who would eventually have to implement them. Thereafter, the blueprint for production reascended the pyramid, together with the suggestions, emendations, and pleas of those who had seen it. Ultimately, a completed plan would be reached by negotiation, voted on by the Supreme Soviet, and passed into law.

Thus, the final plan resembled an immense order book, specifying the nuts and bolts, steel girders, grain outputs, tractors, cotton, cardboard, and coal that, in their entirety, constituted the national output. In theory such an order book should enable planners to reconstitute a working economy each year—provided, of course, that the nuts fitted the bolts, the girders were of the right dimensions, the grain output was properly stored, the tractors operable, and the cotton, cardboard, and coal of the kinds needed for their manifold uses. But there was a vast and widening gap between theory and practice.

Problems Emerge

The gap did not appear immediately. In retrospect, we can see that the task facing Lenin and Stalin in the early years was not so much economic as quasi-military—mobilizing a peasantry into a work force to build roads and rail lines, dams and electric grids, steel complexes and tractor factories. This was a formidable assignment, but far less formidable than what would confront socialism fifty years later, when the task was not so much to create enormous undertakings, but relatively self-contained ones, and to fit all the outputs into a dovetailing whole.

Through the sixties the Soviet economy continued to report strong overall growth—roughly twice that of the United States—but observers began to spot signs of impending trouble. One was the difficulty of specifying outputs in terms that would maximize the well-being of everyone in the economy, not merely the bonuses earned by individual factory managers for “overfulfilling” their assigned objectives. The problem was that the plan specified outputs in physical terms. One consequence was that managers maximized yardages or tonnages of output, not its quality. A famous cartoon in the satirical magazine *Krokodil* showed a factory manager proudly displaying his record output, a single gigantic nail suspended from a crane.

As the economic flow became increasingly clogged and clotted, production took the form of “stormings” at the end of each quarter or

year, when every resource was pressed into use to meet preassigned targets. The same rigid system soon produced expeditors, or *tolkachi*, to arrange shipments to harassed managers who needed unplanned—and therefore unobtainable—inputs to achieve their production goals. Worse, in the absence of the right to buy their own supplies or to hire or fire their own workers, factories set up fabricating shops, then commissaries, and finally their own worker housing to maintain control over their own small bailiwicks.

It is not surprising that this increasingly Byzantine system began to create serious dysfunctions beneath the overall statistics of growth. During the sixties the Soviet Union became the first industrial country in history to suffer a prolonged peacetime fall in average life expectancy, a symptom of its disastrous misallocation of resources. Military research facilities could get whatever they needed, but hospitals were low on the priority list. By the seventies the figures clearly indicated a slowing of overall production. By the eighties the Soviet Union officially acknowledged a near end to growth that was, in reality, an unofficial decline. In 1987 the first official law embodying *perestroika*—restructuring—was put into effect. President Mikhail Gorbachev announced his intention to revamp the economy from top to bottom by introducing the market, reestablishing private ownership, and opening the system to free economic interchange with the West. Seventy years of socialist rise had come to an end.

Socialist Planning in Western Eyes

Understanding of the difficulties of central planning was slow to emerge. In the midthirties, while the Russian industrialization drive was at full tilt, few voices were raised about its problems. Among those few were Ludwig von Mises, an articulate and exceedingly argumentative free-market economist, and Friedrich Hayek, of much more contemplative temperament, later to be awarded a Nobel Prize for his work in monetary theory. Together, Mises and Hayek launched an attack on the feasibility of socialism that seemed at the time unconvincing in its argument as to the functional problems of a planned economy. Mises in particular contended that a socialist system was “impossible” because there was no way for the planners to acquire the information—“produce this, not that”—needed for a coherent economy. This information, Hayek emphasized, emerged spontaneously in a market system from the rise and fall of prices. A planning system was bound to fail precisely because it lacked such a signaling mechanism.

The Mises-Hayek argument met its most formidable counterargument in two brilliant articles by Oskar Lange, a young economist who would become the first Polish ambassador to the United States after World

War II. Lange set out to show that the planners would, in fact, have precisely the same information as that which guided a market economy. The information would be revealed as inventories of goods rose and fell, signaling either that supply was greater than demand or demand greater than supply. Thus, as planners watched inventory levels, they were also learning which of their administered (i.e., state-dictated) prices were too high and which too low. It only remained, therefore, to adjust prices so that supply and demand balanced, exactly as in the marketplace.

Lange's answer was so simple and clear that many believed the Mises-Hayek argument had been demolished. In fact, we now know that their argument was all too prescient. Ironically, though, Mises and Hayek were right for a reason that they did not foresee as clearly as Lange himself. "*The real danger of socialism*," Lange wrote, in italics, "*is that of a bureaucratization of economic life*." But he took away the force of the remark by adding, without italics, "Unfortunately, we do not see how the same or even greater danger can be averted under monopolistic capitalism."

The effects of the "bureaucratization of economic life" are dramatically related in *The Turning Point*, a scathing attack on the realities of socialist economic planning by two Soviet economists, Nikolai Smelev and Vladimir Popov, that gives examples of the planning process in actual operation. In 1982, to stimulate the production of gloves from moleskins, the Soviet government raised the price it was willing to pay for moleskins from twenty to fifty kopecks per pelt. Smelev and Popov noted:

State purchases increased, and now all the distribution centers are filled with these pelts. Industry is unable to use them all, and they often rot in warehouses before they can be processed. The Ministry of Light Industry has already requested Goskomtsen [the State Committee on Prices] twice to lower prices, but "the question has not been decided" yet. This is not surprising. Its members are too busy to decide. They have no time: besides setting prices on these pelts, they have to keep track of another 24 million prices. And how can they possibly know how much to lower the price today, so they won't have to raise it tomorrow?

This story speaks volumes about the problem of a centrally planned system. The crucial missing element is not so much "information," as Mises and Hayek argued, as it is the motivation to act on information. After all, the inventories of moleskins did tell the planners that their production was at first too low and then too high. What was missing was the willingness—better yet, the necessity—to respond to the signals of changing inventories. A capitalist firm responds to changing prices because failure to do so will cause it to lose money. A socialist ministry ignores changing inventories because bureaucrats learn that doing

something is more likely to get them in trouble than doing nothing, unless doing nothing results in absolute disaster.

Absolute economic disaster has now been reached in the Soviet Union and its Eastern former satellites, and we are watching efforts to construct some form of economic structure that will no longer display the deadly symptoms of inertia and indifference that have come to be the hallmarks of socialism. It is too early to predict whether these efforts will succeed. The main obstacle to real perestroika is the impossibility of creating a working market system without a firm basis of private ownership, and it is clear that the creation of such a basis encounters the opposition of the former state bureaucracy and the hostility of ordinary people who have long been trained to be suspicious of the pursuit of wealth. In the face of such uncertainties, all predictions are foolhardy save one: no quick or easy transition from socialism to some form of nonsocialism is possible. Transformations of such magnitude are historic convulsions, not mere changes in policy. Their completion must be measured in decades or generations, not years.

Further Reading

Hayek, Friedrich A. "Socialist Economic Calculation: The Present State of the Debate." In Hayek. *Individualism and Economic Order*. 1942. Reprint. 1972.

Lange, Oskar, and Fred Taylor. *On the Economic Theory of Socialism*. 1938.

Mises, Ludwig von. "Economic Calculation in the Socialist Commonwealth." In *Collectivist Economic Planning*, edited by Friedrich A. Hayek. 1935.

Smelev, Nikolai, and Vladimir Popov. *The Turning Point*. 1990.

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Heilbroner: Who Predicted Socialism's Demise?

"But what spokesman of the present generation has anticipated the demise of socialism or the 'triumph of capitalism'? Not a single writer in the Marxian tradition! Are there any in the left centrist group? None I can think of, including myself. As for the center itself—the Samuelsons, Solows, Glazers, Lipsets, Bells, and so on—I believe that many have expected capitalism to experience serious and mounting, if not fatal, problems and have anticipated some form of socialism to be the organizing force of the twenty-first century.

“... Here is the part hard to swallow. It has been the Friedmans, Hayeks, von Miseses, *e tutti quanti* who have maintained that capitalism would flourish and that socialism would develop incurable ailments. Mises called socialism ‘impossible’ because it has no means of establishing a rational pricing system; Hayek added additional reasons of a sociological kind (‘the worst rise on top’). All three have regarded capitalism as the ‘natural’ system of free men; all have maintained that left to its own devices capitalism would achieve material growth more successfully than any other system.”

Source: Robert Heilbroner, “The World After Communism.” *Dissent* (Fall 1990): 429–430.