

Even less settled is the question of the political future. Participants were sceptical with regard to a mechanical response from the political sphere to changes in the economic sphere; in other words, that the movement in the direction of private property and market coordination will automatically generate a movement towards democracy. But the prospect of a slow and gradual shift towards the state of law and, finally, towards democracy is certainly not out of the question.

## 2

# Socialism and the Market: Conceptual Clarification\*

*János Kornai*

### Introduction

The linking of the two terms, 'socialism' and 'market' has a long history. Various combinations and linkages have emerged in the extensive, sometimes rather heated debates, both in academic circles and in the political sphere. For example, 'market socialism' or 'socialist market economy', to mention only two widely used examples.

The main purpose of our Round Table was to look at recent experience in China and Vietnam. The study of the real history of these two countries might help in the reconsideration of the relationship between socialism and market. Also, an approach from the other direction could be quite useful. Recalling the political and academic debates of the past can contribute to a better understanding of the realities in contemporary history. Analysts are at risk of getting lost in minor details. Confronting today's experience with century-old intense debates puts the Chinese and Vietnamese development in a wider historical context.

These debates have, so far, always been blurred by conceptual confusion. The purpose of this chapter, the introductory lecture at the Round Table, is to attempt some conceptual clarification.

### Interpretation of the term 'market'

The interpretation of the concept of 'market' is not too difficult. Here, we have – more or less – a consensus. In the present context, I draw your attention to a few properties that characterize the market.

Market is a mechanism for coordinating human activities. It is a social arrangement for the integration of society.<sup>1</sup>

Market is not the only mechanism of coordination and integration. I mention only one alternative – a feasible and powerful one: bureaucratic coordination, for example, which is especially relevant in the context of the Chinese and Vietnamese experience. That served as the main coordinator for decades in these two countries. There are many important differences between bureaucratic and market coordination in the degree of centralization or decentralization, in the nature of information flows, and in the incentives associated with this type of coordination. Market and bureaucratic coordination are only two, albeit especially relevant, examples; history has generated other coordination mechanisms as well. As time goes on, societies choose – deliberately or by spontaneous processes – between alternative coordination mechanisms. Reform in China and Vietnam includes, among other changes, a shift away from the predominance of bureaucratic coordination towards the predominance of market coordination.

### **Interpretation of the term ‘socialism’**

While there is a wide consensus concerning the meaning of the term ‘market’, there are great difficulties with the concept of ‘socialism’. Several interpretations exist. What we witness here is not simply hair-splitting linguistic disagreement. On the surface, it appears to be a controversy about the interpretation of a single word. In fact, the conceptual debate is heavily loaded with political values, with the struggle for the realization of alternative visions of a ‘good society’, and with sharp divisions concerning the strategy leading to the creation of a new order. It is not about words, but about political rhetoric and ideologies. Some of our colleagues at the Round Table had to take into account tactical considerations; they were unable to be completely outspoken, finding it more productive to go around clear-cut definitions. My personal situation is easier, and for this reason I now put aside all ‘diplomatic’ aspects and face the genuine problems.

I will discuss five interpretations of the term ‘socialism’. There are many more, but most of them can be treated as blends or combinations of my five pure interpretations, or as intermediate, temporal, or transitional stages between the pure cases.

#### **Interpretation 1: Marx’s concept of ‘socialism’**

Let us begin with Karl Marx: he was not the first to use the term ‘socialism’. The official training in Marxism, as it was practised in the countries

under the rule of the Communist Party, liked to use the somewhat pejorative label ‘Utopian socialists’ for towering figures of intellectual and political history such as Saint-Simon, Owen and Fourier, and contrast their ideas with ‘scientific socialism’. The latter allegedly begins with Marx.

Certainly, Marx opened a new chapter in the history of socialist ideas, and his teachings had, and still have, tremendous influence on political thought and action. It seems to be proper to focus on his contribution.

Marx was not eager to give a detailed description of a future socialist system. He even made sarcastic comments on German professors who drew up a blueprint of a desired socialist order in minute detail. He restricted himself to dropping a few hints here and there. His thoughts on socialism can partly be constructed from a negative approach: the features of capitalism he would furiously reject.

#### *Political structure*

Marx had no clear design for the political regime of socialism. There are fragments in his works that allow us to build up the organization of his thoughts on the subject.

Marx certainly did not appreciate ‘bourgeois democracy’. He was ready to ridicule the emptiness of liberal political ideas. There are often quoted lines where he advocated the dictatorship of the proletariat needed on the way to the fully-fledged Communist system.

Also, he had some truly naïve anarchistic ideas about the political situation at the stage of ‘communism’. Since every need will be met, the necessity for any kind of force or repression would automatically cease. The state would spontaneously shrink and finally disappear, and only the rational self-governance of the community would remain.

Marx certainly did not advocate a brutal, repressive, totalitarian Leninist–Stalinist–Maoist state. Nevertheless, dictatorship was not incompatible with Marx, at least for an indefinite period of transition to communism.<sup>2</sup>

#### *Ownership*

Under the capitalist system, productive assets are owned and managed by the capitalists. The capitalist class is exploiting the proletariat, not because they are merciless cruel people, but because they are the legal owners of capital. The world has to be changed; it is time to expropriate the expropriators. It emerges from this train of thought that Marx and Engels opted for public ownership. ‘The proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the State, that is,

of the proletariat organized as the ruling class' (Marx and Engels (1976) [1847]: 504). He did not specify, however, the route leading to the complete centralization of all means of production in the State's hands, and the institutional framework of public ownership.

In any case, Marx had a strong position on the ownership issue. In the Communist Manifesto, he highly appreciated the progressive role of early capitalism in cleaning up the remnants of feudalism in society. But that time was over, and capitalists became a hindrance to progress. He did not make fine distinctions between small and great capitalists; he just wanted to get rid of capitalism for the sake of a more productive new system.

#### *Coordination mechanism*

The three huge volumes of Marx's *Das Kapital* are devoted to the study of the market economy. Capitalism is coordinated by the market. Marx's scholarly interest is focused on the understanding of how the market works. His summary verdict is in stark contrast to his admired predecessor in classical economics, Adam Smith. Smith had great respect for the incredible achievement of the invisible hand. Millions of uncoordinated, decentralized decision-makers finally come up with a balanced state of the economy. Marx was not impressed. On the contrary, he regarded the market as a spectacular manifestation of anarchy. He did not study the problem of efficiency carefully but, almost by instinct, came to the conclusion that the operation of the market leads to waste. Once more, his thoughts on socialism can be reconstructed mainly from the negative approach. Socialism must be exactly the opposite of the coordination mechanism at work under capitalism. If that is irrational – coordination under socialism will be rational. It will be a conscious and reasonable allocation of production forces or of labour or of time spent on labour. Marx, as usual, did not offer a blueprint for central planning, but his idea of reasonable allocation is compatible with central planning and incompatible with the market.

Market – as the chief coordinator of a future socialist system – is a sharply anti-Marxist idea. It is completely alien, not only from the words of Marx but – what is perhaps even more important – also from the spirit of Marx's contrast between capitalism and socialism.

#### *Ideology*

Marx was among the first social scientists to recognize the important role of ideology. At the same time, he did not claim to be a prophet himself. He probably would have been embarrassed to see what various political

groups are doing one hundred years later under the banner of Marxism. He tried to understand the ideologies of capitalism, but did not suggest a new ideology for socialism.

#### **Interpretation 2: the Walrasian concept of 'socialism'**

This interpretation emerged in the quiet life of academia. The pioneer of the so-called 'theory of socialism' was the Italian economist Enrico Barone, a disciple of Pareto (Barone 1935 [1908]). Although even early works generated some response in the economic profession, the real break-through came with the seminal paper on the theory of socialism by Oscar Lange, the Polish economist (Lange 1956 [1938]). There were quite a few other economists who subsequently elaborated Lange's ideas in greater detail: first was Abba Lerner, in his influential book *The Economics of Control* (1946). For the sake of conciseness, I will focus exclusively on the Lange theory.

Oscar Lange's model of socialism fits tightly into the theoretical framework of Walrasian economics. In fact, it is a special application of General Equilibrium theory, pioneered by Leon Walras, reaching its later climax in the work of Arrow, Debreu and other contemporary theorists. There is no need to outline the whole train of thought, since our exclusive theme is the interpretation of the term 'socialism'.

In the world of the Lange model, the notion 'socialism' means public ownership – and nothing else. That is the necessary and sufficient condition of calling a system 'socialist'. Read the Lange paper again carefully. You do not find a single word about power, about the structure of the political regime, about ideology. Ownership is the sole concern.

Oscar Lange does not clarify the exact place of public ownership in the total composition of the structure of ownership. Is the publicly-owned sector only a part of the whole economy? Is it the dominant part, or are all the assets owned by the public? I present here my own interpretation. The Lange paper contains the following alternative tacit assumptions: all productive assets of the economy or the dominant part of them are in public ownership. Or it might be assumed that the publicly-owned sector can be perfectly isolated from the rest of the economy.

And now here is the final reduction: Lange's 'market socialism' is a vision of an economy based on public ownership and coordinated by the market. 'Socialism' and 'market' – these two institutional-structural arrangements are compatible.

The Lange model stirred up a great storm. It received vehement attacks in two great waves. The first rejection came in the brilliant essay by Friedrich von Hayek (1935): it was based on the argument that the

vast quantity of information and knowledge required by Lange's model cannot be collected, stored and utilized in a centralized way. It is essential to have decentralized incentives for gathering and making use of knowledge. That is assured by the market and private property – which automatically combine incentives and information.

The second wave emerged in the context of the reform of the Soviet and Eastern European socialist economies. The Hayekian argument regarding incentive and information was corroborated by empirical evidence. My own work, inspired by the reform experience, contributed additional arguments for refuting the Lange theory. It seems to be highly improbable to generate the strong incentive to minimize cost or maximize profit, taken for granted in the world of Lange's theory, in a public firm under a soft budget constraint regime.

It is impossible to couple an arbitrarily chosen ownership structure and an arbitrarily chosen set of coordination mechanisms. There is close affinity between certain ownership forms and certain coordination mechanisms. Decentralized market and private ownership belong together.

A further important counter-argument comes from the political and ideological sphere. The smooth functioning of the market depends on the 'climate'. It requires a market-friendly environment. If the politicians ruling a country are sworn enemies of genuine decentralization, the market will be banished to the black and grey area of the economy and cannot become the fundamental coordinator and integrator.<sup>3</sup>

Following the collapse of Communist rule, the ideas of some kind of market socialism appeared here and there, beside other naïve ideas of a 'third way'. These proposals were, however, energetically rejected.

Let us now move away from the academic debate, and have a look at political history. A traumatic schism split the socialist movement around the time of the First World War: two political movements, two programmes, two ideologies separated from each other. And they were not only separated, but they started to fight against each other, at some points with sad or even tragic consequences.

### **Interpretation 3: the Leninist concept of 'socialism'**

Around the time of the First World War, under the leadership of Lenin, Communist parties emerged. I do not intend to follow the history of Communist parties here, starting before taking power, and ending when they lost power in the Soviet Union and Eastern Europe. I focus only on the time when the power of the Communist party had already been consolidated but the erosion of their rule had not yet begun. That is what

I call 'classical socialism'. The best example is Stalin's rule for several decades after having eliminated his enemies and completed the 'expropriation of the expropriators'; that is, completing nationalization and collectivization, but before 'destabilization' started after the death of the tyrant. We could, of course, find historical realizations of the same type of system in other countries as well. Here is the summary characterization of that system.

#### *Political structure*

Democracy is despised and rejected in the rhetoric of the Leninist-Stalinist parties. They proudly announce that they exercise the dictatorship of the proletariat. The truth is that we witness here the unshared power of the Communist party. That is a regime where the party has complete political monopoly. All competitors are not only excluded, but also brutally prosecuted and oppressed.

#### *Ownership*

Public ownership of practically all the productive assets is a fundamental feature of the system. Confiscation of private property, nationalization and collectivization are core elements of the political programme before taking power, and remain core elements after having taken power. The programme is implemented consistently and with cruel force. Some pockets of private property remain, but their size is almost irrelevant in relation to the dominance of public property.

The Leninist position towards private property is confrontational. Even the minor remnants are looked upon with animosity and suspicion. 'Small commodity production engenders capitalism and the bourgeoisie continuously, daily, hourly, spontaneously, and on a mass scale' (Lenin 1966: 24 [1920]).

#### *Coordination*

The overwhelming role of the market is replaced by the predominance of central management. The usual name given to this form of coordination is 'central planning'. A more appropriate characterization is one of bureaucratic coordination, central control, a system of enforced instructions. This is a 'command economy'.

Market coordination cannot be expunged completely. It plays a certain role, partly legally, partly illegally, tolerated in the various forms of the 'black' or 'grey' economy.

*Ideology*

Marxism (later Marxism–Leninism, or still later Marxism–Leninism–Stalinism or –Maoism) is treated as sacrosanct. Although it cannot keep a perfect monopolistic position in the minds of all people, it retains a monopolistic position in education, in all legal publications, in the media and so on. The official ideology rejects all thoughts that are friendly to capitalism, private ownership, and the market.

According to the official ideology of that regime, the exclusive legitimate user of the term ‘socialism’ is its own system. The Marxist–Leninist–Stalinist–Maoist position on socialism is definitely incompatible with any significant role of the market.

**Interpretation 4: the social democratic concept of ‘socialism’**

Here, we discuss the first hundred or more years of social democracy up to the 1980s, and leave out of the scope of conceptual clarification the later changes in social democratic thought. The model countries to keep in mind are Sweden, other Scandinavian countries, and, at a later historical stage, West Germany and other countries in Western Europe. The movement of social democracy adheres to a set of principles. They accept and implement these principles when they assume power, but respect them also before winning or after losing an election.

*Political structure*

Being a social democrat means unconditional acceptance of the idea of parliamentary democracy. Exactly here is the deep dividing line between the two great currents of the twentieth century. Communists want ‘socialism’ by any means. If you are able to get to power by election, fine. But if not, take power by revolution, by violence, by imposing the will of the party on the people. Social democrats want their own kind of ‘socialism’ if, and only if, the majority of people are ready to support their programme by voting for their party.

A Communist party, once in power, does not abandon its power, even if it becomes clear that it does not have the support of the majority. It is not ready to test that support by competitive election. In contrast, a social democratic party is ready to give up its power if the election results demonstrate the loss of majority support.

The schism between Leninists and social democrats started with heated debates about tyranny and political competition, the role of parliament

and election. Up to the present day, that remains the crucial, decisive criterion to be applied when we wish to distinguish between Interpretations 3 and 4.

*Ownership*

Social democracy does not reject off-hand private ownership. Old-style social democrats always rejected crude ways of confiscation. Nevertheless, in some countries (for example, in Great Britain) they were inclined to assign a significant role to nationalization. As worldwide experiences (including the disappointing performance of the Soviet Union and the East European countries) cast the shadow of doubt over the efficiency of nationalized industries, the social democrats gradually gave up plans for nationalization and accepted the predominance of private ownership. Still, they are ready to retain a larger segment of the education and medical care sectors in public ownership (typically of the local government).

*Coordination*

Social democrats unhesitatingly rely on the market as the chief coordinator of economic activities. But they are not for unfettered free competition. On the contrary, they would insist on using the power of the state for income redistribution. The great accomplishment of their political influence is the creation of the modern welfare state with all the well-known attributes: progressive taxation, free or heavily subsidized education and health service, an extended system of state pension, unemployment insurance, financial support for the very poor and so on. Whatever the fiscal problems caused by the expansion of the welfare state are nowadays, social democrats try to preserve what they feel is the main achievement of their political struggle in parliament as an opposition party or, following electoral victories, in government.

Summing up the remarks on ownership and coordination, we arrive at the following conclusion. Social democrats do not want to create a new ‘socialist system’, one that is fundamentally different from capitalism. What they want is a profound reform of the existing capitalist system. In other words, they would like to see a variation of the capitalist system, closer to their own political and ethical ideals; one that includes:

- Extensive redistribution for the sake of more equity, fairness and justice
- Establishment, maintenance and development of the institutions of the modern welfare state (national health service, free education, pension for all citizens and so on).

Modern social democracy is searching for new ways to overcome the deep fiscal troubles partly associated with the commitments of the welfare state towards the citizenry. The problems are becoming more severe under the pressures of demographic change, the new conditions on the labour market created by new information and communication technology, and the competitive forces of globalization.<sup>4</sup> Nevertheless, certain elements of the traditional social-democratic approach to redistribution and welfare commitments are still maintained.

### *Ideology*

The set of ideas, values, and objectives of social democrats is closely linked to the 'welfare state' and the democratic political process. It was a hundred years ago when the debate between Lenin (the founding father of the Communist stream of the socialist movement) and Kautsky (a highly respected theoretician and party leader in Germany, one of the founding fathers of what became later the social democratic stream) evolved.<sup>5</sup> At that time, both sides of the controversy referred to Marx as the common theoretical source and highest authority. As time passed, social democrats distanced themselves more and more from Marx and, after the Second World War, completely cut off all ideological linkages to Marxism. The 1959 programme accepted at the party meeting of German social democrats in Bad Godesberg opened a new chapter in the history of the movement. European Social Democracy publicly abandoned Marxism, and skipped nationalization as the essential component of the programme. Sooner or later all social democratic parties followed the German example (Przeworski 1985, Hodge 1993).<sup>6</sup>

And now we turn to the theme of our Round Table.

### **Interpretation 5: the contemporary Chinese and Vietnamese interpretation of 'socialism'?**

There is a question mark at the end of the title because I merely raise the question and do not even try to give an answer. If there is an answer, it is uncertain whether it is identical for China and Vietnam. But let us put aside the study of the difference in the understanding of the notion of 'socialism' in these two countries. Even if there is a difference in the answer, it is still legitimate to ask the same question with respect to both countries.

While I do not undertake to reply, I can offer a few negative remarks. The previous part of the chapter outlined four interpretations of the term 'socialism'. What is going on in China and in Vietnam, the present state

of affairs and the changes in the foreseeable future do not fit into any of them.

As for Interpretation 1, Marx was an outspoken enemy of private property and expressed deep distrust in the market. China and Vietnam have already allowed the private sector to grow fast and produce the larger part of GDP. Its share is increasing day by day, and the public sector share is shrinking. The predominant part of coordination is left to the market mechanism. Neither China nor Vietnam is a socialist system any longer, if we apply Marx's interpretation of socialism.

As for Interpretation 2, China and Vietnam are not the historical realizations of Oscar Lange's theoretical construct called 'market socialism'. In Lange's abstract world, productive assets are in public ownership. Lange made great intellectual effort to prove that the market is able to fulfil its coordination role *without* the existence of private ownership. True, in the real world of China and Vietnam the market has become the chief coordinator. That might be a welcome change – but, because of the profound changes in the ownership structure, the present state of affairs has nothing to do with the vision of the intellectual school of 'market socialism'.

As for Interpretation 3, China and Vietnam have preserved an extremely important attribute of the Leninist kind of socialism. The political structure has remained basically unchanged. The Communist party has maintained its political monopoly. The party-state has unrestricted totalitarian power. There is no legally admitted political competition between parties and ideologies: any opposition, dissident or truly independent movement is repressed.

On the other hand, the structure of ownership has gone through fundamental changes, giving up the leading role of the state-owned sector. The role of bureaucratic coordination and central management has been drastically reduced and replaced to a large extent by the market. It is far, very far from a classical socialist system, and somewhat close to a typical capitalist system. Also, the official ideology has gone through drastic changes. The Communist party, which traditionally opposed private property and market, has become friendly towards these arrangements. From a vehemently anti-capitalist view of the world, it has shifted toward pro-capitalist values and principles. Today's Communist parties in these two countries are parties friendly to capitalism disguised by Marxist-Leninist slogans, and by faithful references to the thoughts of Mao and Ho Chi Minh.

As for Interpretation 4, the two main attributes of true social democracy are missing. First, dictatorship, single-party rule is preserved, and the idea of a competitive election is angrily rejected.

Furthermore, the old-style communist regime made serious efforts to build up at least some elements of a welfare state in the sectors of education, health care and pension, for all citizens or – with regard to some services – at least, for the employees of public enterprises. In doing so, the former governments were, of course, limited by the low level of production and development. The efforts could not lead to a well-funded modern welfare state. The efforts in some instances even went beyond the limits of affordability and produced a premature welfare state. Now this situation is over. The state has started to withdraw from welfare services for the sake of a better fiscal balance and more efficient competitiveness of the private sector. The extent of redistribution is diminishing; inequality is increasing dramatically; the gap between the rich and the poor is growing. China and Vietnam are not moving (in relative terms, in the pattern of income distribution and social services) in the direction of the social-democratic Scandinavian model, but rather in the direction of an early nineteenth century Manchester model, or some strikingly unequal Latin American countries.

Four emphatic ‘no’s – a decidedly negative answer to the question as to whether the systems functioning in China and Vietnam can be called ‘socialism’ according to the criteria associated with the four interpretations described in this chapter.

This is a *factual* observation and does not have any *normative* implications. In my eyes, the label ‘socialism’ is not a badge of honour. I am not the advocate of Leninist socialism. I do not discuss the issue of whether China or Vietnam ‘deserve’ to be called socialist countries, or whether they departed from the only true way of Leninism. Similarly, I am not the advocate of social democracy, and therefore do not blame these countries for being far from the social democratic pattern of parliamentary democracy and the welfare state.

‘Socialism’ is not a registered trademark. No one has the right to give a mandatory and exclusive definition, claiming that his definition is the only legitimate one. If the Chinese or the Vietnamese leadership insists on calling their own regime ‘socialist’, no one can deny them their right to do so. Of course, it remains an intriguing question for scholars specializing in the study of ideologies, symbols, rituals, and political rhetoric: What is the motivation for that insistence? These leaders took the risk of departing from the Leninist route, and did not join the social democratic route either, but decided to follow a new path in their *deeds*. But why are they so conservative or stubborn in maintaining the old *words* and why do they continue to carry the old labels? Scholars specialized in the study of ideologies will probably have an answer. They might point out

that *words do matter*. In the political sphere (or perhaps also in private life) it is often much easier to turn around in your practical actions than to confess that you have become a renegade to your earlier beliefs and values. Turning from Saulus to Paulus – openly admitting the change of faith and accepting all the consequences – is a rare, indeed very rare, exception in political history.

Intellectuals who make their living from written or spoken words are keen to clarify concepts. But life goes on in the midst of conceptual confusion. In this chapter, I have tried to offer some conceptual clarification. In the chapters that follow, we are going to discuss not what the changes are *called*, but their true nature.

## Notes

- \* The author gratefully acknowledges the assistance of Katalin Szabó and Ágnes Schönner.
- 1. Most textbooks and dictionaries of economics offer a concise characterization of the concept of ‘market’, and also various classifications of markets. See, for example, Mankiw (2001) or Samuelson and Nordhaus (2004). I am using here, and in later parts of the chapter, the conceptual framework of my book *The Socialist System* (1992).
- 2. Marx and Engels wrote in the *Communist Manifesto*, that after the victorious revolution the proletariat would assume ‘political supremacy’. Later, Engels formulated the Marxist position this way: ‘the necessity of the political action of the proletariat and of the dictatorship of the proletariat as the transitional stage to the abolition of classes and with them of the state’ (Engels, 1976: 370 [1872]). Lenin quoted the words of Marx and Engels with great emphasis in his famous book *State and Revolution* (1969) [1917], which laid the groundwork for the construction of the Leninist theory on the state and dictatorship. He wanted to demonstrate the theoretical continuity between the ideas of Marx and Engels and his own thoughts on the issues of creating dictatorship and rejecting parliamentary democracy.
- 3. For a wide overview of the contemporary debate on ‘market socialism’, see Bardhan and Roemer (1993). My own critical remarks are summarized in Kornai 1993.
- 4. Exploring the feasibility of a ‘Third Way’ is certainly a part of the attempts to modernize the traditional objectives of the social democrats and adjust them to the contemporary worldwide economic conditions (see Giddens, 2000).
- 5. The climax of the debate was the confrontation between the German socialist leader Karl Kautsky, advocating the social democrats’ position, and the bitter attack by Lenin in his famous pamphlets ‘State and Revolution’ (1969) [1917] and ‘The Proletarian Revolution and the Renegade Kautsky’ (1965) [1918].
- 6. There is a certain kinship between the traditional social democratic interpretation of socialism and the ideas of ‘Christian socialism’, and the related concept

of a 'social market economy', a term conceived in postwar West Germany. At the same time, there is a strong demarcation line concerning the accompanying ideology (Christianity versus a strictly secular approach to political and ethical issues). The discussion of this important political and intellectual current is beyond the limits of this chapter.

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# 3

## 'Market Socialism' and Chinese Economic Reform

Jinglian Wu

Market socialism, by the definition of Włodzimierz Brus, one of its exponents, is a theoretical concept (model) of an economic system in which the means of production (capital) are publicly or collectively owned, and the allocation of resources follows the rules of market including product, labour and capital markets.<sup>1</sup> As a modified model for realizing the transition of a socialist economic system, it had a degree of impact on the reforms in Hungary and Yugoslavia between the 1960s and the 1980s. This chapter is an attempt to make some analytical comments on the theory of market socialism based on the experience of China's reform.

### 'Market socialism' and its leading exponentials

#### Oskar Lange

During the 1920s, soon after the Soviet-style command economic system – that is, 'wartime communism' – was founded in a somewhat awkward form, the inherent malady of low efficiency was revealed. Against this background, there was a debate on socialism between its 'opponents' and 'sympathizers' in Western countries in the 1920s and 1930s. In this debate, labelled as 'the socialist controversy', Lange had brought forward his famous model of 'market socialism'. In his paper of 1908, Enrico Barone argued that an efficient resources allocation had nothing to do with the ownership of production factors and that, in theory, a planning committee would be capable of setting up the relative prices for the relevant resources by calculation, which are essential to an efficient allocation. Based on Barone's argument,<sup>2</sup> Lange suggested a model established on public ownership (state ownership) in which the planning committee would determine the market prices in line



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