Economic Systems, Vol. 16, No. 1, April 1992, pp. 171-185

MARKET SOCIALISM: A HISTORICAL VIEW AND A RETROSPECTIVE ASSESSMENT

ALBERTO CHILOSI *

The paper makes a retrospective assessment of market socialism, both in *theory and in practice. Two main strands of the market socialist model are considered, which differ in their fundamental attitudes towards the nature of markets and competition. The reasons for the eventual failure of real market socialism,* in *the Yugoslav and Hungarian versions, are also analysed. Was this failure due to faulty market policies,* or *to the intrinsic weaknesses of the socialist market models? The distribution of this responsibility is an open question.*

"We are such stuff as dreams are made on."
Tempest, act IV, scene 1, vv. 156-157.

1. Introduction

The present study was started when it seemed that some kind of market socialist option was still on the agenda as a way out of the crisis of what used to be called the Soviet-type economies. Now that the previously socialist countries of Central-Eastern Europe have decidedly embarked on the transformation of their economic institutions into some variety of a mixed economy of the Western type it might seem rather uninteresting to be concerned with the market socialist model. On the other hand, even if momentarily fading, it is not excluded that socialist ideas could resurface again. Moreover, the market socialist model remains a term of reference as a fundamental *Idealtypus* of economic organization. It may therefore still be of some interest to look, as we shall do in the present paper, for the ultimate origin of the market socialist model and for its evolution in the history of socialist thought, as well as considering the difficulties which the market socialist model has encountered in its practical implementation and the ways in which its proponents have deemed to overcome them.

In a nutshell, what we are going to argue is that there are two main approaches to the market socialist idea. The first one is the "Manchesterian" [1] one, according to which competitive market forces lead to socially optimal results. The other view, which we may characterize as the "sober" idea of market

* Istituto di Economia e Finanza, Facolta di Scienze Politiche, Pisa.

[1] With this word I try to translate the peculiar German term *Manchesterium.*

socialism, is that markets, with all their imperfections, are just a convenient device to allocate resources, but are deprived of any property of unconditional optimality. Often, according to this view, the market is seen, partly at least, as the place where big organizations (which result, among others, from binding agreements of various kinds between smaller economic bodies) exert their countervailing powers, entering into exchange among themselves. Another difference in approach relates to competition: some of the models[2] of market socialism have a distinctive bias against competition, which is considered as an evil to be avoided. Others (the "Manchesterian" ones) emphasize the virtues of competition. Of course, this applies to the perception of markets and competition in general and could also refer to the different viewpoints from which the role performed by capitalist markets is seen. There are however two peculiarities of the "Manchesterian" tradition of market socialism, which distinguish it inside the Smithian tradition of the "invisible hand" doctrine. The first is the self-management idea, the other a peculiar extension of the concept of free entry, from free entry of new firms into markets to free entry of workers into self-managed firms.

The other point I want to argue is a more concrete one and does not refer to *Dogmengeschichte* issues; it relates, however, to some considerations which could be seen as applying to the functioning of markets in general. Aside from a number of difficulties of a theoretical nature which have been considered in the history of the socialist controversy on the economic consequences of non-private property rights, there is a less discussed feature of "real" market socialism which has affected the actual performance of socialist market experiments. In the reality of market systems, either general rules are established, the nature of budget constraints is determined, and markets are left to operate according to the established rules of the game, or the working of markets is meddled with by the daily intervention of economic authorities, softening the disciplinary action of budget constraints, reducing managerial autonomy, severely hampering the nexus between effort, foresight ("speculation"), performance, and reward. The action of authorities may be dictated by the noblest motives: to shelter workers from the dire consequences of bad luck, to avoid the establishment of positional rents, to wipe out "speculative" ("non-earned") incomes, to assert overall social preferences over individual ones, and even the relatively sophisticated one of correcting market failures. However, the practical results have often been, particularly in the market socialist examples of Hungary and Yugoslavia, to substitute bureaucratic failure to market failure and to hamper the working of preset general compatibility rules, resulting in a lack of financial discipline and of transparency and anonymity in the functioning of the market. As such the failure of market socialism might depend not so much on the economic consequences of property rights, but on a policy orien-

2 When we speak of "models", we do not necessarily refer to coherently constructed simplified images of a possible reality, but also to a set of visions and ideas concerning how a particular institutional set-up (such as the market institution) will work in practice.

tation which can also occur in other types of economies; this view is very close to the socialist one of directing society from above, instead of taking advantage of the propensity of markets to be amenable to perform, in conformity with the old liberal viewpoint, through the enforcement of overall binding general rules.

2. Socialism, free access, and the invisible hand

It is a conventional opinion that traditional socialist ideology is fundamentally opposed to the ideology of "invisible hand" and of market equilibrium and that socialism stands for coherent planning of the economy by society against the "anarchy of the market". However, long before some institutions of market socialism were tried by Yugoslav and East European reformers, there had been a historically significant, even if little known, strand of socialist thought which saw in the coordination of individual decisions by the market and in free competition the tools for attaining social optimum in a society where the means of production are not privately owned. This line of thought dates back to 19th century authors such as Duhring (1872) or Herztka (1890). Its influence can be seen in the works of pre-war socialist thinkers such as Marek Breit and Oscar Lange (1934) or Erich Oppenheimer (1922). A fundamental part in these market socialist models is played by the institution of free access, not only in the sense of freedom of entry, but in the very peculiar one of the right of any member of society to participate in the activity of any productive unit on a sharing basis.

In this way two different concepts of free access to the market appear: the first is the traditional one of free entry through the legal right of forming new firms and the absence of barriers. This type of free access is often considered to be instrumental in ensuring the functioning of the invisible hand by creating a tendency to the equalization of the rate of return across firms and industries. The other refers to the free access of workers into firms, and is also seen as instrumental in ensuring the functioning of the invisible hand,[3] and, in the case of Breit and Lange, in breaking the market power of large self-managed socialist trusts. Historically, this peculiar institution can be found in the statutes of the (open) French craftsmen cooperatives of the eighteenth century and of some utopian socialist cooperative settlements of the same period. In Diihring and Herztka, it derives from the influence of the tradition of agrarian socialism through the idea that the evils of society depend on labourers' exclusion from free access to the means of production, where the means of production by excellence was, in a pre-industrial society, land, the free access to which had been barred through the enclosure movement. This idea leads to the related one that access to the means of production must be guaranteed to everybody through

[3] This belief can be seen to find some justification in the fact that, as is shown in Chilosi (1986b), under comparable assumptions as in the standard general equilibrium model, a free access equilibrium of a self-managed economy is Pareto-efficient.

the right to work in production units managing a given set of production goods and natural resources.[4] It may be seen also as a specification of Fourier's idea of everybody's right to work: "I was born on this earth; I claim admission to any work which is performed here, and a guarantee that I can enjoy the fruits of my labour."[5]

3. Non-"Manchesterian" market socialism

Besides the "Manchesterian" viewpoint on market socialism, as embodied in the models of Diihring and Herztka, a historically more important strand of market socialism is that of those socialist thinkers who saw in the market (or, what amounts to the same, in voluntary contractual agreements), as opposed to plan, the coordinating force among large socialist productive units, often considered encompassing a whole production branch.

In the viewpoint of *Marktsozialisten* such as Heimann, or of functional socialists such as Otto Bauer, Wissel, Moellendorf or the guildists,. the market, or voluntary exchange, does not have any *a priori* optimality property, but is only a convenient coordinating device, deprived of the potentially tyrannical tendencies of a centralized administration of the economy. Thus, the acceptance of the market is without any "invisible hand" optimism. Furthermore, the ideological background to the creation of large trusts or guilds seems to be rather the belief in the negative effects of competition and in the virtues of big industry. This "anti-Manchesterian" outlook is typical of the German Social Democratic cultural tradition.[6]

---

4 Another, much later, model of self-managed market socialism characterized, unlike that of the previous paragraph, by restricted access, is the Illyrian one, which is much too well known to deserve to be considered here. We shall, however, consider briefly the Yugoslav approach to market socialism later on.

5 Quoted in Landauer (1965, p. 1032).

6 See for instance Lassalle (1863, p. 4): "The principle of the free individual association of workers can produce a betterment of the condition of the working class" (namely can break the *iron law of wages)* "only through its application and extension to large industrial produc-tion" (emphasis in the original suppressed), and Benlstein: "As long as associations included only a fragment of those belonging to a given industrial branch, they were submitted to the coercive laws of competition ... A domination of production by the producers themselves is possible only as far as competition between them is suppressed, and this can be attained only through monopoly" [quoted by Oppenheimer (1922, p. 158)]. The same outlook can be found in Oppenheimer's "liberal socialism": "The production cooperative of the future" not only "must be open like a consumer association". but must also "have the monopoly of market with sufficient purchasing power" (1922, pp. 164-165; see also p. 158). This viewpoint seems in some ways to suffer from an error of composition: what is bad for a single firm, competition by others, is bad for the economy as a whole. The same applies to agreements restricting competition which can be to the advantage of a given sector of the economy. but not of the economy as a whole. Perhaps this cultural tradition could explain the peculiar organization of the economy of the fonner GDR in large, centralized *Kombinate*. Of course there could be more sophisticated reasons, such as the perception of the social advantage to coordinate investments in order to avoid wasteful overinvestments in particular branches.

An obvious major flaw of these types of organization of the economy lies in the potential monopoly powers of socialist trusts. This is an issue which has been particularly felt in the Hungarian economy, ever since the attempt, from 1968 onwards, to introduce some sort of market socialism while maintaining a highly concentrated industrial structure.[7]

The remedy to this difficult problem is sought in different ways. **In** Bauer (1921) what is believed to restrict tendencies to monopolistic behaviour is the composition of the managing boards of enterprise associations, with representatives, not only of workers and management (and private owners too, until the moment all firms are socialized), but also of consumers and of the state. **In** this, Bauer's conception is very close to the 1919 one of Wissel and Moellendorf's *Selbstwirtschaftskorper*, i.e. large compulsory cartels in whose administrative bodies there are consumers' and workers' representatives.[8] **In** Heimann's *Marktsozialismus*, "the individual industries organized into largely autonomous corporations were to sell to each other and to the consumers the commodities and services produced".[9] According to Heimann, "collective organizations" must keep "the price at the lower limit of the margin within which it can be set-whereby the organizations renounce all monopoly gain-and by always moving the price back to that limit whenever a change in demand conditions has altered the market situation."[10] On the other hand, it is not clear what would persuade the "collective organizations" to pursue such a price policy so as to "renounce all monopoly gain". An analogous objection could be raised (and has been raised) with regard to the behaviour of socialist managers in Dickinson's (1933) and Lange's (1936) models of socialism, where "managers are assumed to be public officials".[11]

The incentive structure is clearer in the 1934 Breit and Lange model of self-managed market socialism, where we have an original combination of the model of a socialist market along "functionalist" lines, with production organized in large self-managed trusts, and of the institution of workers' right to employment. This institution leads to the breaking of the monopoly power of the trusts, and, according to the authors' view, allows the self-regulating mechanism of the invisible hand to operate.[12]

---

7 See Kornai (1986b, pp. 1698-1699).

8 Wissel, who was minister of the economy in the Weimar Republic, even succeeded in bringing about a limited implementation of his proposal, before being ousted by his party opponents; see Landauer (1959, pp. 843-845 and p. 1643). For Wissel and Moellendorf's proposal, see Wissel and Moellendorf (1919).

9 Landauer (1959, p. 1643).

10 Heimann (1922, p. 185), as translated in Landauer (1959, pp. 1643-1644). Landauer's interpretation raises some misgivings. In Heimann's original text the subject of the above sentence is "Die Gemeinwirtschaft", which was earlier translated by Landauer as "the collectivist economy". This is a rather different concept from "collective organizations" and points implicitly to some sort of centralized price control system.

11 Lange (1936, p. 61).

12 For an ampler discussion of Breit and Lange's (1934) model of a socialist economy and a comparison with Lange's model of 1936, see Chilosi (1986a).

4. General equilibrium socialism

Lange's well-known model of 1936 is just a mature example of a strand of what we may call general equilibrium socialism, of which other prominent representatives are Barone and Dickinson, and which is based on the conceptual structure of the model of general economic equilibrium. More than a true model of market socialism, Lange's is a model of a planning procedure which imitates the market. His model, the traditional invisible hand ideology and Herztka's strand of market socialism all have the optimizing viewpoint in common, i.e. the quest for an optimal institutional solution which, in this case, is derived from the Walrasian model and has the property of realizing a Pareto-optimal social state even if, formally, all these models are supposed to be models of a planned economy. In the case of Lange at least, the socialist economy which was at the back of the author's mind was really a market one (and it was often interpreted as such, even if this interpretation was formally wrong). In a letter to Hayek in 1940, Lange asserts that his aim in 1936 was to show how prices could be determined even without a market in an institutional sense, but that the solution he favoured in practice contemplated price determination by the market whenever there were many agents. Only in case of monopoly or oligopoly were prices to be set by public authorities [Lange (1973, pp. 567-68)].[13]

5. The economic ideology of reforms

As to the intellectual ascendancy of the post-war reformist movement, and of post-war models of market socialism, the reformist movements of the "naive reformers" of the fifties and sixties shared the traditional "invisible hand" ideology and the optimizing viewpoint, in the form of the "faith placed in the harmonious, mutually correcting duality of 'plan and market'".[14]

A special consideration should be given to the ideological background of Yugoslav reformers. At the origin the choice of the market was apparently a simple by-product of the choice of self-management as an alternative to Stalinist planning after the Stalin-Tito split. Moreover the institutional set-up of the Yugoslav economy was not explicitly influenced by pre-war economic debates.[15] Some type of caution towards market institutions did characterize the Yugoslav economic debates, apparently more under the influence of the traditional Marxist critical viewpoint of the market mechanism than because of an explicit awareness of market failures founded on economic theory.[16] In

13 The existence of this letter was pointed to me by Tadeusz Kowalik.

14 Kornai (1986b, p. 1729). For a particularly naive and unsophisticated example of the optimizing viewpoint, see Šik (1967).

15 See Milenkovitch (1971, especially ch. 4 and p. 128) on the origin of the Yugoslav economic system.

16 See for instance Uvalic (1964).

fact, at the beginning, commodity exchange in the market was considered simply "the means for carrying out the plan".[17] Later on, there was a "greater, and occasionally idealized role of the market and the market mechanism."[18] A number of economists believed in "market methods as a basically efficient allocating device."[19] At the same time "in the initial stages of their experiment the Yugoslavs were quite enthusiastic about the beneficial effects of competition" and "large state enterprises were broken into numerous, competing, and autonomous enterprises."[20] All this points to the fact that the Smithian belief in the virtues of competition was not completely extraneous to the shaping of the Yugoslav economic system.

To some extent the initial conception of Gorbachev's reform seemed in many ways closer to the more sober viewpoint of the *Marktsozialisten*, even if there was certainly no direct cultural ascendancy from the latter. A more direct ascendancy could be seen in some aspects of the NEP and, later on, in the proposals of the early thirties to substitute administrative allocation of producer goods with contractual agreements between producer and consumer firms, to set prices at market clearing levels, and to strictly enforce budget constraints. These proposals, which were put forward in a lively economic debate in particular by M. I. Birbraer,[21] were eventually rejected after having been dubbed "a reflection of the Manchester School in a special Sovietized form" [quoted from Davies (1986, p. 13)] and the losing protagonists met, given the times, a dire fate; but they seem to be very close to some proposals, heard until not long ago, for reforming the Soviet economy. Some of these issues, in particular the substitution of some contractual relations by firms to the administrative ones, were addressed also by the aborted Kossygin reform. After so many years, the cultural ascendancy can be, so to speak, logical and objective, and it is quite probable that, in practice, those old debates had been all but forgotten in the Soviet Union. It is also controversial that the extent to which the recollection of the NEP experience itself could have stimulated reformist proposals.[22] As is often the case, old problems are generating, unwittingly, similar solutions as those proposed in earlier times. While all this may be quite uninteresting for practical or theoretical purposes (after all, everybody agrees that *nihil novi sub sole)*, it may be of some interest for those enthralled, as is the present author, by the intricacies of currents and undercurrents in the history of ideas.

17 Milenkovitch (1971, p. 80).
18 *Ibidem*, p. 91.
19 *Ibidem*, p. 158.
20 *Ibidem*, p. 107.
21 A fascinating account of this debate can be found in Davies (1986).
22 See Catephores (1990).

6. Issues in "real" market socialism: Planning, market, and budget constraints

Let us now look back at the experience of the countries where the introduction of market socialism has been attempted, and try to understand the reasons of its failure. Some of these reasons might be found in lack of competition (in particular arising from "bureaucratic restrictions of enterprises' entry into new markets")[23] and in the structure of managerial incentives. Others, rather than in market socialism itself, can be found in the nature of the overall economic and institutional set-up of its implementation and, in particular, in a number of concrete features which can be comprehended under the heading of the softness of budget constraints. The latter concept, which is by no means restricted to market socialism, may be interpreted as the violation, case by case, of the theoretical budget constraints of the individual economic units, be they private firms, state-owned firms or administrative bodies. The "theoretical budget constraints" are those corresponding to economic rules set in view of the implementation of overall economic compatibilities and economir interests.[24] Thus, the lack of resistance by the central political power towards' the pressures of various bodies (such as large loss making enterprises), individually striving to avoid abiding by the financial and economic rules, and the ensuing "massive inter-enterprise redistribution of financial means via the budget"[25] may lead to lack of respect for overall financial and economic compatibilities and to such overall negative outcomes as fundamental misallocation of resources and degeneration of the theoretically existing structure of incentives, running into unsustainable foreign debt or building up of inflationary pressures.

The above may be seen to apply in particular to the Hungarian variety of market socialism where, because of the continuous meddling by the authorities into the day-to-day running of economic units, market forces could not really work themselves out.[26] In the Yugoslav version the authorities meddling in the working of enterprises are first of all the local ones, which would exert their (often obnoxious) influence in an autarchic direction and towards the realisation of, often non-viable, capital intensive investment projects.[27] The influence of local authorities on local banks, where their representatives sat on the board of directors, and on credit rationing at negative interest rates, led to the "soft budget constraint" syndrome in the form of irrecoverable bank credits

23 Balcerowicz (1989, p. 184).

24 For a mature formulation of Kornai's concept see Kornai (1986a). According to Kornai, the characteristics of soft budget constraints are the uncertainty, the negotiability, and the individualization of rules. In Hungary the soft budget syndrome shows up in "a conspicuous tendency to give financial assistance to the losers" (p. 16). Neither the termination of firms, nor investment activity is related to profitability (p. 17). Analogous features are shown to exist in the Yugoslav economy (pp. 18-20).

25 Balcerowicz (1989, p. 184).

26 See Bauer (1983).

27 See Lydall (1984, in particular pp. 218-223).

to non-profitable enterprises which, for the sake of employment protection, were almost never declared bankrupt.[28]

Of course, discretionary intervention by economic authorities is an unavoidable feature in any economic system in the reality of its implementation. Differences are essentially differences in scope and degree, where, paraphrasing the old saying, quantitative differences lead to qualitative changes in the nature and performance of the economic system. Moreover, at issue is not only the extent, but also the quality of discretionary intervention, seen from the vantage point of overall economic and societal objectives. According to conventional wisdom, there are a number of cases of successful market economies (such as the Far East "economic tigers") where rather pervasive discretionary interventions, implying substantial limitations to the functioning of market mechanisms, have led to favourable economic results. Probably, in these instances, success was due to clarity of purpose, better understanding of the functioning of the economy, and continuous concern for overall interests and objectives above particular and sectoral ones.

Pressures towards trespassing the rules and violation of overall compatibilities are all the more difficult to avoid, the greater is the awareness of the inadequacy of existing economic rules for attaining the overall objectives for which they have been originally devised, and the lower is the legitimation of the existing economic constitution. This can happen anywhere: any really existing system is very much imperfect and the awareness of the imperfections of the system can shadow the disadvantages of the alternative ones.[29] The same Western European economies, which nowadays constitute such an attractive example to the East European ones, themselves underwent a broad legitimation crisis between the sixties and the seventies.

The overall economic objectives in point could be efficient planning of economic resources and economic growth in the case of planned economies, where there was growing awareness of the absurdities of some of the economic mechanisms of traditional Soviet-type planning, or the equilibrating growth of the different regions and full employment in the case of Yugoslavia, with their awareness of the inability of self-management to overcome regional economic differences and ensure full employment.

In the case of the Soviet Union before its downfall, at the origin of the process of worsening economic performance could be seen a kind of vicious circle: as the socialist economy does not seem capable of successfully pursuing

[28] *Ibidem;* Comisso (1989, p. 213).

[29] The reverse could also happen. I remember that at Kalecki's seminar at SGPiS in Warsaw in the second half of the sixties somebody was mentioning to Kalecki the inconsistencies of the traditional system of economic indicators and asking whether a move towards market socialism might not be appropriate. To this Kalecki replied: "But then we are left with the model of imperfect competition." Asked by somebody else (I think it was Stanislaw Gomulka), as to which kind of economic indicators he favoured, he remained silent. As is well known, Kalecki was in favour of traditional planning, but of a "reasonable" (this means less taut and voluntaristic) kind.

its traditional goals anymore, it becomes even less proficient in their pursuit as agents refuse more and more to play the rules of the game.

As long as the transition to a market system is not accompanied by a solution of the problem of establishing and enforcing non-avoidable general compatibility rules, the expectations of a radical improvement in the overall economic situation of former socialist countries may be illusory. After all, a number of economic evils, such as grave misallocation of resources, crushing foreign debts, galloping (open or suppressed) inflation, lack of satisfaction of basic consumer needs, and economic stagnation are not to be found in the experience of socialist (market or otherwise) economies alone.

1. Some incentive problems in market socialism and the issue of institutional reform

A number of problems affecting "really existing" market socialism or its proposed blueprints, did already surface in the old debates of the German Social Democrats and beyond: how to restrain monopolistic tendencies or oligopolistic behaviour without renouncing the benefits of increasing returns, or how to stimulate efficient managerial behaviour towards public interest. To some extent these are organizational and economic policy issues in any market economy (remember managerial capitalism), but there are peculiar aspects which are related to the public nature of property, and to the absence of developed capital markets. For instance, the positive effects of the possibility of take-overs on management's efficiency is not easily replicable in the absence of a private capital market, nor does the threat of economic loss and bankruptcy exert symmetric disciplinary effects under private or public property. Free entry with its Darwinian properties and its limiting action on the market power of existing productive units through contestability is difficult to organize in the absence of private property and the private assumption of entrepreneurial risks.[30] There is, furthermore, the issue of incentives to efficient investment decisions. How to deal with these issues has been very much on the agenda in the last few years before 1990, when the complete fall of socialism in the East rendered the discussion devoid of immediate practical relevance.[31] In that discussion part of the task of reforming the socialist economy was understood as consisting of devising institutions which could adequately fulfil the tasks of capitalist markets, without some of their undesirable consequences, and of opening markets whenever it was considered to be desirable. Once general rules were set, the markets which had been opened should be let play the game. The latter would obviously be different according to the different markets which would have been opened or the different institutional expedients which would have been devised to substitute for the missing markets.

30 This point is underlined by Comisso (1989).
31 See for instance Nuti (1987); Laski (1987); Hanson (1989).

These issues were recent ones in the area of market oriented economic reforms in socialist economies. It is noticeable that, to my knowledge, no attention to the need for institutions performing the functions of financial markets was paid by the movement for economic reforms in the sixties and seventies. There could be good ideological and opportunity reasons for that but, apparently, the idea which was shared by and large by market reformers was that expounded by Brus in his influential 1961 book, of leaving to the market the task of the daily running of the socialist economy, and to the planner long-run investment decisions which affect structural developments.[32] Even if the idea of market socialism did in some way respond to the *static* objections in the famous debate of the twenties and the thirties against the efficiency of the socialist economy, the lack of financial markets and of mechanisms which would reward successful investment and innovational decisions impeded the overcoming of the dynamic ones, related to lack of incentives providing for adaptation to change and for acquisition and efficient utilization of information.[33]

Experience too has exposed the inadequacy of that solution. It is precisely the long-run investment decisions taken wrongly by irresponsible politicians subjected to the lobbying of existing heavy industry complexes to which some of the roots of the collapse of the communist regimes of Eastern Europe could be traced.[34]

The expectation that substituting the consideration of societal needs by the planner to the "anarchy of the market" would have automatically eliminated the inefficiencies of myopic investment decisions by profit maximizing entrepreneurs has proved a tragic delusion.[35] The discussions in the second half of the eighties on the way to simulate or introduce financial markets stemmed from the realisation that not only the planned allocation of current resources, but also the process of taking investment and savings decisions in socialist economies were utterly inadequate. But, before any serious proposal of introducing, or simulating, the work of financial markets in a socialist set-up could be put to test, the fall of communist regimes all over Eastern Europe, and the change of purpose of the reformist movement in the Soviet Union itself, led to

32 Since then Hms has changed his viewpoint. For a self-assessment of the evolution of his thinking on market socialism, see Brus (1989).

33 The dynamic objections to the viability of a socialist economy are emphasized by Murrel (1983), on the basis of extensive punctual reference to the relevant passages of von Mises' works.

34 This applies particularly to the Polish ill-fated investment policies of the seventies, which led to Poland's economic crisis and insoivency, and eventually to the first downfall of an East European communist regime.

35 One should not, however, fall into the opposite one. Some kind of central organization of the investment process may constitute a powerful instrument for directing the development lines of the economy and coordinating ex *ante* certain types of strategic decisions; this is not always bound to produce unwanted results. It depends rather on the qualitative aspects of the political and economic leadership. The successful pursuit of a centralized industrial policy in Japan provides a significant case in point.

a change in the aim and scope of the reform towards far-reaching change in property rights and the creation of Western-type financial institutions.

The former socialist countries, by introducing the institutions of Western capitalism aim at attaining its level of prosperity and economic success. There are some hopes that this will not result in another instance of the *post hoc propter hoc* fallacy. The best foundation of these hopes lies in the great extent of human capital investment carried out by the previous regimes.[36] The latter have left over a relatively better educated population and a more skilled labour force than warranted by the mere consideration of the relative income levels.[37]

8. Ownership transformation through competition

Still, the eventual establishment of a market socialist economy remains theoretically open. Even if capitalist institutions are restored, the reverse process can be started again and the public sector progressively enlarged as long as it is possible to run it more efficiently than the private one, so as to withstand private competition without the easy solution of abolishing the competition of the private sector by decree. Should the remaining state sector become more efficient than the private one, it would in fact generate higher profits and grow faster through internal accumulation. The opposite process can constitute, in case of higher efficiency of the private sector, an automatic road towards privatisation.[38] From this viewpoint the issue of the future of market socialism boils down to the possibility of state enterprises to be more efficient than private ones. The question could also be raised whether there would really be much merit in the socialist model if it were not so.[39]

9. Conclusion

As we have seen above, the cultural tradition of market socialism is rather differentiated, in particular as to the understanding of the role to be played by competition. An issue which has been taken into consideration in past discussions is the possibility for socialist firms to exert some monopolistic power

36 See Balcerowicz (1989, p. 187).

37 Notwithstanding the lower development level (as measured for instance by per capita national income), there were no significant differences between the socialist countries and the developed nations of the West, "either with regard to enrollment rates in primary and secondary schools or to student teacher ratios ill these schools." In institutions of higher learning, enrollment rates were "slightly greater in the East than in the West" [Pryor (1985, p.85)].

38 See Chilosi (1990).

39 Comparability in efficiency terms obviously requires that, through public intervention, prices are changed so as to include external benefits and costs (for instance, through the introduction of Pigouvian taxes and subsidies).

and how to deal with it. Moreover, the question of the overall structure of managerial incentives in a market socialist model has been rather neglected.

In practice, a good deal of the negative features of "really existing" market socialist economies (such as the Hungarian or the Yugoslav ones) could be attributed to mistaken economic policies or faulty institutional arrangements, rather than to market socialism as such.

The qualitative jump in the evolution of the economic reform movement in Eastern Europe means that perhaps we shall never know whether a rationally managed socialist market economy, where general rules of behaviour are followed, budget constraints are hard and some kinds of financial markets are introduced so that state enterprises can buy each other's equities and bonds, and at the same time net incomes are possibly equalized through progressive direct taxation, could have any prospect of success. One may suspect that a market socialist economy would still show the traditional weaknesses of socialist economies under the dynamic profile of the evolution of technology and industrial structure, unless provided somehow with iQstitutional mechanisms leading to free entry and competition. Moreover, the traditional objections concerning the supposed necessity of ultimate private property of firms for efficient performance of capital markets and investment processes would remain.[40] However, once the ideological hostility towards private property of the means of production and "exploitation" is overcome, the choice of the institutional means for the pursuit of traditional socialist ends, such as social security or distributional equality, is not constrained any more to particular institutional arrangements. Thus, the models of socialism of the means, be they central planning or market' socialism, cease to have a paramount relevance of their own, and the choice is extended to whatever institutional arrangement can, pragmatically, better foster those ends, and allow the most preferred compromise with the alternative societal ones.[41]

References

Balcerowicz, Leszek, "On the 'socialist market economy'", *Acta Oeconomica, 40, 3-4,* pp. 184-188.

Bauer, Otto, *Der Weg zum Sozialismus,* Vienna, Wiener Volksbuchhandlung, 1921.

Bauer, Tamás, "The Hungarian alternative to Soviet-type planning", *Journal of Comparative Economics,* 7, 1983, pp. 304-316.

Breit, Marek, and Oscar Lange, "Droga do socjalistycznej gospodarki planowej", 1934. Reprinted in: Lange, Oscar, *Dziela. Vol. 2*, Warsaw, PWN, 1973.

[40] See Hanson (1989); Grosfeld (1990, pp. 143-144). For the whole issue of the economic consequences of public property of the means of production in market socialism in comparison with a private market economy see in particular Brus and Laski (1989, ch. 10).

[41] For a distinction between socialism of ends and socialism of means, see Estrin and Legrand (1989, p. 2).

Brus, Wlodzimierz, *Ogolne problemy funkcjonowania gospodarki socjalistycznej,* Warsaw, PWN, 1961.

Brus, Wlodzimierz, "From revisionism to pragmatism. Sketches towards a self-portrait of a 'reform economist'", *Acta Oeconomica, 40,* 3-4, pp. 204-210.

Brus, Wlodzimierz, and Kazimierz Laski, *From Marx to the Market,* Oxford, Oxford University Press, 1989.

Catephores, George, "From Nep to perestroika", EAEPE conference paper, Florence, September 1990.

Chilosi, Alberto, "The right to employment principle and self-managed market socialism: A historical account and an analytical appraisal of some old ideas", EUI working paper 86/214, Florence, March 1986a.

Chilosi, Alberto, "Self-managed market socialism with 'free mobility of labour'", *Journal of Comparative Economics, 10,* 3, 1986b, pp. 237-254.

Chilosi, Alberto, "Privatisation through competition", *Jahrbuch der Wirtschaft Osteuropas,* 14,2,1990, pp. 182-184.

Comisso, Ellen, "Property rights in focus", *Acta Oeconomica, 40,* 3-4, pp. 210-216.

Davies, R. W., "The socialist market: A debate in Soviet industry, 1932-33", *Slavic Review,* 42, 1984, pp. 201-223.

Dickinson, H. D. "Price formation in a socialist community", *Economic Journal, 43,* June 1933, pp. 237-250.

Diihring, Eugen, *Cursus der National- und SocialOkonomie,* second edition, Leipzig, Reisland, 1876 (first edition: 1872).

Estrin, Saul, and Julian Legrand, "Market socialism", in: Estrin, Saul, and Julian Legrand (eds.), *Market Socialism,* Oxford, Clarendon Press, 1989, pp. 1-24.

Grosfeld, !rena, "Prospects for privatization in Poland", *The European Economy, 43,* March 1990, pp. 141-150.

Hanson, Philip, "Von Mises' revenge", unpublished conference paper, Department of International Studies, Padua, September 1989.

Heimann, Eduard, *Mehrwert und Gemeinwirtschaft,* Berlin, Engelmann, 1922.

Heimann, Eduard, *Sozialistische Wirtschafts- und Arbeitsordnung,* Potsdam, Protte, 1932.

Herztka, Theodor, *Die Gesetze der socialen Entwicklung,* Leipzig, Duncker & Humblot, 1886.

Herztka, Theodor, *Freeland-A Social Anticipation,* London, Chatto & Windus, 1891. English translation of: *Freiland. Ein sociales Zukunftsbild,* Dresden, Pierson, 1890.

Kornai, János, "The soft budget constraint", *Kyklos, 39,* 1986a, pp. 3-30.

Kornai, János, "The Hungarian reform process: Visions, hopes and reality", *Journal of Economic Literature,* 24, 4, December 1986b, pp. 1687-1737.

Landauer, Carl, *European Socialism,* Berkeley, University of California Press, 1959. Reprinted by Greenwood Press, 1976.

Lange, Oscar, "On the economic theory of socialism-Part one", *Review of Economic Studies,* 4, 1, 1936, pp. 53-71.

Laski, Kazimierz, "Marx-Sozialismus, Markt-Sozialismus und Wirtschaftsreformen des 'real existierenden Sozialismus'", Forschungsbericht des WIIW 129, Vienna, June 1986.

Lassalle, Ferdinand, "Offenes Antwortschreiben an das Central-Komitee zur Berufung eines Allgemeinen Deutschen Arbeiter-Kongresses zu Leipzig", Berlin, 1863. Reprinted in: *Ferdinand Lassalles ausgewählte Reden und Schri/ten. Bd. J,* Leipzig, Karl pfau, undated, pp. 26-63.

Milenkovitch, Deborah, *Plan and Market* in *Yugoslav Economic Thought,* New Haven, Yale University Press, 1971.

MurreI, Peter, "Did the theory of market socialism answer the challenge of Ludwig von Mises? A reinterpretation of the socialist controversy", *History 0/ Political Economy,* 15, 1, 1983, pp. 92-105.

Nuti, Domenico Mario, "Financial innovation under market socialism", EUI working paper 87/285, Florence, 1987.

Oppenheimer, Franz, *Die Siedlungsgenossenscha/t,* third edition, Jena, Fischer, 1922 (first edition: 1890).

Pryor, Frederic L., *A Guidebook to the Comparative Study 0/ Economic Systems,* Englewood Cliffs, Prentice Hall, 1985.

Šik, Ota, *Plan and Market Under Socialism,* Prague, Czechoslovak Academy of Sciences, 1967.

Uvalic, Radivoj, "Functions of the market and plan in the socialist economy", in: Stojanovic, Radmila (ed.), *Yugoslav Economists* on *Problems* of *a Socialist Economy,* New York, International Arts and Sciences Press. 1964, pp. 140-147.

Wissel, Rudolf, and Wichard v. Moellendorf, *Wirtscha/tliche Selbstverwaltung,* Jena, Diederichs, 1919.

Zusammenfassung

Der Beitrag liefert eine ruckblickende Einschutzung sowohl der Theorie als auch der Praxis des Marktsozialismus. Zwei Hauptstromungen marktsozialistischer Modelle werden diskutiert. Die erste, die bis in die zweite Hälfte des 19. Jahrhunderts zuriickreicht, teilt Adam Smiths Auffassung optimaler Konsequenzen von Wettbewerb und unsichtbarer Hand. Die zweite, v.a. in der Tradition der deutschen Sozialdemokratie verwurzelt, sieht Wettbewerb eher in einem schIechtem Licht und versteht die Koordinierung wirtschaftlicher Aktivitiiten durch den Markt lediglich als ein bequemes Instrument, das zwar die Diktatur zentraler Planung vermeidet, dem aber eine intrinsische Optimalitat abgeht. Einige konkrete Probleme, die bei der Implementierung eines realen Marktsozialismus aufgetreten sind, werden bereits im Zusammenhang mit der zweiten Modellstromung diskutiert. Die Griinde fUr das schlie61iche Scheitern des realen Marktsozialismus, sowohl in der ungarischen als auch der jugoslawischen Version, werden ebenfalls analysiert. Inwieweit dies auf den fehlerhaften Einsatz martwirtschaftlicher Instrumente und Institutionen zuruckzufiihren ist, oder aber auf die immanente Schwäche des marktsozialistischen Modells selbst, bleibt unklar.