

# **On the Economic Theory of Socialism**

**Oskar Lange  
Fred M. Taylor**

an introduction by Benjamin E. Lippincott

McGraw-Hill Paperbacks



University of Minnesota Press

### **On the Economic Theory of Socialism**

Oskar Lange has lectured at the University of Cracow, the University of California, and the University of Chicago, and is the author of books in Polish, German, and English on problems of economic theory. He is now Professor of Economics at the University of Warsaw.

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University of Minnesota Press

# **On the Economic Theory of Socialism**

**Oskar Lange  
Fred M. Taylor**

edited by Benjamin E. Lippincott

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## PREFACE

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**T**HIS volume is the second in a series on the problem of government control of the economic order. In the first volume of the series it was pointed out that the political scientist cannot hope to deal intelligently with the problem of control—and it is his problem ultimately—unless he first acquaints himself with the nature of what is to be controlled. The political scientist is interested in two main types of control: control of a capitalist and control of a socialist economy. This volume is concerned with the latter. A later volume will deal with the former.

We have included in this volume papers by Fred M. Taylor and Oskar Lange. These economists have dealt with a socialist economy on the ground of economic theory and its possibility in practice. Preceding these essays is an introduction of some length. Its purpose is not only to provide something of a background for the technical economic essays, but also to sketch the main argument of the essays for the reader who is not a specialist in economics. The introduction has a further purpose: to point out briefly the significance of the economic essays for the problem of government control of the economic order.

**ON THE ECONOMIC THEORY OF SOCIALISM**

I wish to thank the editors of the *American Economic Review* and the *Review of Economic Studies* for their kind permission to reprint papers from their journals.

**BENJAMIN E. LIPPINCOTT**

University of Minnesota  
February, 1938

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## *Appendix*

### THE ALLOCATION OF RESOURCES UNDER SOCIALISM IN MARXIST LITERATURE

It is interesting to see how the problem of allocation of resources in a socialist economy is solved by the leading writers of the socialist movement and to compare their solution with that offered by modern economic theory. As the theoretical foundations of the socialist movement have been elaborated chiefly by the Marxists, it is their views which are of foremost interest. For this purpose let us review briefly the statements of some of the most prominent of them.

To begin with Marx, it is not difficult to prove by quotations that he was well aware of the problem, though he tried to solve it in a rather unsatisfactory way. Discussing the economics of Robinson Crusoe in *Das Kapital*, he writes:

Moderate though he be, yet some few wants he has to satisfy, and must therefore do a little useful work of various sorts. . . . Necessity itself compels him to apportion his time accurately between his different kinds of work. . . . This our friend Robinson soon learns by experience, and having rescued a watch, ledger, and pen and ink from the wreck, commences, like a true-born Briton, to keep a set of books. His stock book contains a list of the objects of utility that belong to him, of the operations necessary for their production, and, lastly, of the labor-time that definite quantities of those objects have, on the average, cost him. All the relations between Robinson and the objects that form this wealth



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of his own creation are here so simple and clear as to be intelligible without exertion even to Mr. Sedley Taylor. And yet those relations contain all that is essential to the determination of value.<sup>83</sup>

And he continues:

Let us now picture to ourselves, by way of change, a community of free individuals, carrying on their work with the means of production in common. . . . All the characteristics of Robinson's labor are here repeated, but with this difference, that they are social instead of individual. . . . The total product of our community is a social product. One portion serves as fresh means of production and remains social. But another portion is consumed by the members as means of subsistence. The mode of this distribution will vary with the productive organization of the community, and the degree of historical development attained by the producers. We will assume, but merely for the sake of a parallel with the production of commodities, that the share of each producer in the means of subsistence is determined by his labor-time. Labor-time would, in that case, play a double part. Its apportionment in accordance with a definite social plan maintains the proper proportion between the different kinds of work to be done and the various wants of the community. On the other hand, it also serves as a measure of the portion of common labor borne by each individual and of his share in the part of the total product destined for individual consumption.<sup>84</sup>

Each worker would enjoy freedom of choice in consumption within the limits thus determined: "He receives from society a voucher that he has contributed such and such a quantity of labor (after deduction from his labor for the common fund) and draws through this voucher on

<sup>83</sup> *Capital* (E. Untermann, trans., C. H. Kerr, Chicago, 1906), Vol. I, p. 88 (p. 43 of 6th German ed., Meissner, Hamburg, 1909).

<sup>84</sup> *Ibid.*, pp. 90-91 (p. 45 of 6th German ed.).

the social storehouse as much of the means of consumption as costs the same quantity of labor."<sup>85</sup>

The importance of the problem of allocating resources is stated very clearly in a letter written in 1868 to Kugelmann: Every child knows that a country which ceased to work, I will not say for a year, but for a few weeks, would die. Every child knows, too, that the mass of products corresponding to the different needs require different and quantitatively determined masses of the total labor of society. That this necessity of distributing social labor in definite proportions cannot be done away with by the *particular form* of social production, but can only change the *form it assumes*, is self-evident. No natural laws can be done away with. What can change, in changing historical circumstances, is the *form* in which these laws operate. And the form in which this particular division of labor operates, in a state of society where the inter-connection of social labor is manifested in the *private exchange* of the individual products of labor, is precisely the *exchange value* of these products.<sup>86</sup>

The passages quoted show that Marx was fully aware of the problem of allocation of resources in a socialist economy. However, he seems to have thought of labor as the only kind of scarce resource to be distributed between different uses and wanted to solve the problem by the labor

<sup>85</sup> *Critique of the Gotha Programme* (London, 1933), p. 29. Inaccuracies in the translation have been corrected by the author.

<sup>86</sup> *The Correspondence of Marx and Engels* (International Publishers, New York, 1934), p. 246. This and some other statements disprove the generally accepted view that Marx regarded *all* economic laws as being of an historico-relative character. His position seems to have been, however, that the economic laws of universal validity are so self-evident that there is scarcely need for a special scientific technique for their study, and economic science ought to concentrate, therefore, upon investigating the particular form these laws assume in a definite institutional framework. Cf. Engels, *Anti-Dühring* (12th ed., Berlin, 1923), pp. 149-50.

theory of value. The unsatisfactory character of this solution need not be argued here, after all our preceding discussion of the subject. Professor Pierson and Professor Mises have certainly merited the gratitude of the student of the problem by exposing the inadequacy of this simplistic solution.<sup>87</sup>

But even accepting the labor theory of value as a basis for the solution of the problem, the question of utility (or of demand) cannot be avoided, or the amounts of the various goods to be produced would be indeterminate. This was recognized clearly by Engels: "The utility yielded by the various consumption goods, weighted against each other and against the amount of labor required to produce them, will ultimately determine the plan."<sup>88</sup> Whoever knows the role the concept of *gesellschaftliches Beduerfnis* plays in the third volume of *Das Kapital* has to admit that Marx was well aware of the role demand (or utility) has

<sup>87</sup> N. G. Pierson, "The Problem of Value in the Socialist Society," reprinted in *Collectivist Economic Planning*, pp. 76ff.; von Mises, "Economic Calculation in the Socialist Commonwealth," *ibid.*, pp. 113ff.

<sup>88</sup> *Anti-Dühring*, pp. 335-36. With some benevolent interpretation this statement of Engels may be regarded, indeed, as containing all the essentials of the modern solution. Interpreting the amount of labor necessary to produce a certain good as the *marginal* amount, all costs may be reduced, in long-period equilibrium, to labor-costs. The prices of the services of natural resources may be regarded as differential rents, and if capital accumulation has been carried on as far as to reduce the marginal *net* productivity of capital to zero, as a socialist society would tend to do (see page 85 above), interest charges are eliminated. Thus the production of each commodity has to be carried so far as to make the ratio of the marginal amount of labor used in producing the different commodities equal to the ratio of the marginal utilities (and of the prices) of those commodities. But such long-period solution eliminating interest would be of little use for practical purposes.

in determining the allocation of resources, though, not unlike Ricardo,<sup>89</sup> he was unable to find a clear functional expression of the law of demand. The limitations of Marx and Engels are those of the classical economists.

From Marx and Engels let us pass to Kautsky, who more than anybody else has contributed to the propagation of Marxian ideas the world over. In a lecture given in 1902 entitled "The Day after the Revolution,"<sup>90</sup> which to a certain extent was an answer to Professor Pierson's challenge, Kautsky formulates his view as to the role of money and prices in a socialist economy. He makes it quite clear that, as a result of freedom of choice in consumption and of freedom of choice of occupation, money and prices have to exist also in a socialist economy. He writes thus:

Money is the simplest means known up to the present time which makes it possible in as complicated a mechanism as that of the modern productive process, with its tremendous far-reaching division of labor, to secure the circulation of products and their distribution to the individual members of society. It is the means which make it possible for each one to satisfy his necessities according to his individual inclination (to be sure within the bounds of his economic power).<sup>91</sup>

And with regard to the allocation of labor to the different industries in a socialist economy he observes:

. . . since the laborers cannot be assigned by military discipline and against their wishes to the various branches of industry, so it may happen that too many laborers rush into certain branches of

<sup>89</sup> Cf. Ricardo's treatment of demand in connection with the theory of rent.

<sup>90</sup> Published as a second part of *The Social Revolution*. Passages here quoted follow the edition by Kerr, Chicago, 1907.

<sup>91</sup> *Ibid.*, p. 129.

industry while a lack of laborers is the rule in the others. The necessary balance can then only be brought about by the reduction of wages where there are too many laborers and the raising of them in those branches of industry where there is a lack of laborers until the point is reached where every branch has as many laborers as it can use.<sup>92</sup>

Unfortunately, Kautsky did not enter into the question of the criteria to be used in planning production. However, he carried his ideas further in his book *The Labour Revolution*, written in 1922.<sup>93</sup> Raising again the point that socialism does not imply the abolition of money, he states very clearly the connection of the problem with the freedom of choice in consumption:

Without money only two kinds of economy are possible: First of all the primitive economy already mentioned. Adapted to modern dimensions, this would mean that the whole of productive activity in the State would form a single factory, under one central control, which would assign its task to each single business, collect all the products of the entire population, and assign to each business its means of production and to each consumer his means of consumption in kind. The ideal of such a condition is the prison or the barracks. This barbarous monotony lurks in fact behind the ideas of the "natural economy" of Socialism.<sup>94</sup>

Quoting a socialist enthusiast of "natural economy" who finds no difficulty in rationing consumption, Kautsky remarks:

Assuredly not, if the entire life of a civilized man is to be reduced to war rations, and everybody to have the same quantity of bread,

<sup>92</sup>*Ibid.*, pp. 134-35.

<sup>93</sup>New York, 1925. The title of the German original, published in Berlin in 1922, is *Die proletarische Revolution und ihr Programm*.

<sup>94</sup>*The Labour Revolution*, p. 260.

meat, accommodation, clothes, personal taste not playing any part and distinctions not being observed, although there is to be special cooking for poets and children. Unfortunately, we are not told how many hundredweights of books are to be allotted to each citizen in the course of a year, and how frequently the inhabitants of each house are to go to the cinematograph.<sup>95</sup>

The other kind of socialist economy which might do without money is, according to Kautsky, that in which all commodities would be free goods.<sup>96</sup>

Kautsky also recognizes the necessity of a price system for cost accounting. Like all Marxists of the old school he uses the labor theory of value as a basis for elucidating the problem of the distribution of resources in a socialist economy. But what is most important, he quite explicitly admits the practical impossibility of calculating the amount of labor socially necessary to produce a given commodity: "Consider what colossal labor would be involved in calculating for each product the amount of labor it had cost from its initial to its final stage, including transport and other incidental labor."<sup>97</sup> Hence the necessity of a price system: "The appraisalment of commodities according to the labor contained in them, which could not be achieved by the most complicated State machine imaginable, we find to be an accomplished fact in the shape of the transmitted prices, as the result of a long historical process, imperfect and inexact, but nevertheless the only practical foundation for the smooth functioning of the economic process of circulation."<sup>98</sup> Thus money prices are the basis of economic

<sup>95</sup>*Ibid.*

<sup>96</sup>*Ibid.*, p. 261.

<sup>97</sup>*Ibid.*, p. 264.

<sup>98</sup>*Ibid.*, p. 267.

accounting: "Whatever may be the lines upon which a socialist society is organized, very careful accountancy would be required. . . . This object would be quite impossible of attainment if the incomings and outcomings were entered *in kind*."<sup>99</sup>

The great leader of orthodox Marxism in pre-war times knows, of course, very well the distinction between the Marxian concept of capitalism and that of a money economy:

Thousands of years passed before a capitalist mode of production came into existence. As the measure of value and means of circulation of products money will continue to exist in a socialist society until the dawn of that blessed second phase of communism which we do not yet know whether will ever be more than a pious wish, similar to the Millennial Kingdom.<sup>1</sup>

Finally, he concludes:

The monetary system is a machine which is indispensable for the function of a society with a widely ramified division of labor. . . . It would be a relapse into barbarism to destroy this machine, in order to resort to the primitive expedients of natural economy. This method of combating capitalism recalls the simple workers of the first decades of the last century who thought they would make an end to capitalist exploitation if they smashed the machines which they found to hand. It is not our desire to destroy the machines, but to render them serviceable to society, so that they may be shaped into a means of the emancipation of labor.<sup>2</sup>

But are perhaps these views of Kautsky's a heretical deviation from the orthodox line of Marxist thought?

<sup>99</sup> *Ibid.*, p. 262.

<sup>1</sup> *Ibid.*

<sup>2</sup> *Ibid.*, p. 270.

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Maybe they are not representative of modern Marxists, a large part of whom are bitter opponents of the political strategy advocated by him. Let us examine the views of another group of Marxist leaders, the following quotation from Trotsky to begin with:

If there existed the universal mind that projected itself into the scientific fancy of Laplace . . . such a mind could, of course, draw up *a priori* a faultless and an exhaustive economic plan, beginning with the number of hectares of wheat and down to the last button for a vest. In truth, the bureaucracy often conceives that just such a mind is at its disposal; that is why it so easily frees itself from the control of the market and of Soviet democracy. But in reality the bureaucracy errs frightfully in this appraisal of its spiritual resources. . . . The innumerable living participants of economy, State as well as private, collective as well as individual, must give notice of their needs and of their relative strength not only through the statistical determination of plan commissions but by the direct pressure of supply and demand. The plan is checked and to a considerable measure realized through the market. The regulation of the market itself must depend upon the tendencies that are brought out through its medium. The blueprints brought out by the offices must demonstrate their economic expediency through commercial calculation.<sup>3</sup>

And after the critic of the Soviet economic policy let us listen to its leader. In discussing the problem of Soviet trade, Stalin observes:

Then we have to overcome prejudices of another kind. I refer to the Leftist chatter . . . about Soviet trade being a superseded stage. . . . These people, who are as far removed from Marxism as heaven is from earth, evidently do not realize that we shall have

<sup>3</sup>*Soviet Economy in Danger* (Pioneer Publishers, New York, 1932), pp. 29-30.



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money for a long time to come, until the first stage of communism, i.e., the socialist stage of development, has been completed.<sup>4</sup>

But Marx anticipated also a second phase of communism (which sometimes is also called communism *sensu stricto* while the first phase is called socialism) in which the distribution of incomes is quite divorced from the labor services performed by the individual and is based on the principle "from each according to his capacity, to each according to his need."<sup>5</sup> Bertrand Russell calls this form of distribution very aptly "free sharing."<sup>6</sup> Free sharing presupposes, of course, that the commodities in question are practically free goods. An outstanding Marxist like Kautsky speaks, therefore, with irony of "that blessed second phase of communism which we do not yet know whether will ever be more than a pious wish, similar to the Millennial Kingdom," while Lenin,<sup>7</sup> Trotsky, and Stalin believe seriously in the possibility of such a stage of economic evolution in the future.

The idea of distributing goods and services by free sharing sounds utopian, indeed. However, if applied to only a part of commodities free sharing is by no means such economic nonsense as might appear at a first glance. The demand for many commodities becomes, from a cer-

<sup>4</sup>Report on the work of the Central Committee of the Communist Party of the Soviet Union made to the Seventeenth Party Congress held in Moscow, January 26 to February 10, 1937.

<sup>5</sup>*Critique of the Gotha Programme*, p. 31.

<sup>6</sup>*Roads to Freedom* (London, 1919), pp. 107ff.

<sup>7</sup>See Lenin, "The State and Revolution," chap. v, sec. 4, *Collected Works*, Vol. XXI, Bk. II (1932); and Trotsky, *The Revolution Betrayed* (New York, 1937), pp. 45-60.

tain point on, quite inelastic. If the price of such a commodity is below, and the consumer's income is above, a certain minimum, the commodity is treated by the consumer *as if it were a free good*. The commodity is consumed in such quantity that the want it serves to satisfy is perfectly *saturated*. Take, for instance, salt. Well-to-do people do the same with bread or with heating in winter. They do not stop eating bread at a point where the marginal utility of a slice is equal to the marginal utility of its price, nor do they turn down the heat by virtue of a similar consideration. Or would a decline of the price of soap to zero induce them to be so much more liberal in its use? Even if the price were zero, the amount of salt, bread, fuel, and soap consumed by well-to-do people would not increase noticeably. With such commodities saturation is reached even at a positive price. If the price is already so low, and incomes so high, that the quantity consumed of those commodities is equal to the *saturation* amount, free sharing can be used as a method of distribution.<sup>8</sup> Certain services are distributed in this way already in our present society.

If a part of the commodities and services is distributed by free sharing, the price system needs to be confined only to the rest of them. However, though the demand for the commodities distributed by free sharing is, within limits, a fixed quantity, a cost has to be accounted for in order to be able to find out the best combination of factors and the

<sup>8</sup>See Russell, *Roads to Freedom*, pp. 109-10.

optimum scale of output in producing them. The money income of the consumers must be reduced by an equivalent of the cost of production of these commodities. This means simply that free sharing provides, so to speak, a "socialized sector" of consumption the cost of which is met by taxation (for the reduction of consumers' money incomes which has just been mentioned is exactly the taxation to cover the consumption by free sharing). Such a sector exists also in capitalist society, comprising, for instance, free education, free medical service by social insurance, public parks, and all the collective wants in Cassel's sense (e.g., street lighting). It is quite conceivable that as wealth increases this sector increases, too, and an increasing number of commodities are distributed by free sharing until, finally, all the prime necessities of life are provided for in this way, the distribution by the price system being confined to better qualities and luxuries. Thus Marx's second phase of communism may be gradually approached.

The statements quoted are sufficient to prove that the leading writers of the Marxist school were and are quite aware of the necessity of the price system in a socialist economy. It is, therefore, very much exaggerated to say that the Marxian socialists did not see the problem and offered no solution. The truth is that they saw and solved the problem only within the limits of the labor theory of value, being thus subject to all the limitations of the classical theory. But it ought to be mentioned that in Italy, due to the influence of Pareto, the socialist writers were much

more advanced in this field. The difference between the traditional Marxist and the modern position on the problem is thus but a difference as to the technique applied. Only the technique provided by the modern method of marginal analysis enables us to solve the problem satisfactorily. Professor Mises' challenge has had the great merit of inducing the socialists to look for a more satisfactory solution of the problem, and it is only too true that many of them became aware of its very existence only after this challenge. But, as we have seen, those of the socialists who did not or do not realize the necessity and importance of an adequate price system and economic accountancy in the socialist economy are backward not only with regard to the present state of economic analysis; they do not even reach up to the great heritage of Marxian doctrine.

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Vol. 1, **The Negro in a White Nation**, contains Parts I through V of the one-volume edition, as well as the new Preface by the author, and the review of recent events by Arnold Rose.

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