

Capitalism, Socialism and Hayek

Paul Auerbach
Kingston University
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Definitions of SOCIALISM

- Wikipedia:
- Socialism is an economic system characterised by social ownership of the means of production and co-operative management of the economy
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- Merriam-Webster:
- Any of various economic and political theories advocating collective or governmental ownership and administration of the means of production and distribution of goods

Planning as an aspect of rationality

René Descartes, 1637

- 'Buildings undertaken and completed by a single architect are commonly more beautiful and better ordered than those that several architects have tried to patch up, using old walls that had been built for other purposes. Ancient cities are commonly quite poorly laid out compared to well-ordered towns that an engineer lays out on a vacant plain as suits his fancy.'

Karl Marx, 1867

- 'We presuppose labour is an exclusively human characteristic. A spider conducts operations which resemble those of the weaver, and the bee would put many a human architect to shame by the construction of its honeycomb cells. But what distinguishes the worst architect from the best of bees is that the architect builds the cell in his mind before he constructs it in wax. At the end of every labour process, a result emerges which had already been conceived by the worker at the beginning, hence already existing ideally.'

Friedrich Engels, 1877

- 'The production of society at large was ruled by absence of plan, by accident, by anarchy...'
- '...the capitalist mode of appropriation...is replaced by the mode...based upon the nature of the modern means of production'.
- 'Anarchy in social production is replaced by systematic, definite organisation'.

Reflection

- Capitalism's 'anarchy in social production' was most evident in its periodic economic crises.
- These crises were often manifest first in the financial sector.

Vladimir Lenin in 1917

- 'The whole of society will have become a single office and a single factory...'
- 'The accounting and control necessary for this have been simplified by capitalism to the extreme and reduced to...extraordinarily simple operations – which any literate person can perform'

Comment

- The origins of Lenin's extraordinary statements are a convergence of:
 - The traditional identification of planning with rationality;
 - The emergence in the late nineteenth and early twentieth centuries of 'islands of planning' in the form of giant capitalist firms.

The Second Industrial Revolution (1)

1. Firm size – the new giants were not simply small firms 'blown up'
 - a. volume effects
 - b. scope of activities
 - c. vertical integration – the 'visible' over the 'invisible hand'
 - d. financial relations – limited liability

The Second Industrial Revolution (2)

2. Firm governance: rational control
 - a. management control structures
 - b. accounting
 - c. standardisation
 - d. scientific management

The Second Industrial Revolution (3)

3. Innovation is institutionalised within the giant firm:
 - a. the role of science
 - b. marketing
 - c. finance

General Reflections (1)

- The giant firm was identified with, and considered to be the quintessence of modernity.
- The giant firm was also seen as a fulcrum of self-creation and organisation – and planning.

General Reflections (2)

- Ford's assembly line was taken to be the epitome of conscious co-ordination and rational organisation.
- Lenin's great admiration for F.W. Taylor's notions of scientific management helped preclude the development of any form of workers' control in the new Soviet economy.

The Technocratic Planning Paradigm (TPP)

- A broad base of support across the political and ideological spectrum.
- Its final flourish took place with the publication in the 1960s of John Kenneth Galbraith's *New Industrial State*.

TPP - The first principle (1)

- *There had been an inexorable growth in the efficient scale of enterprises and of units of production in modern capitalism.*
- The conclusion drawn from this notion was that the liberal vision of competition between enterprises as a mode of regulation for the economy was obsolescent.

TPP - The first principle (2)

- John D. Rockefeller:
- ‘The growth of a large business is merely a survival of the fittest. . . . The American Beauty rose can be produced in the splendor and fragrance which bring cheer to its beholder only by sacrificing the early buds which grow up around it. This is not an evil tendency in business. It is merely the working-out of a law of nature and a law of God’.

TPP - The second principle

- *Planning – in place of an inoperative or dysfunctional competitive mechanism.*
- ‘rationalization postulates every form of cooperative activity from the formation of selling combinations to the actual amalgamation of business, to the end of eliminating all wastes arising through uneconomic types of competition’. [American Standards Association, *Sustaining Members Bulletin*, 1928.]

TPP - The third principle

- An engineering perspective – *activities such as administration, marketing and, especially finance were all wasteful:*
- ‘The material welfare of the community is...bound up with its unreserved control by the engineers...these men...must have a free hand. Yet the absentee owners...continue to control the industrial experts and limit their discretion, arbitrarily, for their own commercial gain, regardless of the needs of the community’. [Thorstein Veblen, 1921.]

TPP - The fourth principle

- *The state as a key actor in the process of economic development.*
- Bolshevik comments on the state direction of the German [capitalist] economy during World War I:
- ‘...Capitalism...has already outgrown the fetters of private competition while still remaining capitalism. Germany is a prototype of the path destined for all. Further developments, so long as capitalism continues to exist, must move it along in this direction’.

TPP critique (1)

- The TPP was wrong in suggesting that competition between enterprises as a mode of regulation for the economy was becoming obsolescent:
- N.B. Galbraith's prime example of this notion in the *New Industrial State* in 1967 was General Motors.

TPP critique (2)

- Planning – in place of an inoperative or dysfunctional competitive mechanism.
- Critique:
 1. Successful planning (Edison's electrification of NYC; Japanese car industry in 1970s) takes place in the context of markets and competition.
 2. Competition and markets expand in the context of successful planning (U.S. semiconductor industry).

TPP critique (3)

Are activities such as administration, marketing and, especially finance all wasteful?

1. Administration – white collar bureaucracy has increased into the 21st century everywhere.
2. Marketing and advertising have been concomitant activities to all innovation.
3. The absence of rational (financial?) decision criteria was perhaps the Achilles' heel of central planning.

TPP critique (4)

The state as a key actor in the process of economic development has proved enduring, but problematic:

- Such a view has little to do with the vision of Marx and Engels of a stateless society, with a self-administered plan.
- The state as an economic planner has had mixed success in both capitalism and socialism.

The Soviet Economy – Five Propositions (1)

- 1. *The Soviet economic system never evolved into an alternative system to capitalism for developed countries, neither in the Soviet Union itself nor in its most economically advanced offshoots.*
- 2. *The Soviet Union was an administered rather than a planned economy.*
- 3. *Very few authorities on the Soviet economy have ever argued that it failed because it was too egalitarian.*

The Soviet Economy – Five Propositions (2)

- 4. *The Soviet conceptualisation of socialism had no place for workers' control.*
- 5. *The greatest and most lasting economic successes of the socialist countries were in the context of human development indicators – health (including medical provision, sanitation and egalitarian nutritional sufficiency) and especially education.*

Market Socialism (1)

- Ludwig von Mises' claim of the *'impossibility' of constructing a (centrally planned) socialist economy*:
 - 1. Capital goods had to be priced if firms were to make rational decisions on their use;
 - 2. The choice of the most efficient one for society as a whole would have to incorporate a calculation made in value, rather than physical or engineering terms.
 - 3. *The value parameters necessary for such efficiency calculations could only emerge from the prices generated by a market for capital goods in which the enterprises participating in this market were privately owned.*

Market Socialism (2)

- Oskar Lange's market socialist reply (1937):
 - 1. Efficiency calculations to be made in value terms can emerge without a market for capital goods, and without private ownership;
 - 2. *The Central Planning Board would instruct each enterprise to set its levels of output so that price was equal to marginal cost and to minimum average cost.*
 - 3. These are conditions for efficiency familiar from a competitive free market (capitalist) equilibrium – perfect competition.

Market Socialism (3)

The opinion of orthodox economists was that Oskar Lange 'won' the debate on socialist calculation.

Market Socialism (4)

- Hayek's argument:
 - 1. *The dynamic form of competition present in capitalism involves the innovation of new products and services involving risky investment in new technologies and products.*
 - 2. *In capitalism, risks are borne by the owners of the enterprise, either in person or by their surrogates making the decision, who must weigh the uncertain benefits against the costs of proceeding.*
 - 3. *The state-owned enterprise has no basis, even in principle, upon which to make rational investment decisions, since the risks involved in these decisions are taken neither by an owner-entrepreneur, nor by a share-owning public in the form of financial market evaluation of the success or failure of these decisions.*

Market Socialism - Reflections

- 1. On the limitations of economic orthodoxy in its analysis of central planning – for orthodoxy, Lange’s market socialism ‘won’ the debate.
- 2. On the paradox that the Austrian emphasis on the dynamics of capitalist competition leads to a focus on the role of finance in capitalism. But the elimination of this ‘Achilles’ heel of capitalism’ was one of the motivations for the creation of the TPP and central planning in the first place.