

**Socialism and Capitalism:**  
**Are They Qualitatively Different Socioeconomic Systems?**

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December, 2006

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This paper was written for the symposium "Socialism after Socialism: Economic Problems," sponsored by the Institute of Economics of the Russian Academy of Sciences, Moscow, December 6-8, 2006.

## **1. Introduction**

In the early stage of the socialist movement in the nineteenth century, there was wide agreement that socialism would be a radically different type of society from capitalism. This understanding of socialism was held not just by revolutionary Marxist socialists but also by evolutionary socialists, Christian socialists, and even anarchists. At that time there was also wide agreement about the basic institutions of the future socialist system: public ownership instead of private ownership of the means of production, economic planning instead of market forces, production for use instead of production for profit, and a state that represented the working class. Socialism would be a system in which people cooperatively planned their economic and social development, instead of one in which the profit motive and competition determined economic and social development.

While economic growth would be needed for some time to eliminate poverty in the world and achieve a comfortable living standard for all, under socialism economic growth would be a social choice rather than an economic compulsion as it is under capitalism. Once poverty was abolished in the world, the aim of increasing production might well lose its rationale. Instead, society might decide to aim for a sustainable relationship with the natural environment, the development of human capabilities, the promotion of satisfying social relationships, and/or other alternative social goals for economic activity. It was this vision of a new and superior socioeconomic system that inspired the building of a socialist movement and the twentieth century revolutions aimed at building socialism.

Today it is common to encounter the view that socialism and capitalism are not two distinct socioeconomic systems. According to this view, socialism and capitalism are elements of most modern socioeconomic systems, with some countries "more capitalist" and others "more socialist." This view has long been found among supporters of capitalism, who worry that adoption of such

allegedly "socialist" schemes as public provision of health care or retirement pensions damage a capitalist economy by mixing socialism with capitalism. In recent decades this view of socialism and capitalism has become common among supporters of socialism.

Such a view arose in Moscow toward the end of the Soviet period. During the late 1980s, many Soviet intellectuals began to argue that socialism is not after all a distinct system from capitalism. It became common to hear that modern capitalism has many features of socialism. Some even argued that modern capitalism was more "socialist" than the Soviet system.<sup>1</sup>

In the late 1980s and early 1990s in the West a new literature on market socialism arose which views socialism as not qualitatively different from contemporary capitalism.<sup>2</sup> This literature advocates a market socialist system in which private enterprises would pursue maximum profits in competitive markets. A strong state would regulate and supplement the market, as in contemporary capitalism. The only difference from capitalism is that enterprises would be owned either by workers, or by outside shareholders with institutions designed to prevent a distinct class of wealthy owners of capital from emerging. The substantive advantages over capitalism claimed by these models are a more equal distribution of income and a more genuine political democracy. However, if one imagined being parachuted into such an imaginary system, it would be difficult to see the differences from welfare-state capitalism.

This recent Western market socialist literature is quite different from the earlier market socialist writings of such figures as Oskar Lange, who is often cited as a precursor in the contemporary market socialist literature. In the 1930s Lange proposed a model, whose key institutions were public ownership of the means of production and a planned economy, in which the planners would instruct enterprise directors to equate marginal cost to the planner-determined price.<sup>3</sup> The planners would adjust the prices they set, based on the market shortages and surpluses that arose, until a general market equilibrium was achieved. This was a model that combined the concept

of economic efficiency from neoclassical economic theory with central planning and public property. Lange thought socialism was so different from capitalism that, in the same long article in which he put forward his marginal cost planning proposal, he also advised socialist parties not to take office until they had won sufficient political support for socialism to enable them to immediately nationalize all of the major means of production.<sup>4</sup>

This paper takes up two related questions. First, why did this radically changed view of socialism appear among socialists starting in the late 1980s? Second, is this view of socialism persuasive? This paper argues that the earlier socialist literature had it right -- that socialism is a qualitatively different socioeconomic system from capitalism. The paper argues that misinterpretation of the great world events of 1989-91 led to an unjustified rejection of socialism as an alternative form of civilization to that of capitalism.

## **2. Origins of the View that Socialism Is Not a Distinct Socioeconomic System**

The Russian Revolution of 1917 led to the world's first attempt to build a socialist system. The Soviet model, as it existed in the Soviet Union, and later in other Communist Party ruled states, was indeed a qualitatively different socioeconomic system from that of capitalism. It was based on public ownership, central planning, and a kind of production for use (although based on the planners' view of what uses production should satisfy). Under that system in the Soviet Union, there was virtually no unemployment, a high degree of job security, a high degree of material security (taking account of both income and access to free or cheap essential goods), a relatively egalitarian distribution of income, and an absence of income from owning property. There was no accumulation drive built into the economic institutions, although one was imposed politically. There was no selling drive and, as a result, no commercialization of society.

However, that version of socialism failed to incorporate a key aspect of the earlier conception of socialism -- a democratic workers' state. For various historical reasons, the Soviet model came to

be based on rule by a small group of top officials, with an authoritarian and repressive state and a highly centralized, hierarchical form of economic planning controlled by top officials. These features of the Soviet model led many Western socialists to disclaim any connection to it.

From 1928 to 1975 the Soviet model produced rapid economic growth, and after World War II it also yielded rapidly rising living standards in the Soviet Union.<sup>5</sup> During that period, the gaps in GDP, consumption, and technological level between the Soviet Union and the Western capitalist states were progressively narrowing. In the USA in the mid 1970s, there was serious concern that the Soviet economy would eventually overtake the US economy if then-current trends continued into the future. American Economics textbooks in that era typically argued that the Soviet economy's success in achieving rapid economic growth and full employment was purchased at the unacceptable cost of giving up individual freedom.

However, after 1975 Soviet economic growth and technological advance both slowed down significantly. The economic and technological gap between the Soviet Union and the West began, for the first time, to grow instead of narrowing. The Soviet Union's relative stagnation led eventually to Mikhail Gorbachev's attempt to radically restructure Soviet socialism, which resulted instead in the abandonment of socialism in favor of building capitalism as well as the dissolution of the Soviet state.

The new generation of market socialist models in the West emerged a decade after rapid Soviet economic growth had given way to relative stagnation. It is clear from reading this literature that it was driven by a belief that the recent experience of the Soviet model had shown that a system based on economic planning and public property was not effective. The demise of the Soviet system during 1989-91 was seen as the final proof of the inferiority of such an economic system. However, unwilling to entirely give up on socialism, Nove and the other Western market socialists sought to salvage socialism by recasting it as a variant of contemporary capitalism rather than a qualitatively

different socioeconomic system.

The view among Soviet intellectuals that socialism and capitalism were not distinct systems emerged from the same historical process that was driving the Western market socialist ideas, although some of the details were different. In the later part of the perestroika period, as debate over the Soviet Union's future, as well as its past, intensified, most of the Soviet intelligentsia rapidly turned against the Soviet system as it had previously existed. One factor may have been the growing gap between Soviet and Western economic performance, and hence living standards. But for intellectuals there was another, perhaps more important, factor connected to the nature of their work as intellectuals. Soviet intellectuals had long resented the constraints on their freedom to pursue their craft without interference from Party officials. The image of freedom of thought in the West was very attractive.

However, abandoning the ideals of socialism was not easy. Many Soviet intellectuals began to say that Western capitalism, which they identified with the idealized form of it that was projected by the Western media, looked a lot like socialism to them. They also concluded that the Soviet model was actually not socialist at all. It became common to refer to the Soviet system as a "command-administrative system" assumed to have nothing in common with socialism. Thus, if capitalism and socialism were not really two distinct systems, they were free to abandon the Soviet model in favor of a free market in both goods and ideas, without abandoning socialism.

Thus, despite the differences of detail, the abandonment of the concept of socialism as a distinct socioeconomic system, among Soviet intellectuals and in the West, was driven by a combination of the deterioration in Soviet economic performance, the demise of the Soviet system, and the serious distortions in the Soviet model. Faced with a widely accepted claim that capitalism had demonstrated its superiority over socialism, those who chose to still advocate socialism in some form retreated to a weak echo of the original socialist position.

### **3. The Compatibility of Socialism as a Distinct System with the Historical Record**

All of the above cited reasons for abandoning the concept of socialism as a distinct socioeconomic system are subject to question. First, consider the relative stagnation of the Soviet economy after 1975. It is often forgotten today that the Soviet model produced rapid economic and social development for some 45 years, during 1928-75.<sup>6</sup> The fact that Soviet economic growth was slower than that of US capitalism from 1975-89 no more proved the economic superiority of capitalism over socialism than did the earlier period of faster Soviet economic growth prove the superiority of socialism over capitalism. The Soviet version of socialism clearly required a radical reform in the 1980s, which Mikhail Gorbachev tried to deliver, but after only a few years of attempted reform, political power slipped away to those in Soviet society who wanted to build capitalism rather than reform socialism.

The demise of the Soviet system during 1989-91 is the historical development that led many to finally conclude that an economic system based on public property and economic planning is inferior to one with capitalist institutions. However, the historical record shows that the demise of the Soviet system was not a result of either its economic collapse or any inherent inferiority of public ownership and economic planning. The reason for the Soviet demise was the abandonment of the Soviet system by most of its own top officials, who sought to enrich themselves through a transition to private property and a market system.<sup>7</sup>

Finally, there is the matter of the Soviet model's negative features. Conservative thinkers had long claimed that a state which owned all productive property would inevitably become a repressive state that would snuff out individual liberty. However, the sequence in the Soviet case was the reverse. The Bolsheviks built an all-powerful state which eliminated individual freedom before the model of nationalized industry and collectivized agriculture was established starting in 1928. It is difficult to see why a democratic state and respect for individual liberties could not coexist with the

traditional socialist institutions of public ownership and economic planning. Private property in the means of production may provide a kind of individual freedom for the minority of capitalists who own the means of production in a capitalist system, but it is difficult to see how such private ownership reinforces either democracy or individual liberty for the majority of the population.

Soviet history provides evidence that an economic system based on public ownership and economic planning can work effectively for many years. That type of system has brought economic progress in other countries as well, including China, Cuba, and the Eastern European countries. Had those systems had a democratic state, individual liberties, and a more participatory and decentralized form of economic planning, a strong case can be made that their economic performance would have been even better.

For example, in the Soviet Union those industries that had politically powerful consumers produced high quality products that met the needs of those consumers. That applied to such industries as weapons, aerospace, metal processing, and several types of industrial machinery. If ordinary Soviet households had been politically empowered through a system of representation in the planning apparatus, it is not clear why the Soviet planned economy could not have delivered high quality consumer goods. If the Soviet state had been a democratic one, the priorities of ordinary citizens would have been reflected in the goals of the economic planning process. If citizens had had political freedom, they could have built a strong environmental movement demanding a change in what counted as "success" for a Soviet industrial plant, inserting environmental impact into the list of enterprise success indicators.

History leaves one difficult question for the advocate of socialism as a distinct socioeconomic system. During the twentieth century many intelligent and committed socialists, in many different countries, devoted their lives to the effort to build this radically different type of society known as socialism. However, in none of these attempts was a type of socialism built that



was free of the severe defects of the first socialist attempt in the Soviet Union, namely rule by a small elite, a repressive state, and a hierarchical kind of economic planning. It is not surprising that many would conclude that, if all of those attempts failed to create a system that embodied the ideals of the early socialist movement, there must be something wrong with the original idea.

However, there are better explanations for the failure of the socialist movement to so far produce a version of socialism that lives up to the original ideals. All of the revolutionary attempts to build socialism to date occurred under unfavorable conditions. Every socialist revolution installed a party run by a small group of leaders in state power in a country that was relatively backward economically and surrounded by capitalist states that were more economically developed and politically hostile. In each case the party leaders sought to rule the country as they had ruled the party during the period of revolutionary struggle. This produced the now widely acknowledged defects of actually existing socialism.

One might ask why a people's movement did not arise in any of the socialist states to successfully press for democracy within socialism? After all, capitalist society did not have a democratic form initially. It was political struggles, first by the new bourgeoisie, and later by the working class, that eventually brought a kind of limited democracy to capitalist states.

The major case of a serious effort to democratize socialism occurred in the Soviet Union in the perestroika period, and it was initiated from the top, not the bottom.<sup>8</sup> The fate of this effort was sealed by the inability, or unwillingness, of the top leadership to actually mobilize a mass base for democratization of Soviet socialism. Although a large part of the Soviet citizenry appeared to favor democratic reform of socialism, the leadership was unable to mobilize them effectively. This enabled the pro-capitalist part of Soviet officialdom to dismantle the old system in order to build capitalism. It appears that actually existing socialism has been quite effective at repressing and deactivating ordinary people. Rather than democratic revolution from below within socialism, it has

been vulnerable only to pro-capitalist transformation propelled by its own corrupted ruling elite.

In many industrialized capitalist countries since the late nineteenth century, socialists have sought to achieve socialism through the ballot box rather than revolutionary methods. Efforts to build socialism via the gradual parliamentary route have been unsuccessful at replacing capitalism with socialism, although successful at reforming capitalism, at least in some historical periods. None of the socialist parties that has achieved state power at the national level in industrialized capitalist countries has followed through on its early promise to abolish capitalism. The long period of parliamentary practice that precedes gaining political power in democratic capitalism leaves a socialist party unfit for the difficult task of making a transition to socialism. Such a transition would inevitably involve sharp conflicts, and in every case the ruling socialist party has settled for welfare state capitalism rather than embarking on the path of dispossession of the propertied class. In some capitalist states a relatively radical socialist (or communist) party has won office in regions or cities, as in India and Italy, but a transition to socialism cannot be carried out in a part of a nation-state.

Thus, there are good explanations of why the kind of socialism envisioned by the early socialist movement has not yet appeared in the world, other than the conclusion that the idea is unworkable. It must be admitted that no one has come up with an effective means of getting to a socialist system having all four features -- public ownership, economic planning, production for use, and a democratic state. However, that does not negate the potential viability of such a system, once a means of transition to it has been discovered.

#### **4. Concluding Comments**

It is well to keep in mind that the currently world-dominant system of capitalism had some false starts during its birth phase. Capitalism first arose in several northern Italian city-states in the fourteenth century, but those first attempts did not survive. It was only several centuries later, in the sixteenth century, that capitalism became firmly established elsewhere in Europe.

The twentieth century attempts to build socialism were only the first attempts to do so. Since these attempts have largely passed away, capitalism has changed, moving backward toward a much harsher form in the contemporary neoliberal era. None of the major problems facing humankind today seems solvable within the framework of capitalism. Foremost among these is achieving a decent and secure living standard for all, in a manner that is environmentally sustainable over the long run.

Since capitalism now stands as an obstacle to human progress, and even human survival, it seems certain that further attempts will be made to supercede capitalism in the future. Recent developments in several South American countries suggest that a new period of socialist experiments may have already started in the twenty-first century. New socialist experiments have the advantage of being able to learn both the positive and negative lessons of the first socialist experiments in the twentieth century. Hopefully the next wave of socialist attempts will be able to avoid the pitfalls of the first wave and finally build a socialism that lives up to the original vision.

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### Notes

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1. See Kotz with Weir, 1997, p. 68 for an account of this process.
  2. Examples are Nove 1991, Bardhan and Roemer 1992, Roemer 1994, and Weisskopf 1992.
  3. See Lange, 1938.
  4. See Lange, 1938, pp.121-129. Lange argued that taking office prematurely would place a socialist party in the position of running a country with a capitalist economy, which would compel the party to do what the capitalists required. Writing this in 1938 was prophetic.
  5. See Kotz with Weir, 1997, pp. 34-42.
  6. While the Soviet economy had many problems from the start, its successes have been largely expunged from the public record, at least in the West. The post-1991 rewriting of Soviet economic history was politically motivated and does not stand up to serious scrutiny. See Kotz with Weir, 1997, pp. 38-40.
  7. This case is made in detail in Kotz with Weir, 1997, ch. 5, 7, and 8.
  8. One can argue that there were other serious attempts to democratize socialism, although none succeeded. Examples are the Chinese Cultural Revolution, and perhaps the 1989 Tien an Men Square movement in China. The Cultural Revolution, like Gorbachev's perestroika, was initiated from the top, not the bottom, and when it got out of hand, it was reined in by the Communist Party leadership. The Tien an Mien Square movement of 1989 was indeed a movement from below, although it is not clear that its primary aim was democratization of socialism. Another possible example was the Czech spring of 1968.