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THE  
FUTURE OF COMMUNISM  
AS  
AN ECONOMIC SYSTEM

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A THESIS  
PRESENTED TO  
THE CHANCELLOR'S SCHOLARS COUNCIL  
OF PEMBROKE STATE UNIVERSITY

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IN PARTIAL FULFILLMENT  
OF THE REQUIREMENTS FOR COMPLETION OF THE  
CHANCELLOR'S SCHOLARS PROGRAM

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BY  
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## INTRODUCTION

Communism can be conveniently divided into two main parts. The first part consists of a theory of human society, a theory of knowledge (philosophy) and a theory of economics. These theories were essentially worked out by Karl Marx, with the collaboration of Friedrich Engels.

The second part of communism consists of a theory about the seizure and use of power, and about the remolding of society in accordance with the Marxist ideals. This part was basically the work of Vladimir Lenin. Although Lenin wrote extensively on the subject of party organization, my focus here is on the communist economic system thus evolved in the Soviet Union.

Certainly, the two parts are closely related. The communist government owes its legitimacy to the Marxist theories. Therefore, in the paper, I will first discuss Marxism and then analyze the command economy of communism.

Throughout the paper, I will try to argue pro and con on the subject. To be sure, I want to be as impartial as possible.

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To be sure, neither Karl Marx nor Vladimir Lenin originated the Communist idea. The very concept of a communal life, in which sharing and joint property ownership are valued over free-wheeling individualism and the active acquisition of private property, can be found in the earliest institutions and writings of civilized men throughout the world.

In Greece, Plato (427? - 347B.C.) wrote about his ideal society in the Republic as early as 370 B.C.. Certainly, this book is one of the earliest examples of Western literature that advocated the sharing of property and families.

Later, in the Judeo-Christian tradition a form of Communism has been important. For instance, the Essenes<sup>1</sup>, an ascetic Jewish sect practising before Christ, observed 'communistic' practices, let alone the various monastic orders of the Middle Ages which adopted many 'communistic' ways that were thought to be able to allow the believers to serve God more effectively.\*

Since then, in the course of western history, a number of prominent individuals, partly inspired by the teachings of Jesus Christ as recorded in the New Testament, have added their own voices to those preceding them in support of the 'communistic' way of life. Among the more well-known of the anticipators of modern Communism we must include Sir Thomas More's Utopia (1516), Tommaso Campanella's City of the Sun (1623), and Gabriel Bonnet

<sup>1</sup> They are most famous for their Dead Sea Scrolls.

\* The Anabaptists during the Reformation in Germany (of the 16th century) were also 'communistic.'

de Mably's On Legislation (1776).

In the wake of the Industrial Revolution, the social and economic hardships and injustices finally reached their heights in the 19th century. These conditions when coincided with the philosophical romanticism prevalent at that time prompted a cohort of writers and/or revolutionaries to express their views on Socialism and Communism. Francois Noel Babeuf<sup>2</sup> (1760-1797), Henri de Saint-Simon<sup>3</sup> (1760-1825), Charles Fourier<sup>4</sup> (1772-1837), Etienne Cabet<sup>5</sup> (1788-1856), Louis Auguste Blanqui<sup>6</sup> (1805-1881), Louis Blanc<sup>7</sup> (1811-1882), William Godwin<sup>8</sup> (1756-1836), and Robert Owen<sup>9</sup> (1771-1858) are some of the more vocal advocates. Thus, it must be understood that when

<sup>2</sup> Babeuf was the forerunner of the revolutionary brand of Communism; He was guillotined in 1797.

<sup>3</sup> Saint-Simon is well-nigh synonymous with the idea of evolutionary organism.

<sup>4</sup> Fourier advocated the establishment of phalanstery, which was a kind of a small cooperative agricultural community.

<sup>5</sup> Cabet wrote Voyage en Zcarie (1840). He made several unsuccessful communistic settlements in North America.

<sup>6</sup> Many of Blanqui's views were later adopted by Vladimar Lenin, the leader of the Russian Revolution in 1917.

<sup>7</sup> Blanc wrote Organization of Labor.

<sup>8</sup> Godwin wrote An Enquiry Concerning Political Justice, which is about political and philosophical anarchism.

<sup>9</sup> Owen thought that cooperative societies are better than traditional families.

Marx began to expound his ideas on the subject, he had already a long and established tradition before him.

While Marx did not exactly blaze a brand-new trail in the pursuit of an ideal society, he is, in retrospect, quite different from other run-of-the-mill proponents of Communism. For others probably lost heart to see that their utopian dreams fade with the passage of time, Marx was convinced that his 'scientific' approach has proved that Communism would eventually and inevitably triumph over Capitalism. It's Marx's conviction that history is a well-determined carpet rolling inexorably in the direction of collectivism. According to Marx, mankind has come through five types of society——primitive communism, Asiatic society, ancient slave-holding society, feudalism, and capitalism. The expected imminent breakdown of capitalism, which has long been suffering from inner contradictions, will set the stage for a proletarian revolution and the consolidation of a classless no-private-property communist society with the 'withering away' of the state as the final objective.

Why is he so confident about the success of communism and the disintegration of capitalism? Before explaining the reasons, I'd first like to take a look at his social theory and philosophy.

(SOCIAL THEORY) Marx's theory of society, coined by Friedrich Engels as 'historical materialism', attaches fundamental significance to the economic aspect of life. In Marx's view, the 'forces

of production'——the technological conditions of producing and exchanging goods, along with the 'relations of production' ——the system of property ownership, determine the basic division of society into two classes and the basic nature of government, religion, and culture in any given epoch. In a word, Marxism is a form of economic determinism; Economic circumstances are thought as the 'base' of the social system. Political, legal, and religious institutions are only the 'superstructure' with its nature substantially shaped by the form of this base.

In addition to this superstructure, each society develops its own 'ideology.' To be arduously defined, it's a set of official beliefs or religious creeds justifying the power of the ruling class and legitimizing exploitation. As such, it's contemptuously referred to by Marx as 'false consciousness.'

Furthermore, all societies following the hypothetical stage of primitive communism have been split into two principal classes, the property-owning exploiters and the propertyless class of much-exploited workers. Social change from one system to another arises principally from changes in the economic base. Every time a new ruling class, riding on the crest of a revolution, seizes power, it would invariably cause its own ideology to prevail. However, the two opposing classes never sit well with one another. In the Communist Manifesto, Karl Marx wrote:-

'The history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician

and plebeian, lord and serf, guild-master and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open fight, a fight that each time ended, either in a revolutionary reconstitution of society at large, or in the common ruin of the contending classes.....(Similarly,) the modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones. Our epoch, the epoch of the bourgeoisie, possesses, however, this distinctive feature; It has simplified the class antagonisms. Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other: Bourgeoisie and Proletariat.'<sup>10</sup>

In keeping with his 'historical materialism,' Karl Marx took the English Revolution of 1642 and the French Revolution of 1789 as part of the ongoing struggle on the part of the rising bourgeoisie to achieve political power. Thereafter, the so-called 'laissez-faire' liberalism, characterized by a parliamentary government that denied the vote to the common workers and an ostensibly hands-off non-interventionist policy, manifested the ideology and the superstructure typical in the capitalist society.

<sup>10</sup> Communist Manifesto, pp. 9-21, written around 1848.



(PHILOSOPHY) Marx's philosophy has often been termed 'dialectical materialism' by his followers. It is 'dialectical' because the Marxist philosophy borrows Hegel's<sup>11</sup> philosophy of the dialectic as its model to explain the process of change both in the human society and in the natural physical world.

In this view, a given situation (the 'thesis') will always engender a set of opposing forces (the 'antithesis'). The conflict between the two will finally result in the breakdown of the original situation, and a new one (the 'synthesis') will surface from the ruins. This 'synthesis' then becomes the 'thesis' for the next stage of development; The cycle continues.

On the other hand, the Marxist dialectic is 'materialist' because, in contrast to Hegel's philosophy, it deals not with the world of abstract ideas as the primary reality, but with the down-to-earth material world. Marxism is materialist in two senses: first, in rejecting any religious or metaphysically 'idealist' view of the universe and, second, in asserting the primacy of material (economic) factors instead of ideas in human history.

There are three rules<sup>12</sup> that are applicable to this dialectical process.

<sup>11</sup> The philosophy of Georg Wilhelm Friedrich Hegel (1770-1831) was also developed by some into right-wing political theories in support of nationalism and unification of Germany in the later decades.

<sup>12</sup> Julius Smulkstys, Karl Marx (New York: Twayne Publishers, 1974), p. 16-17.

First, the law of the union of opposites explains the temporary coexistence of uneasy, hostile, opposing elements. Thus it's not surprising that in a capitalist society, the bourgeoisie and the proletariat would coexist and cooperate as well as struggle with each other. In mathematics, the expression  $-a^2$  is the product of  $a$  and  $-a$ . A unity of opposites has a lot of precedents in history. Nevertheless, change is inevitable because even the most apparently stable social and economic forms are actually fragile coalitions of disparate elements.

Second, the law of the negation of negation summarizes the change mechanism. All hitherto historical victories (with the exception of the forthcoming communist triumph) have been temporary and incomplete. Capitalism only negated feudalism. Capitalism, like the vanquished feudalism, in its heyday seems indestructible and eternal, but its span is actually brief and ephemeral.

Third, a quantitative change can lead to a qualitative transformation. To use Engels's example, when water in a kettle is continuously heated, the water inside becomes hotter and hotter, until at 100 degree Celsius, a qualitative change would occur, then water would be transformed into steam. In a similar vein, when the capitalists increase their oppression of the proletariat, the early effect is only increased misery suffered by the workers as a downtrodden class. However, there's a point when the ultimate effect is revolt, a qualitative shift in human

relations. This signals the threshold of a new society.

(ECONOMIC THEORY) Now equipped with an understanding of Marx's social theory and philosophy, we are ready to move on to the Marxist theory of Economics.

Definitely, his theory is built around an analysis (or critique) of capitalism, using England in his own time as a latter-day model of the ailing bourgeois regime.

In his writings, Marx combined a moral and an economic<sup>13</sup> attack on capitalism with his theory of exploitation and surplus value, and he also argued dialectically that the insurmountable inner contradictions of capitalism would spell its doom.

**Labor Theory of Value** In agreement with the 'classical' economists, such as Adam Smith and David Ricardo, Marx believed that the 'exchange' value of goods is measured by the amount of labor embodied in them. In a world free of expropriators, the workers will get all the fruits of their labor, leading a comfortable life.<sup>14</sup>

**Concept of Surplus Value** However, when the owners of capital (factories, machinery, stockpiles of materials and food, and working capital) enter the scene as is commonplace in the bourgeois world before the communist takeover, the situation is

<sup>13</sup> Marx's concept of surplus value amounts only to a moral attack on capitalism. It does not prove the inner contradiction of capitalism. If it pretends to do so, it, as will be discussed later, is a logical non sequitur.

<sup>14</sup> See Appendix II-A  
Also refer to Appendix I for the family tree of economics thoughts.

changed drastically. The workers are then only entitled to a fraction of their actual value of product produced by their labor, with the difference being pocketed by the capitalists as profit or surplus value.<sup>15</sup>

Normally, the fraction of total product received by the workers is just enough to pay for the costs of their upkeep——lousy food, tattered clothing, and a shabby shelter for themselves and their families.

What's more, with every new invention or technological breakthrough in production techniques, this surplus of its daily product over its daily cost of subsistence increases. The capitalists utilizing the innovation will become even richer, while the workers still have to live in grinding poverty. But who cares? There's no shortage of labor to speak of. The capitalists can readily tap the inexhaustible 'reserve army' of the unemployed.

Nevertheless, this moral indictment of capitalism does not bring about the demise of this economic system. Ironically, it's its own inborn inner incongruences that seal its fate.

Law of Accumulation Relentless competition forces capitalists to invest their profits in order to cut labor costs and raise production. Marx never believed that the capitalists plow back their earnings to build more plants and equipment because they don't know what else to do with them. Actually, more and

<sup>15</sup> See Appendix II

more investments are needed because of the naturally aggressive instincts of capitalists.

After all, the more enterprising capitalists can reap sizable profits by installing the latest labor-saving machinery. Therefore, every owner wants to be a step ahead of the rest of his competitors.

However, it won't take long for the pressures of competition to force everyone else to adopt the same new equipment. Now, all the operating enterprises are on the same competitive footing, except that there are less of them (those lost out in the competition) as compared to what had been previously; what's more, more workers have now been displaced by the machines.

Hence, by obeying his inborn impulse to accumulate, and trying to steal a march on or just staying abreast of his competitors, he is actually cutting down on the payrolls. But remember, the capitalists derive their profits from the workers' labor. So, by narrowing the base out of which he gleans his profits, a capitalist is killing the goose that lays the golden egg. In another sense, it's a kind of Greek tragedy when men march willy-nilly to their inevitable fate. The capitalists have a flaw in their character.

#### The Falling Rate of Profit and the Concentration

of Capital As the proportion of capital to labor in the productive process increases, the sole source of steady profit —the exploitable labor— is being squeezed out. In a last-ditch effort to restore the rate of profit to prior levels, the capitalists eagerly enter into cartels or monopolies of

various sorts to restrict output and raise prices. The mammoth Finance Capital, characterized by credit-controlling big banks and other institutions, will at the same time increasingly manipulate mass production for purely financial ends. In yet another development, each national capitalist group, unable to find in its own national market for its constantly expanding output, would be driven beyond their borders in the perennial search for foreign markets and sources of raw materials. This is the imperialistic phase of Capitalism, fraught with fierce international competition and costly wars. Nevertheless, the suffering endured by the working class is the same in every country. Thus, there's a brotherly feeling among all of them, regardless of national origin. Simultaneously, alienation is universally felt by the workers towards their oppressive bosses. No doubt, class solidarity can be found on both the national and international levels.

#### Law of Increasing Misery of the Proletariat

As the labor-saving machinery displaces workers and increases the ranks of the unemployed, the general level of wages takes a further tailspin. Since the majority of people already live in abject poverty, who are going to buy all the goods that the monopolies produce? Indeed this paves the way for the periodic cycle of recessions.

#### Theory of the Business Cycle

Depressions are the times when the sum total of demand for consumer goods and investment goods do not equal or fall short

of the total amount produced.<sup>16</sup>

According to Marx, recessions serve two purposes. First, they throw still larger number of workers into the unemployed pool, further accentuating the loss of purchasing power of the general public.

Second, each depression would put the weakest firms through the wringer of bankruptcy and merger. The ex-capitalists would join the ever-expanding working class or end up unemployed. It also goes without saying that all the firms' assets will be gobbled up by the larger, stronger, still surviving firms.

The Darwinian principle of the survival of the strongest will accelerate the tendency toward accumulation, as described earlier in relation to the falling rate of profit.

Definitely, Karl Marx concluded that business cycles are not just isolated squiggles on a graph of national income records over the years. They are part of the tell-tale signs of the imminent death of capitalism. Maybe, one depression is not sufficient to bring down the entire economic system. But, as the tempo and intensity of cyclical downturns increase, the flash point for revolution would be easily reached. In an advanced country, the revolution would usually be violent. However, in places where the workers have already had the vote, as in Britain and the United

<sup>16</sup> This is very similar to John Maynard Keynes' idea about the cause of recessions.

States in Marx's time, it can be conceivably accomplished in a peaceful way.

(CRITIQUE OF MARXISM) In common with other broad theories of society, Marxism has been, over the years, subject to many criticisms. However, its significance should be taken as a contribution to the development of economics, modern politics and social thought rather than a set of dogma that must be condemned or embraced as implicit faith. It's only with this thought in mind then we can put Marxism in perspective and contemplate about its possible place in the history of ideas.

Certainly, Marxism is full of inconsistencies and ambiguities. All those unsettled matters have sparked recurring controversy among his followers from time to time. For example, the disputes over the necessity of violence versus the feasibility of democratic methods in the proletarian revolution, or the requirement of an advanced capitalist stage and proletarian revolution for all nations versus the possibility of separate lines of development in different countries, or the active political leadership and ideological inspiration versus the passivity inherent in the belief of a fore-ordained future. Most probably, the future of Marxism would still be characterized by the same lively, if not more deadly, dissension.

On the other hand, Marxism is definitely an oversimplification when it comes to the analysis of class antagonism. The picture of a ruling class exploiting a propertyless class is too simple for any given period of history. There are countless instances



of political changes that do not happen solely because of social and economic upheavals. For one thing, nationalism in the last two centuries as well as the powerful revival of religious fundamentalism in recent years cannot be explained by the class struggle scenario.

Moreover, there's an inner logical error in Marxism; that is, why the dialectic process should stop once Capitalism has been overthrown? How about the very probable situation of a new ruling class oppressing the masses on some new basis just as the Bourgeoisie had purportedly exploited the Proletariat in the pre-revolutionary capitalist era?<sup>17</sup>

Relating to his prognosis about capitalism, neither France, Germany nor England have been besieged by proletarian revolutions either during Marx's own lifetime or anytime thereafter. In stark contrast, the usual candidates for communist takeover are invariably the less developed countries, like tsarist Russia in 1917, China in 1949, and possibly the Philippines in 1985.<sup>18</sup>

For the more advanced countries in the capitalist camp, the rate of profit has not followed the law of the falling rate

<sup>17</sup> Cf. Leon Trotsky's The Revolution Betrayed, or George Orwell's Animal Farm, and most recently, David K. Willis, Klass (St. Martin's Press, 1985).

<sup>18</sup> Though the Philippines is 'capitalist' in outlook, it is also a country plagued by cronyism on the top and rampant corruption. For more details about that country's ills, Cf. Harry Anderson, "The Philippines: Another Iran?", Newsweek, (November 4, 1985), 30-38.

of profit.<sup>19</sup> Rather, it seems to dance and wander from year to year without any particular strong trend to speak of. Nor has capital been increasingly concentrated in the hands of a few monopolists? It is true that from time to time there appears to be an upsurge of monopolies in the advanced countries. However, being bigger also means being more conspicuous, and an easier target of antitrust legislation and other regulation measures, not to mention the various consumerist groups. The breakup of A T & T is a good example. Definitely, there's no indication that there's more concentration in 1985 than in 1955. What's more, his law of the increasing immiserization of the proletariat has also not been borne out. Real wages in the western countries have been on the rise almost most of the time. On statistical examinations, one can only find the growing middle class instead of the heralded class polarization. Besides, the workers in the present-day developed communist countries suffer no less alienation than their counterparts in the allegedly exploitative capitalist world. Brushing aside propaganda, one has to admit that it's more related to the division of labor inherent in modern production processes than anything else.

<sup>19</sup> Out of the 3.6642 dollars of GNP in 1984 (in trillions), Personal consumption expenditures account for 64%, government purchases 20%, and private investment 17%.\*

Out of the 2.9619 trillion dollars of national income in the same year, 10% was earned as corporate profits, 73% as wages, 10% as net interest, 5% as proprietors's income, and 2% as rental income. Source: Department of Commerce, Bureau of

#### Economic Analysis

\*The United States had the net exports of \$ -62.5, that is in billions of current dollars, in that year. Note; however, the calculation involves both visible and invisible trade.

In addition, a careful study of the logic of Marx's thinking will reveal that his purported law of motion of capitalism toward communism is not 'cogently derivable from Marx's own conceptual schema'.<sup>20</sup> of the surplus value and the impliedly lowered real wage. Although Marx's concept of the surplus value was characterized by Engels as the most important economic discovery of all time, it only serves as a moral attack on the capitalists. To be sure, the concept of the surplus value is only an allegation, and Marx never believed there's an ascertainable minimum-subsistence wage to begin with. To shore up his case, he had to use the argument of a 'reserve army of the unemployed'<sup>21</sup> and the displacement of workers by labor-saving machines, which are quite separate from the mathematical concept of surplus value, to prove the inevitable demise of capitalism. Thus, it is safe to say that the Marxist concept of surplus value does not flow directly to his thesis, and this is in effect a logical non sequitur. Besides, it's interesting to note that he could possibly argue the case of increasing immiserization equally well using the neoclassical distribution model,<sup>22</sup> which is the philosophical anathema of the Marxist economics.

<sup>20</sup> Paul Samuelson, Economics (London: McGraw-Hill, 1980), p. 806.

<sup>21</sup> Marx did not supply any theory to determine its size or calculate its incidence (effect) on the real wage level.

<sup>22</sup> See Appendix II-B  
Neoclassical as well as mainstream economics are based to a large extent on the subjective or utility theory of value, which was developed by Jevons, Menger and Walras separately around 1870.

Lastly in my critique, I'd like to add an observation. Throughout history, many people have tended to think of the world as if developing through discrete stages well on the way towards an eventual millenium.<sup>23</sup> Moreover, they often go on and claim that historical facts are on their side.

Nevertheless, probably because of innate human subjectivity, facts, though not intentionally altered by the beholder, can be so gleaned and compiled as to lend themselves readily to a variety of schools of thoughts, which may sometimes turn out to be diametrically at odds with one another. Blissfully blessed with these deeply-believed, if not greatly garbled, accounts of past history, each and every one of them would try to play the role of prophet and make predicting the biggest pastime.

In my view, Karl Marx may well be one of those individuals. To be sure, recurrent depressions and recessions have always battered capitalism, and the Great Depression (1929-33) was probably the most traumatic of all. However, the capitalist societies have changed a lot of their ways since then. The subsequently growing acceptance of Keynesian economics and the concomitant fiscal as well as monetary policies have generally moderated the severity of business cycles, and made chronic slumps unlikely. Though the dyed-in-the-wool Marxists may say that the so-called mixed economy is only capitalism hospitalized in an oxygen tent,

<sup>23</sup> Or final decline, for that matter, as believed by Oswald Spengler, in The Decline of the West, trans. Charles Francis Atkinson, ed. Arthur Helps (London: George Allen and Unwin Ltd, 1961).

and the history of economic development is still a one-way street towards collectivism, the continued resilience of the market economy betrays no sign of an incurable illness.

Furthermore, there are other economic developments in the world that also defy expectations. For example, the spectacular growth economies of Taiwan, South Korea, Hong Kong, Singapore, Mexico and Brazil, and the relative stagnation of Argentina, Chile, Uruguay, the Philippines and Australia must have raised many an eyebrow.<sup>24</sup>

All in all, we must be forever skeptical whenever we hear about any allegedly, scientifically proved theories on the uni-directional development of history.

Anyhow, the miscarriage of Marxist predictions should not be overly exaggerated. After all, his writings were based on observations made well over a century ago. No one, however insightful, could ever anticipate all the twists and turns of modern development down the years.

Furthermore, despite the logical non sequitur I mentioned earlier, Marx's concept of product value calculation<sup>25</sup> did make one solid analytical contribution to what we now call the von

<sup>24</sup> For the last two decades, the Pacific-rim countries or city-states have had the best track record of economic growth in the world. On the other hand, Australia, which had one of the highest standard of living when the Second World War ended, have had dismal economic growth to the surprise of many economists.

<sup>25</sup> See Appendix II-A  
Pay particular attention to the mathematics involved.

Neumann-Leontief input-output growth models,<sup>26</sup> which are widely used in the planning process by both the communist and non-communist nations.

Also, his theory sheds new light on the process of social change and social problems, not to mention the interrelatedness of the apparently different aspects of society——political, economic, social, and cultural. Moreover, in asserting the importance of economic forces and interests, he has really given them their rightful, if not exaggerated, place in human society. Karl Marx has changed our ways of looking at things in other areas too. His concept of 'ideology' and the notion of relativism in the interpretation of history are two fine examples.

In conclusion, notwithstanding his fallacy about the motion of capitalism, Karl Marx is worth his place in history, and his impact will continue to be felt. Though many communists have made Marxism their own opiate, we must not go to the other extreme by ignoring Marxism altogether. After all, Marxism is too valuable to be left to the communists alone. In the words of Paul Samuelson, 'It provides a critical prism through which mainstream economists can——to their own benefit——pass their analysis for unsparing audit.'<sup>27</sup>

<sup>26</sup> Samuelson, p. 707.

<sup>27</sup> Samuelson, p. 811

As discussed earlier in the paper, capitalism's proclivity toward monopoly, and the boom-and-bust fluctuation of the business cycle spells its ultimate doom. Sooner or later there must be a crisis severe enough to bring the working class to power. However, Marx never drew up a detailed blueprint for the revolution and the ensuing socialist society. Indeed Marx stressed that he did not intend to write 'recipes for the cookshops of the future.'<sup>28</sup> He only sketched out some rough conceptions for the post-capitalist millenium.

According to Marx, the revolution must be the work of the proletariat itself, stemming naturally from the trend toward greater organization and class consciousness fomented among the the proletariat by the wretched conditions of capitalism.

After the revolution, the workers' opening gambit would be the destruction of the old bureaucratic government and its replacement by a 'dictatorship of the proletariat'. This workers' state, based on direct democracy, would expropriate the monopoly capitalists and bring tae whole working class into the management of industry.<sup>29</sup>

With the eradication of class differences as a result of revolution, the state——hitherto all existing principally to enhance the exploitation of the propertyless class——would begin to wither away.

<sup>28</sup> Footnote pending

<sup>29</sup> Management is supposed to be a pushover, requiring no special skills or so few that the 'liberated' workers can learn right away.

Society would gradually progress through the 'first phase of communism'<sup>30</sup> in which people still would be paid for their work in monetary terms, into the 'final phase of communism' in which the state would disappear. What's more, national differences between nations would diminish, and the entire system of monetary rewards and market mechanism, along with other vestiges of capitalism retained in the transitional first phase, would be scrapped. By that time, as Karl Marx wrote, 'Society can inscribe upon its banners, from each according to his ability, to each according to his needs.' There's no exploitation of any kind, and it's going to be an age of plenty.

Undeniably, these are only the fond hopes of Karl Marx, unmet in his lifetime and offering few guidelines for the start-up Bolsheviks in 1917. No doubt, Marx is just the ideologue and theorist of modern communism. The development of communism called for some well-defined strategies and clear-cut tactics supplied neither in the Communist Manifesto nor the three volumes of Das Kapital.<sup>31</sup> The Soviet Union, as the first Marxist nation on the face of earth and the major instigator of the Marxist movement

<sup>30</sup> The terms, socialism and communism, are used by Marx interchangeably. However, following the Bolshevik revolution in 1917, Socialism means the 'first phase' and Communism the 'second phase' of the millenium.

<sup>31</sup> The Communist Manifesto was published in 1848. However, when Marx died in 1883, the last two volumes of Das Kapital were unfinished. Friedrich then edited the uncompleted notes and manuscripts, though his health was failing at that time.



ever since, thus has a lasting impact on what we now come to associate with communism. In particular, Vladimir Lenin<sup>32</sup>, in stressing the importance of the party both during the communist revolution and the subsequent process of 'building socialism', has influenced communism to such an extent as to give it an alternate name of Marxism-Leninism. Moreover, the Soviet Union has now clawed its way to the superpower status. Logically, to explore about the future of Communism as an economic system, we have to pay special attention to the 'Russian model.'

Now, let's take a quick look at how the present Soviet economic system came into being and the ways it differs from other economic systems.

To be sure, the country that the communists took over in 1917 after the Bolshevik revolution was a backward one; moreover, it also faced a hostile environment that threatened its survival. Partly in an effort to stave off the external threat and impress other non-believers about the alleged superiority of Communism, the Soviets were fleet-footed to adopt many growth policies as soon as they consolidated their grip on the nation.

They needed high rates of saving and investment. Hence they deliberately held back consumption. They also needed an efficient mechanism to mobilize any resource to be used to achieve the 'national purpose.'<sup>33</sup> In a word, economic planning was required.

<sup>32</sup> Leninism is largely omitted here. Since this paper is basically about Economics, I don't want to digress. However, its importance to the subsequent development of Communism must be realized.

<sup>33</sup> In a nation characterized by the concentration of power in a few hands, 'national purpose' is as moot as can be.

Moreover, alacrity in economic development was of utmost importance. The economy had to be driven forward as quick as possible. Therefore, the planning had to be tight.

Of course, the Soviet leaders also preferred planning for pure ideological reasons. Their socialist orientation and Marxist doctrines meant total rejection of capitalist institutions<sup>34</sup>. The market system, believed to be the source of all evils, must be replaced by central planning. With a highly centralized decision-making structure<sup>35</sup>, there naturally came the planned mechanism for information flow and coordination. In addition, and in keeping with the Marxist doctrines, the Bolsheviks enforced the state ownership of property with a vengeance. At the same time, they advocated material, but increasingly, moral incentives for work with a view that the use of money would be eliminated later in the second phase of Socialism (or Communism)<sup>36</sup>.

<sup>34</sup> The NEP (New Economic Policy) in the 1920's, which re-featured private enterprise in the economy, is generally viewed as a temporary, strategic retreat to head off economic disasters in the country. It was followed by the Stalinist five-year plans of rapid, forced industrialization and collectivization. Of course, Stalin, the new despot, carried out his plans with rigor and great horrors.

<sup>35</sup> To compare the difference between planned socialism, and market socialism along with capitalism, see Appendix III.

<sup>36</sup> Originally, the Russians planned to enter the second phase of Socialism around 1980. Five years have passed, the Russians are still in the first phase. Lately, the yet-to-be-fulfilled pipe dream has come under scrutiny, and Khrushchev's pledge that 'the present generation of Soviet people shall live in communism' has been dropped. Cf. Serge Schmemmann, "Moscow offers More Modest Plan For Achieving True Communism (second Phase)" New York Times, 26 October 1985, p.1.

Undeniably, this kind of command economy enjoys certain advantages<sup>37</sup>.

First, because of its complete control over the means of production and all macroeconomic processes, a planned socialism can be an effective system for developmental take-off, and keeping the economy on track for sustained growth.

Second, unlike Capitalism, a command economy is not susceptible to over-production and cyclical fluctuations because of its built-in capacity for making planned adjustments. As a result, the level of employment is quite stable<sup>38</sup>. There's no recession-caused, lost production to speak of.

Third, under Communism, the perfectly Visible Hand is in control. The production processes are no longer determined by a whimsical market mechanism of supply and demand; Rather, they are controlled by an economic plan, which is ultimately an expression of the larger society.

Fourth, the distribution of National Income is more equitable, particularly when compared with Capitalism in the rawest form.

Fifth, it's free from certain forms of waste characteristic of Capitalism, like planned product obsolescence, fancy but unneeded product differentiation, excessively large sales promotion budget, untruthful advertising and conspicuous consumption<sup>39</sup>.

<sup>37</sup> For the common performance criteria of an economic system, See Appendix IV.

<sup>38</sup> The problem of underemployment is not considered here.

<sup>39</sup> Conspicuous consumption was coined by Thorstein Veblen. It refers to ostentatious spending by the rich.

Of course, drawing on the Marxist theory, one can also add that the dignity of labor is given its due place under Communism, while the West is in the ever-burning inferno of anti-social individualism, drugs abuse, moral decadence, and the like.

So much of advantages, how about the weaknesses?

First, the special problems of communication between the planner and the planned are going to haunt the system as long as it exists. Centralized planning calls for an aggregation of information from the ground up for the benefit of decision-making on the top, and a disaggregation of information to the different units of the economy so that orders can be dutifully complied on the ground. This process of aggregation and disaggregation, though necessary, can result in a lot of distortions<sup>34</sup>. For one thing, even though the planners in Moscow may have all the aggregates right, the components may not, and the final plan would still be thrown out of balance and fall flat. In a word, although aggregation gives the planner an overview of the economy, and disaggregation assures him of unquestioning obedience, the unique capabilities and characteristics of each sector are also blurred as a result. For another, the middle-tier bureaucracy, which is required to facilitate the aggregation and disaggregation of information, is of course a big problem in itself. Aside from distorting information,

<sup>34</sup> The Marxist emphasis on macro-economic issues will also lead to a neglect of the microeconomic analyses, and thus won't help things either.

it is also a byword for inflexibility. What's worse, the already mammoth bureaucracy seems to be getting bigger and bigger and more and more unwieldy as time goes by.

Second, if the planners on the top make a mistake, the error would set off a whole chain reaction with magnifying effects. There's no quick automatic error-corrective system as in Capitalism. No doubt, the root of the problem is too much power in too few hands. This point can be illustrated by a recent example in Romania<sup>35</sup>.

On October 17th, Mr Nicolae Ceausescu declared a state of emergency in Romania's power plants and sent military officers to run the biggest of them. This 'militarised system of work' is certainly an admission of crisis<sup>36</sup> at the heart of the economy.

Admittedly, drought<sup>37</sup>, the gas-guzzling industry and poor maintenance in the power plants contribute to the problem. However, the real culprit is bad planning.

The planners in Romania, expecting oil output to increase, has unwisely raised its refinery capacity from 16m tons in mid-1970s to 16m tons now, while its output, largest in Eastern Europe outside

<sup>35</sup> "The Sick Man of Communism," The Economist, Oct 26, 1985, p.15.

<sup>36</sup> The latest energy crisis begins even before the winter season begins. The readers ought to be reminded that in the exceptionally cold winter months at the beginning of this year, the energy crisis was so bad that there was no gas for private cars, barely any lighting in the streets, and even less heat and electricity for homes.

<sup>37</sup> Because of the drought, many hydroelectric-power plants are adversely affected.

Russia, has declined from 14.7m tons in 1976 to 11.5 tons in 1984.

The planners in Bucharest also got their sums wrong for coal. Their production target in 1985 was scaled down from the original 86m tons to 64m tons earlier this year. But given the dismal production of 44m tons last year, it's expected to do little better this year<sup>38</sup>. All in all, because of some planning mistakes, the Romanians are in for a colder winter this year<sup>39</sup>.

Third, initiative and innovation at the workplace level will be dampened under this economic system. Since the success indicators are neither clear nor detailed<sup>40</sup>, managers are prone to produce what is easier to produce than what is really wanted by the consumers. Moreover, because private enterprise is banned, there's not much hope of accumulating wealth even when one has an idea and is willing to work hard on it. The adventurous and the capable, who in other societies would have been daring, innovative entrepreneurs, find limited scope and incentive to advance their career. Instead, they

<sup>38</sup> "Cold Comfort," The Economist, October 26, 1985, pp. 51-5.

<sup>39</sup> On account of Ceausescu's effort to wipe out his country's hard-currency debt, the energy crisis would possibly worsen. Right now, the 'austerity measures' have resulted in a shortage of consumer goods.

<sup>40</sup> In communist nations, people don't use profit as a success indicator. In case they do, it's defined and used in a sense different from that in the West. For more details on that subject, read J. Wilczynski's The Economics of Socialism (Chicago: Aldine Publishing, 1970).

find themselves being lumped together with the indifferent and the inefficient ones. At the same time, each industrial ministry<sup>41</sup>, in its own effort to secure materials supplies, is often tempted to stake out its individual, self-contained 'empire', carrying out all sorts of wasteful backward integration and self-enrichment at the expense of the economy as a whole.

Fourth, no rational and workable pricing system has so far been devised by any communist economy. Although money is still in use, prices do not perform the allocative function as is the case under Capitalism. This, when combined with arbitrary decision-making, insulation from market prices and world trade based on international division of labor, make optimal utilization of resources a distinct impossibility.

<sup>41</sup> In the case of the Soviet Union, there are 51 such economic ministries.

<sup>42</sup> This point can be illustrated by an example in China. For instance, the government charges industries only one-fourth the world price for coal. State-sold grain costs urban-dwellers about half of what the government bought it from either the Chinese or U.S. farmers. All these distorted prices entail a lot of government subsidies, but never result in optimal utilization of resources as under a market mechanism of supply and demand.

Incidentally, those 'artificially low prices' also pose as the biggest problem for the urban price reforms now under way in China. Because prices for certain commodities have been kept low for so long that any change to the market mechanism would necessarily mean higher prices. It goes without saying that it rekindles a lot of fear about inflation in that country.

Source of Data: James Sterba and Amanck Bennett, "Deng's tune: Peking Veers Down Capitalist Road In New Urban Plan," Wall Street Journal, 25 October 1984, p.1, p.29.

Fifth, there is the ideological and political dominance of the socialist economic scene. Because of its political structure and the constant need to bow to 'Marxist' thinking, many decisions made actually go against economic sense. Furthermore, the few party members who hold supreme power, more often than not, are ideologues than economists. Yet, their decision will impinge on every aspect of their people's economic life.

In consideration of all those factors, what's the future of planned socialism as an economic system? Do the strengths outweigh the weaknesses or vice versa?

Although in the foregoing analysis, I seemed to have spent barely more than one page on the merits of a command economy, no one can deny the importance of stable employment and the absence of inflation. Moreover, in view of the semi-feudal country the Soviets inherited, the absence of exploitable overseas colonies, the widespread war-time destruction, virtually no aid from the capitalist world thereafter, not to mention the commercial and strategic boycotts during the Cold War, the Russians' post-war climb up to the superpower status has been spectacular indeed.

On the other hand, I also did not mention the horrendous costs that the Russian people have had to bear in order to achieve that status. The first few years of the revolution were marked by famines and destructive wars; Joseph Stalin's drives for rapid



industrialization and collectivization were brutal, and his political purges bloody; what's more, all the Soviet leaders habitually choose capital formation and nuclear buildup to the neglect of current consumption. Their people's standard of living is much lower than that in the West<sup>43</sup>. Besides, they also deny their citizens political freedom. The 'withering away' of the state is as remote as ever. On the contrary, the ordinary man in the street may feel increasingly estranged from the ubiquitous and monolithic state that does not take kindly to dissidence. Undoubtedly, this kind of alienation may not be what Karl Marx had in mind when he wrote the Communist Manifesto and Das Kapital.

In addition, those heady days of rapid economic growth that prompted Nikita S. Khrushchev to declare "We'll bury you. Your grandchildren will be communists." were a thing of the past<sup>44</sup>. Not only had the Soviet Union failed to catch up with the U.S. in industrial output and labor productivity by 1980<sup>45</sup>, the gap between the two seems to be widening in economic terms.

<sup>43</sup> The Soviet Union has approximately 260 million people, exceeding that of the United States by as many as 35 millions. Yet its GNP is only about two-thirds of that of the States. Moreover, it spends 14% (U.S. 7%) of the GNP on defence. So there isn't a lot to go around for the Russian people.

<sup>44</sup> The Soviet Union had higher economic growth rate in the 50s and 60s, but not now. See Appendix V.

<sup>45</sup> Khrushchev declared his ambition to overtake the West by 1980. In retrospect, his country must have failed him. The Russians now abandon prediction of that sort.

Sarge Schmemann, "Moscow Offers More Modest Plan For Achieving True Communism," New York Times, 26 October 1985, p.1.

Indeed, the Soviet economy is now in dire straits.

Productivity is sagging; It has a technologically backward capital stock dating back to the Stalin era; There are serious imbalances between production capacities and raw materials availability; The existing infrastructure is inadequate when it comes to supporting the productive capacities; The high-cost, labor-draining agricultural sector is grossly inefficient; and, of course, the consumer sector never seems to be able to quench the material desires of its citizens. Last but not least, growth of energy supplies is declining, and increasingly costly.<sup>46</sup>

As a matter of fact, the Soviet economy has been sliding for a decade or so. What is worse, the Soviet Union is also lagging behind in technology. If the present trend continues, it's doubtful whether they can hold on to their hard-won superpower status even though they continue to keep the people's well-being at the bottom of the priority list in the future.

True, 1985 may not be a good year for Soviet-style Marxism-Leninism. China is further down the capitalist road. And as described earlier, the Soviet Union seems to be "in a desperate situation"<sup>47</sup> economically. What actually goes wrong with the economic system in the final analysis?

Although previously I did describe some weaknesses of central-planning, there are a couple of additional points I want to highlight here, in this concluding part of the paper.

First, in particular reference to the problem of sagging productivity common in all communist countries, I would say that Karl Marx might have mis-read human nature. He didn't understand what makes a man tick.

For Marx, the conditions in Victorian London were so horrible that the pursuit of self-interest in private enterprise would only lead to exploitation of the proletariat and violent class struggles. He went on to dream about people living as equals in the post-capitalistic era. Although he did say something about this ideal society, he did not have anything for us on the subject of incentives and productivity. In fact, he foresaw no problem after the riddance of capitalism. Everything would be plain-sailing. Ultimately, the state would wither away. In other words, we do not need any economic system in the 'second phase of Communism'.

However, the communist experiments in Russia, China and many other countries prove that incentives and productivity, or the lack of them, are indeed a problem for the system. True, Marx would say that people like me, brought up under laissez-faire capitalism, would be so socially conditioned that we will never realize the exploitation inherent in the bourgeois way of life. We, as the theory goes, are only motivated by money and would not learn to be altruistic right away. That is precisely why money is still in use and material incentives kept in the time period right after the revolution or in

'the first phase' of communism.

But let us take a look at the various communist countries. For example, a Russian man born in 1917 would be 68 years old this year. Certainly, this man has not been subject to any capitalist indoctrination (or ideology) in his lifetime. Yet can you say that he is any more motivated and altruistic than we are?

There is a joke in Moscow these days: A worker said to his buddy, "We've got a perfect economic system. We pretend to work, and they pretend to pay us."<sup>48</sup> In a way, this says something about the system. Frankly, I never believe that awarding people with a plaque, or holding some political sessions will help productivity. Maybe the first two plaques can be a motivating factor. But people will get blase some time later, particularly when the material and other consumer goods are in chronic short supply or of poor quality. Slogans and promises are hollow.

The second point I want to bring up is about technology. The Soviet experience decisively shows that centrally planned socialism in its orthodox form is at a comparative disadvantage in generating and promoting technological advancement.

The Soviets have always said that much of the economy in the West is in a mess. Or Capitalism may still be strong and dangerous,

<sup>48</sup> Source: "Cover Story: Gorbachev's Russia" Business Week, 11 November 85, p.94.

but it has already passed its peak<sup>49</sup>. (It is now only maneuvering to stave off dangers.) In spite of that 'historic doom' of the capitalist mess, the West has always been leading on the technological frontier and was never in better shape than what it is now.

To the dismay of the Russians, the computer revolution is largely an American one. The breakthroughs in computer work have not only made the Strategic Defence Initiative (SDI) a possibility but also have given the American domestic industries a new look not enjoyed by its communist counterparts. The assembly-line-type industries common in the Soviet Union are rendered out-dated instantly. In the words of the editorial of the weekly Economist:-

This has shocked the Russians to realize how far they lag behind that (economic) mess in the West———and probably go on lagging.<sup>50</sup>

The technological edge that the West is enjoying does not mean that the scientists in the Soviet Union are less competent. On the contrary, the Russians have over the years done many research coups to the astonishment of the world.

However, few of the research findings ever leave the lab and find applications in the commercial field because of the economic system.

Under Soviet-style Marxism-Leninism, private enterprise is

<sup>49</sup> "Moscow Offers More Modest Plan For Achieving True Communism."

<sup>50</sup> "A  $1\frac{2}{3}$  superpower World," The Economist, Nov 2-8, 1985, p.12-15.

discouraged. In the wake of a scientific discovery in a research center, you will not find people scurrying around the place thinking about the possible applications. Had Steve Jobs been born in Moscow, he would only have been the privileged son of a well-off couple<sup>51</sup> holding communist party membership or just the buddy of Stephen Wozniak who happens to know all the technical details about small computers.

But in real life, Jobs and Wozniak joined forces to fill the niche that both Hewlett-Packard and IBM had ignored. In the process and in that case, the whole concept of desk-top personal computers came into being. Ironically, some of the repercussions of this development are only beginning to be felt in the Soviet Union now<sup>52</sup>.

Though the Soviet Union may be determined to play computer catch-up, the Soviet system of central planning, and controlled mechanism for information flow and coordination are all incompatible with the ongoing technological revolution spearheaded by computers,

<sup>51</sup> Jobs, whose father is a lawyer, founded Apple Computer along with Wozniak. Jobs, however, left Apple several months ago after John Sculley, the CEO, consolidated his power. (Wozniak quit even earlier after a disagreement with Jobs over company policies.)

<sup>52</sup> Gorbachev now gives a lot of pep talks and desperately calls for a speedup of growth in the use of computers. He stresses that it is "the task of paramount political, social, and economic importance."  
Source: Georgie Annie Geyer, "The Paradox of Soviet Power," The Charlotte Observer, 21 November, 1985, p.19A.

microprocessors, optics, and the like. In the early post-war period, that is 50s and 60s, the Soviet system of tight central planning worked reasonably well in building the now-obsolete smokestack industries. In those days, technology was stable and less complex. Although the Russians were willing to sacrifice standard of living as always, they could at least close in the gap with the West by quickly building factories across the land.

Now, things are different, as aptly summarized by the article "The Revolution That's Leaving The Soviets Behind" on the 7 October 1985 issue of Business Week<sup>53</sup>:

The new high-tech industries, on the other hand, are characterized by short life cycles of both products and production technologies, constant innovation, and quick response time. They require decentralized sources of capital that can be quickly mobilized to take advantage of emerging opportunities. Moreover, they work best when they are tied together in a communications system that maximizes the free exchange of information<sup>54</sup>.

<sup>53</sup> "Economic Diary" Section, p.21.

<sup>54</sup>

Some people think that the Russians can never get the computer thing off the ground, because the communist society does not allow free exchange of information. Come to think of it, every console is a potential printing press. The social and political consequences of 'going modern' are too great for any communist society that traditionally puts the copier machine under lock and key.

Also cf. Meg Greenfield, "Gorbachev vs. The Computer Age" The Washington Post, 29 October 1985, A21.

At a recent Harvard Russian Research Center, MIT professor Loren Graham exposed the Soviet debility eloquently<sup>55</sup>.

The Soviet economy is based on the principles of economic organization from the beginning of the century; they are now obsolescent.....I'm referring to the assembly-line production first introduced by Henry Ford in 1913 at his Highland plant. Lenin combined the assembly line and quantitative output with Bolshevik principles. But craft and qualitative decisions were not emphasized. In effect, they hyperbolized or exaggerated American principles (of almost 72 years ago.)

The core of the Soviet economic problem today is that the Soviets need to switch from assembly-line production to the quality production of a variety of short-life-cycle products. But with their straitjacket of rigid central planning, they become the super misfit in this modern mode of production. To be sure, even the United States has been off to a slow start when compared with those avant garde countries, like Japan, in adjusting to the new industries and technologies of tomorrow: management and information systems, computerized manufacturing and process control, simultaneous engineering, and quality control,....etc.

<sup>55</sup> Georgie Annie Geyer, "The Paradox Of Soviet Power," The Charlotte Observer, 21 November 1985, p.19A.



Earlier in the critique of Marxism, I said that predictions are on the way 'out.' However, I do think that the Soviet-style central planning may have exhausted all its possibilities. If they want to solve the persistent problem of sagging productivity and lagging technology, economic reforms are necessary.

Already, Gorbachev has cracked down on alcoholism (thus cutting absenteeism), cut the power of Gosplan<sup>56</sup>, the State Planning Committee, approved the more frequent use of incentives, and allowed more independence for his country's factories and farmers.<sup>57</sup> Certainly, no one is sure about the chance of success for his reforms. For one thing, the political implications are too big. For another, Khrushchev and others also announced economic reforms in the 60s, which are in essence very similar to the reforms just unveiled by Gorbachev. But in the end, Khrushchev was ousted, and nothing changed.<sup>58</sup> In my opinion, the Russians would probably

<sup>56</sup> Nicolai Baibako, chief of Gosplan for two decades, was replaced recently. This replacement is widely seen as a move to cut the power of Gosplan.

Cf. "Planning Head Out In Moscow Shakeup", The Fayetteville Times, 15 October 1985, p.5B.

<sup>57</sup> Cf. Mark D'Anastasio, "Gorbachev's Russia: Will Shock Treatment Bring The Economy Back To Life?" Business Week, 11 November 1985, pp. 92-95.

<sup>59</sup> Incidentally, in 1966, the then Prime Minister, Aleksei Kosygin also planned to grant greater autonomy to the industrial enterprises. The plan failed. Of course, the most recent reformer, Yuri Andropov, died before his crackdown on drunkenness made any real progress.

muddle through their reforms, or settle with piecemeal ones<sup>60</sup>.

Elsewhere, the prestige of Communism as a viable economic system in the future seems to have hit an all-time low. Hungary changed its ways and prospered in relation to its Eastern European neighbors. What was most dramatic, China loosened its control of farmers, and de-collectivized the countryside in 1978. Agricultural production has soared ever since. Moreover, the People's Daily, the tongue of the Chinese Communist Party, once went so far as to say that we should not expect Marxism to solve all of today's problems, and Mr. Deng changed Mr. Marx's two famed sentences to "From each according to his ability, to each according to his work." Work incentives, a market cleared by price, new technology and private enterprise have now been widely used.<sup>61</sup> As if not enough, the Chinese Prime Minister, Zhao Ziyang, is already talking of greater reliance on interest rates, tax rates, exchange rate and other 'indirect' but definitely non-communist instruments of economic policies<sup>62</sup>. Although both Hungary and China always reiterate that their objective of 'building Socialism' is the same, their detour

<sup>60</sup> Unlike China, Russia in recent decades suffered no equivalent of the Cultural Revolution in China. The Cultural Revolution was so traumatic that people were disillusioned about Communism, and thus Deng's followers encountered smaller-than-expected opposition in implementing the new economic policies. But in the Soviet Union, the Communist Party is intact, and is characterized by inertia. That is one reason why I am pessimistic about the Soviet reforms.

<sup>61</sup> Cf. Pico Iyer, "Cover Story: China Moving Away from Marx," Time, 23 September 1985, pp. 42-56.

<sup>62</sup> "Deng XiaoPing Measures his Step," The Economist, 26 October 1985, p.77.

from the orthodox Marxism-Leninism path does show the inadequacy of the command economy.

In the meantime, other developments have also hurt the communist movement.

The solidarity between communist nations, or the one-big-happy-family theory, has been proved to be false first by the Sino-Soviet rift (followed by border shootouts), and then by the Sino-Vietnamese border conflict. China and Vietnam were once described by themselves as brothers and were as close as 'lips and teeth.' Now they are more like two dogs at each other's throat. Proletarian countries were not supposed by Marx to wage wars against one another, were they?

Moreover, Vietnam, expected by some to flourish after the Vietnam War, has become an economic basket case under communist rule. Externally, it invades Cambodia, and colonizes Laos, not to mention flooding other nearby nations' shores with the 'Boat People.' The 'Marxist Paradise' has driven their own people to the seas.

Talking of Cambodia, people need not be reminded about the Pol Pot regime. Pol Pot thought that he had found a short cut to pure communism, and finally, as many as 2 million people perished or got killed during his three-year rule before being displaced by the invading Vietnamese in 1979.

While all these developments were happening for the world, particularly the less developed part of it, to see, China has also undergone a big transformation as mentioned earlier. In this process

of change, the myths about its past communization drive are exploded one after another. In fact, and in contrast to the Maoist era, China is no longer selling its dogma abroad nor trying to export proletarian revolution to the Third World. With such a dismal economic record, can she sell it any more?

It is true that not many countries in the world still think of Communism as a cure-all of their problems. Instead, countries, from England to China, are now more interested in unleashing the full productive forces of their resources<sup>63</sup>. As Indonesian Foreign Minister Mochtar put it in Bandung earlier this year, in commemoration of the 30th anniversary of the Bandung Conference, which could be thought of as the coming-out party of the Third World back in 1955 when it was first held.

The age of 'ISMS' is over  
 .....The new challenge  
 .....is for developing  
 nations to struggle by  
 themselves for economic  
 growth.<sup>64</sup>

<sup>63</sup> The privatization campaign in England, that is turning over formerly public-owned but inefficient companies to private hands, can be thought of as part of the effort to unshackle the full productive resources.

Also cf. Richard Reeves, "European-style (Western European) Marxism May Have Died Peacefully," The News and Observer, 21 Oct 1985, p.13A.

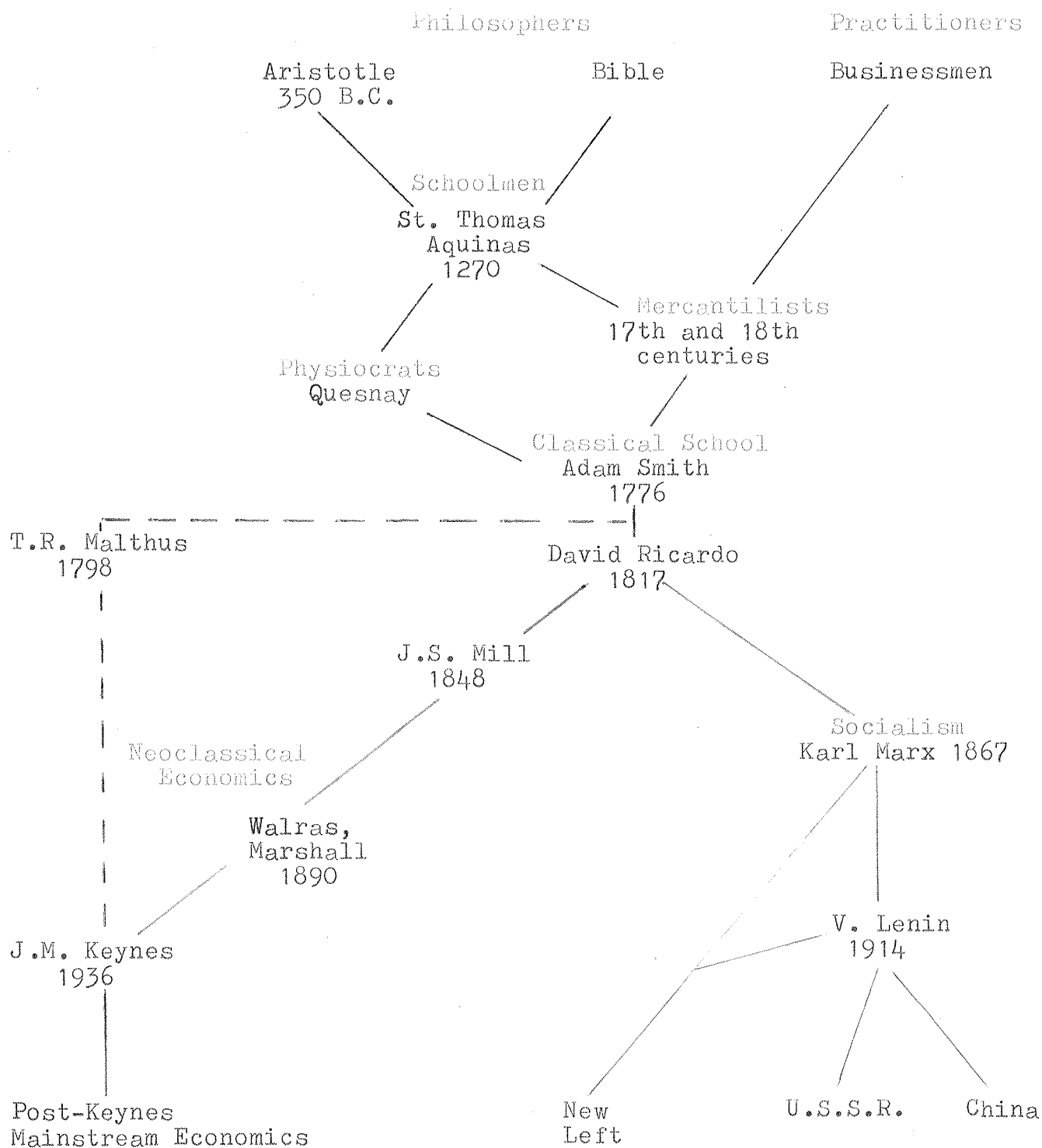
<sup>64</sup> "Review & Outlook: Revolution in Bandung" Wall Street Journal 24 April 1985, p.30.

Also cf. James P. Sterba, "Bandung Anniversary Spurs Some to Suggest Communism Is Losing Appeal in Third World," Wall Street Journal, 23 April 1985, Section 2, p.34.

To conclude, the notion that the Marxist theories are infallible simply does not hold water. Meanwhile, the communist economic system, purportedly as the best means to achieve the communist ideals envisioned by Karl Marx, is plagued with economic stagnation. What is most alarming, the future does not look bright at all. To be sure, a few more pragmatic communist states have made some policy changes, some drastic indeed. Though these self-styled nations always say that they are just taking different roads to true communism, one wonders if communism without the 3P's (Proletariat, Public Property Ownership, and Planning) can still be called communism or not<sup>65</sup>. However, there are many other countries in the communist camp that hold fast to the orthodox interpretation of Marxism-Leninism. Either way, and regardless of the kinds of economic system, the harsh economic reality is the same: Technological revolutions have a way of weeding out the weaker brethren. How well all of us adapt to the high-tech industries will determine who will be the nimble survivors and who the stranded dinosaurs of the next century.

<sup>65</sup> As early as 1961, people were saying that capitalism and communism were converging. Personally, I do not want to make prediction of that sort. Besides, it is outside the scope of this paper.

## APPENDIX I : FAMILY TREE OF ECONOMICS



Source: Samuelson, Economics (London: McGraw-Hill, 1980)

## APPENDIX II : DISTRIBUTION

In Economics, the determination of (1) rents of land and other natural resources, (2) salaries and wages of different kinds of labor, (3) interest rates on capital assets, and (4) profit, is collectively known as the problem of 'distribution.'

By this term, economists do not mean the marketing of goods or the carrying of goods to the final consumers. Rather, distribution deals with the problem of For Whom goods are to be produced. It deals with the pricing of factors of production. In this regard, It is closely related to the problem of How society produces———  
communistic or capitalistic.

In this appendix, the marxist, neoclassical, and macroeconomic versions of distribution are discussed. Although the inadequacies of the Marxist version had been explained in the paper, it must be pointed out that the neoclassical and macroeconomic schools of Economics are not without their own critics. However, because of limited space, the critiques of mainstream economics' theory of distribution will be skipped.

It is to be noted that no one ever knows how close does each of the following distribution theories approximate reality. However, a serious economist should always remember that it is still an unsettled issue. So remember this when you read through the pages.

## APPENDIX II-A : Marxist Version of Distribution

In a society using the undiluted Labor Theory of Value, all goods have competitive values equal to their socially necessary total labor contents (direct plus indirect).

Thus, if it takes 3 hours of a 12-hour working day to produce 1 coal, and 1 corn requires 1 coal as raw materials (or fertilizers) in addition to 3 hours of direct labor, then the exchange ratio can be reckoned as below.

$$\begin{aligned} \frac{\text{Labor Value}_{\text{corn}}}{\text{Labor Value}_{\text{coal}}} &= \frac{\text{Direct (live) Labor} + \text{Indirect (dead) Labor}}{\text{Direct (live) Labor} + \text{Indirect (dead) Labor}} \\ &= \frac{3 + 3}{3 + 0} \\ &= 6/3 = 2 \end{aligned}$$

For Karl Marx, he'd rather call direct labor costs as 'variable capital', v, and indirect labor costs as 'constant capital', c.

There is no exploitation of any kind in this 'paradise' of the Labor theory of value. Labor gets all the product. There is no profit, no interest, no rent, no markup over the labor costs.

A typical worker brings home (12 hr of the day)/(6 hr cost of corn)  
= 2 corn per day

Now let's forget about this proletarian paradise for a while and take a look at the capitalistic society.

To be sure, workers need corn for survival as well as reproduction. However, they just can't afford to wait till harvest to get the food they eat now if they are to be engaged in any productive



activity. Moreover, they also can't produce corn unless some others have provided them with the needed coal.

In a nutshell, a small group of thrifty or plain lucky capitalists, who happens to own 'capital' (either as last season's corn to advance to farmers as food or stockpiles of coal), may now be in the enviable position of leisurely standing outside the corn fields and yet be able to extract a surplus——a profit, an interest rate, or in Marx's own terminology, a surplus value.

Because human labor is the measure of all things to him, Marx suggests that the surplus,  $s$ , is on direct labor only.

Therefore, if the rate of surplus value is 200%,  $s = mv$   
 $= 2v$

$$\begin{aligned} \text{The value of 1 coal} &= c_1 + v_1 + mv_1 \\ &= 0 + 3 + 2(3) \\ &= 9 \end{aligned}$$

$$\begin{aligned} \text{The value of 1 corn} &= c_2 + v_2 + mv_2 \\ &= 9 + 3 + 2(3) \\ &= 18 \end{aligned}$$

The corn value is still double the coal value:-

$$\text{Value}_{\text{corn}}/\text{Value}_{\text{coal}} = 18/9 = 2$$

However, each worker only gets in real wage:-

$$(12 \text{ hr of the day})/(18 \text{ hr cost of corn}) = 2/3 \text{ corn per day}$$

Previously, in the paradise of the Theory of Labor Value, the prevailing wage is 2 corn per day. Now, therefore, the down-trodden workers have to toil 8 long hours for the exploiting capitalist and only 4 meager hours for their own subsistence.

$$(12 \text{ hrs}/2 \text{ corn}) * (2/3 \text{ corn}) = 4 \text{ hrs}$$

Indeed, if  $2/3$  corn per day is enough to recruit a job-hungry laborer from the 'reserve army of the unemployed', the ruthless capitalist would stick with that surplus value rate of 200%.

Nevertheless, it should be pointed out that, in the fore-mentioned analysis, the rate of surplus value is the same in all industries.

Although both the corn and coal industries have the same outlays on direct labor, the corn profits are too low when they are related to the much larger outlay of  $(c_2 + v_2)$ . On the other hand, the coal profits are comparatively high vis-a-vis the smaller base of  $(c_1 + v_1 = 0 + v_1 = v_1)$ .

In the long run, the rates of surplus value in the two industries should differ, because capitalistic competition would tend to even out the profit rate.

Mathematically, it is as follows:-

$$\bar{\pi} = \text{profit rate} = s_1/(c_1 + v_1) = s_2/(c_2 + v_2)$$

In a word, Marx's erroneous equalized surplus value rate renders his well-depicted exploitation scenario untenable.

Did Karl Marx come up with another formulation to uphold his hypothesis? The answer is positive. It subsequently came to be known as the 'Prices' formulation in contrast to the 'Values' formulation.

The 'Prices' alternative in Volume III of Das Kapital goes along like this. Since  $p$  is earned on the base of  $(c + v)$ , which is larger than  $v$  alone, the profit rate ought to be smaller than the 200% level of surplus value we used earlier.

Our example will try to derive the same subsistence wage of  $2/3$  corn each 12-hour working day. We use the 100% profit rate,  $\pi = 1.00$  in this bourgeois regime.

$$\begin{aligned} \text{The value of 1 coal} &= (C_1 + V_1) + S_1 \\ &= (C_1 + V_1) + (C_1 + V_1)\pi \\ &= (0 + 3) + (0 + 3)1 \\ &= 6 \text{ hr cost} \end{aligned}$$

$$\begin{aligned} \text{The value of 1 corn} &= (C_2 + V_2) + S_2 \\ &= (C_2 + V_2) + (C_2 + V_2)\pi \\ &= (6 + 3) + (6 + 3)1 \\ &= 18 \text{ hr cost} \end{aligned}$$

Now, the workers are still getting the despicable subsistence wage of  $(12 \text{ hr of the day}) / (18 \text{ hr cost of corn}) = 2/3$  corn per day.

It's to be noted that the price ratio between corn and coal is now  $18/6 = 3$ . Previously in the 'Values' example, it was 2. 3 is more realistic because in corn's more time-intensive production, more interest and profit are tied up with it.

## APPENDIX II-B : Neoclassical Version of Distribution

The marginal-product concept can be used to solve the distribution problem of allocating among two (or more) cooperative factors the total product that they jointly produce.

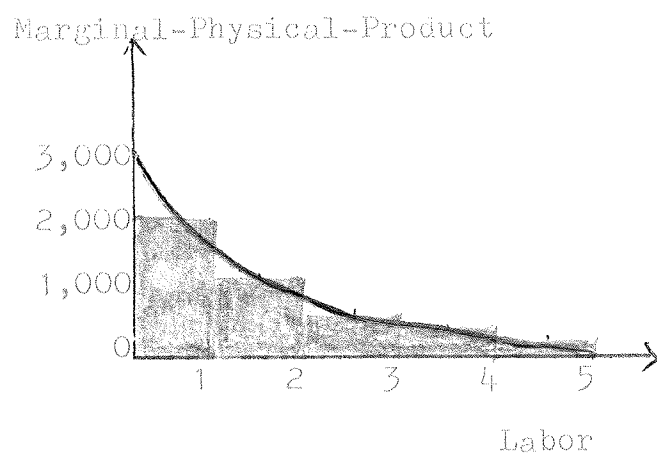
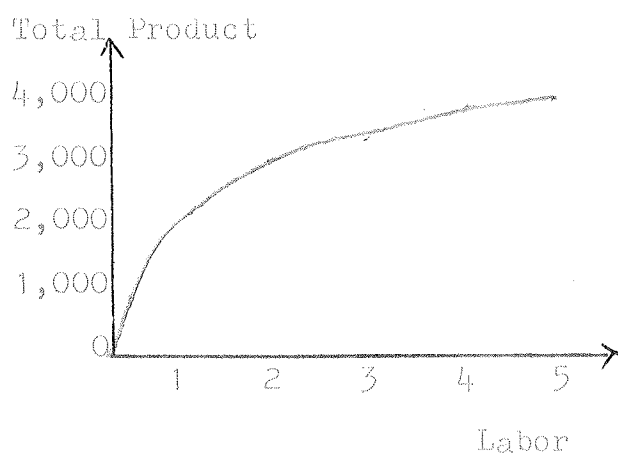
Indeed, John Bates Clark, a distinguished Columbia University economist, provided a simplified distribution theory around 1900. Using the case of a landowner and five workers, the scenario is like this:

Units of Labor	Total Product	Marginal-Physical-Product
0	0	
1	2,000	2,000
2	3,000	1,000
3	3,500	500
4	3,800	300
5	3,900	100

$$\text{Marginal-Physical-Product} = \frac{\text{Change in Output}}{\text{Change in Input}}$$

As can be observed in the table, marginal-physical-product is declining because of the Law of Diminishing Returns. The first laborer will bring about an increase of total product from 0 to 2,000. Yet for the fifth one, he can only achieve an increase of 100 units on output.

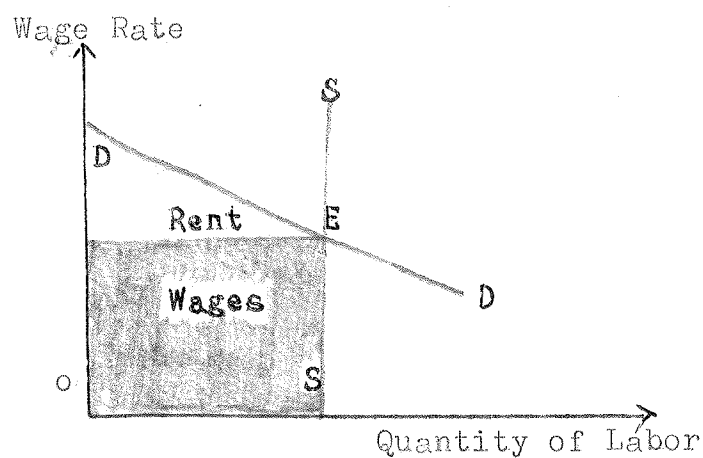
Graphically,



As regards the problem of the distribution of income, the landowner will tackle it as follows.

The marginal-product of the last worker employed will determine the wage level of all workers. Therefore, if only three workers are hired by the landowner in this hypothetical case, each of the three workers would be paid an equivalent of 500 marginal-physical-product, irrespective of the 2,000 MPP of the first worker and 1,000 of the second.

Graphically, it can be compared to the graph below.



The downward-sloping demand curve DD is equated, only with slight modifications, as the marginal-physical-product curve.

The labor supply curve is supposed to be fixed. It's the vertical straight line of SS.

(Note: the labor supply curve can either be a straight line or upward-sloping. In either case, the following analysis will yield the same result.)

The intersection point (E) between the supply and demand curves determines the prevailing wage rate. Since each worker is paid the same rate as the last person employed, the total wages paid by the landowner = wage rate \* quantity of labor employed.

In the graph, the total wages paid by the landowner are represented by the shaded rectangle.

On the other hand, the excess of MPP produced by the first worker and all the earlier workers up to the very last stays with the landowner. Using the example we used before, the  $2,000 - 500 = 1,500$  for the first worker plus the  $1,000 - 500 = 500$  are the profits reaped by the landlord. In the graph, it's the area of the triangular 'rent.'

Though in a capitalistic society, each landowner is but one of thousands (each has lands roughly equal in quality those of others and he has to compete with other landowner for workers), a case can be built for the exploitation of labor by just looking at the size of the rent triangle with respect to the wages rectangle.

Indeed, a new invention that is extraordinarily 'labor-saving' can conceivably steepen the old DD curve and twist it inward near (E), the equilibrium point of supply and demand. The result is that the rent triangle can swallow up more than half the total GNP (Gross National Product)<sup>1</sup> at the expense of labor. But

<sup>1</sup> In this case, GNP is the sum of rent and wages. Graphically, it's the triangular rent plus the wages rectangle.

let me remind the readers here that just because there's the word 'exploitation' in the dictionary doesn't mean then there will be exploitation everywhere. For one thing, the Marxist theorists in communist countries still complain about capitalist exploitation of workers even though the real wage in the West is much higher than that in the Communist Bloc. For another, how much the entrepreneur is entitled to is really controversial. It involves a lot of value judgment. It's better leave this matter to the reader to decide.

## APPENDIX II-C : Macroeconomic Version of Distribution

Recently, professor Robinson, along with Kalecki and Kaldor, have come up with a possible alternative to the marginal productivity approach.

If we suppose labor growth per period is a compound rate of  $g$ , and  $\sigma_s$  the fraction of profit income saved while all of wages are being consumed, then the profit rate  $\pi$  in any long-run balanced-growth equilibrium should be as follows:

$$\pi = g/\sigma_s$$

For example, when labor grows at a 3% rate and one-fifth of profit is saved,  $\pi = 3\%/0.2 = 15\%$

Once  $\pi$  is known, the real wage in any industry can be worked out from the profit-wage factor-price tradeoff\*.

\* Cf. Samuelson, Economics, Chapter 37, 679-693.



## APPENDIX III : Different Economic Systems

Aside from centralized planning, the Soviet economic system, or more appropriately the planned socialism, also differs from the other economic systems, namely capitalism and market socialism, in the areas of mechanisms for information and coordination, property rights and incentives.

The differences are best analyzed in the following table form.

	<u>CAPITALISM</u>	<u>MARKET SOCIALISM</u>	<u>PLANNED SOCIALISM</u>
Decision- making Structure	Primarily decentralized	Primarily decentralized	Primarily centralized
Mechanisms for information and coordination	Primarily market	Primarily market	Primarily planned
Property Rights	Primarily private ownership	State and/or collective ownership	Primarily state ownership
Incentives	Primarily material	Material and moral	Material and moral

Source: Paul Gregory; Robert Stuart, Comparative Economic Systems (Boston: Houghton Mifflin, 1985), p.23.

According to this classification method, the Soviet model falls under the category of planned socialism. (Throughout the paper, the terms, planned socialism and command economy, would be used interchangeably.)

Market socialism, on the other hand, describes the economic system predominant in western Europe, especially in the Scandinavian countries.

In countries or city-states like the U.S. and Hong Kong, the state even has a more limited role, then they would fit better under the capitalism column.

The distinctions and demarcation lines are sometimes unclear. Yet, it's indeed safe to say that the command economy and the free-enterprise economy are poles apart.

## APPENDIX IV : Common Performance Criteria of an Economic System

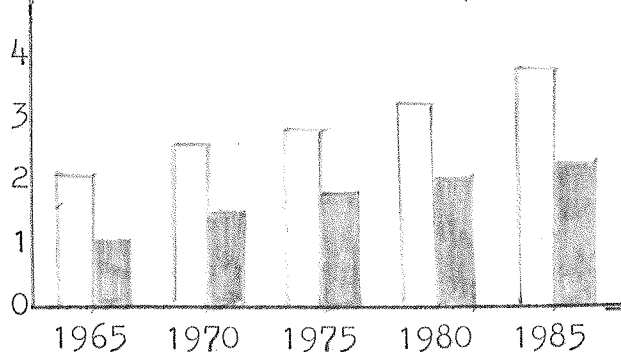
Usually, there are six indicators that we can use to evaluate an economic system.

- (1) Economic growth - the ability to increase GNP (or total output per capita) over time is important.
- (2) Efficiency - available resources, which are always scarce by definition, must be utilized with the greatest possible effectiveness either at a given point of time or through a period of time.
- (3) Income distribution - how the economic pie is distributed and shared among the people living under the system. Lopsided income distribution will breed unrest in the society.
- (4) Stability - stable economic growth, absence of inflation and low unemployment constitute stability. (if there is unemployment, it should preferably be only due to frictional and seasonal rather than cyclical and structural factors.)
- (5) Development of objectives - we should not put excessive weight to that criterion because socialist countries would score high marks here while sacrificing human freedom and holding off consumption forever.
- (6) Continuation of national existence - it means strong defence, for example.

It's to be noted that those are only criteria to be taken into account in comparing different economic systems. A system winning 4 of the 6 doesn't necessarily mean it's superior to another whose score is 3 out of 6. All readers ought to be reminded of this.

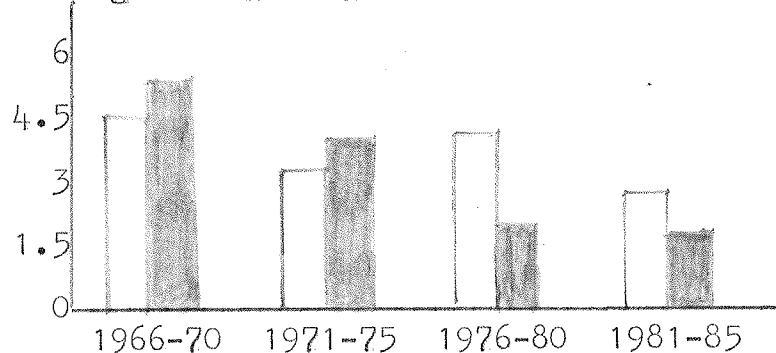
## APPENDIX V : UNITED STATES vs. SOVIET UNION

Gross National Product (in trillions of dollars (1984))



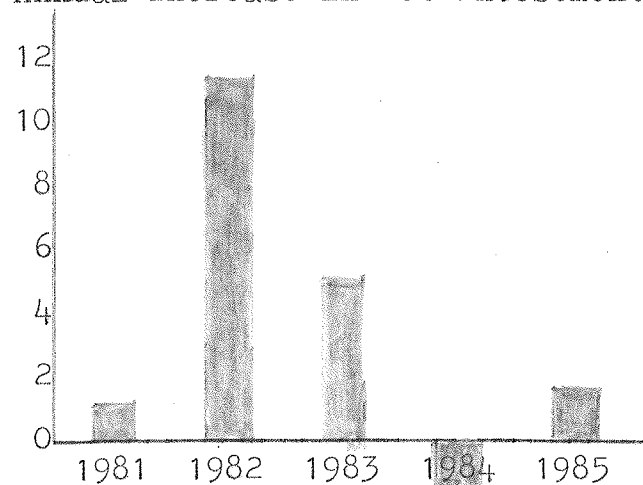
At present, the U.S.S.R. is about two-thirds the economic size of the States.

Average Annual Real Growth of GNP (in %)



In the 60's and early 70's, the Soviet economic growth rate was ahead of the American one. But since mid-70's, it has been sliding fast. See Appendix VI.

Annual Increase in Net Investment



Note the net disinvestment in 1984. It means that the rate of amortization, or depreciation of equipment exceeded the rate of investment in that year.

Source: "Gorbachev's Russia: Will Shock Treatment Bring the Economy Back to Life" Business Week, 11 November 85, p.94.

## APPENDIX VI : SOVIET ECONOMIC PERFORMANCE 1966-1984

(average annual rates of growth)

	1966-1970	1971-1975	1976-1980
GNP, Total Uses	5.3	3.7	2.6
Consumption	5.3	3.6	2.7
Investment	6.0	5.4	4.0
Producing Sectors			
Industry	6.4	5.9	3.2
Agriculture	3.9	-0.4	1.2
Construction	5.8	5.6	1.9
Transportation	6.7	6.5	3.5
Services	4.3	3.4	2.8

	1979	1980	1981	1982	1983
GNP, Total uses	0.2	1.7	2.1	2.6	3.0
Consumption	2.9	3.0	2.1	0.8	2.6
Investment	0.3	3.1	4.0	3.4	4.2
Producing Sectors					
Industry	1.9	2.9	2.4	2.3	3.5
Agriculture	-0.3	-3.2	0.5	6.1	3.7
Construction	-1.2	2.0	2.1	0.8	3.5
Transportation	2.4	3.8	3.8	0.9	2.7
Services	3.0	3.2	2.5	2.2	2.3

Data: United States Central Intelligence Agency, Handbook of Economic Statistics, 1984, pp. 64-65.

ALL growth rates cited here are Western measurements of Soviet growth based on concepts and methodologies comparable to those used in the Western countries. Official Soviet statistics are believed to have overstated economic growth figures.

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