

On the Importance of the Socialist Experiment to the Study of Economics

Guinevere Nell

Socialists and non-socialist economists both appear to misunderstand the relationship of markets to the study of economics. Economists dismiss the importance of considering the socialist experiment, while socialists dismiss economics as only relevant to market economies. But while both sides shun the other, they are actually invaluable to each other. It is critical to understand the true nature of economic laws and the true breadth of economic science.

The study of economics is not the study of markets. It is the study of behavior, and the forces which produce different behaviors. Or, as Lionel Robbins described it¹, “human behavior as a relationship between ends and means.” This relationship is imposed by the condition of scarcity, not markets.

Robbins considered the science to be primarily of use for market economies. He dismissed its use for socialism not because it wasn't applicable but because he saw it as trivial. He argued that the science would be irrelevant to the executive of a communist society whose decisions must be arbitrary and without regard to consumer's demands, since there is no market in which to discover them. While he is correct that the planner would end up having to make arbitrary choices because he would have no market and no useful prices, this doesn't render economics useless to him – nor him to us.

First of all, he must recognize that his prices aren't accurate – he must learn what conditions are necessary for prices to emerge with the information necessary for decision making. Second, he must understand incentive structures on every level including principle-agent problems, public goods dilemmas, the importance of interest rates, and the way in which profit maximization drives quality and cost effectiveness. Only armed with this knowledge can the planner understand why his plan is failing.

Of course, Marx believed that communism would bring abundance and there would be no scarcity with which these relationships would be forged. However, even Marx admitted that there would be a period of transition when scarcity would still be a reality, and the means of production commonly owned. But, it wasn't only the lack of scarcity that made Marx believe that economics was not necessary to socialism. N. Bukharin described the Marxist position in The Economics of the Transition Period (1918):

As soon as we take an organized social economy, all the basic “problems” of political economy disappear: the problem of value, price, profit, and the like. Here “relations between people” are not expressed in “relations between things,” and social economy is regulated not by the blind forces of the market and competition, but consciously by a ... *plan*. Therefore here there can be a certain descriptive system on the one hand, a system of norms on the other. But there can be no place for a science studying “the blind laws of the market” since there will be no market. Thus the end of the capitalist commodity society will be the end of political economy.²

¹ Lionel Robbins, The Nature and Significance of Economic Science, 1932

² Bukharin, Economics of the Transition Period, quoted in Cohen, Bukharin and the Bolshevik Revolution, 1980

Hence, Marxists believed that they did not need economics and that the “problem of value” would vanish with the market. The problems of price – of calculation – would disappear too. The need or use for profit would also go. The belief was that not only would a planned society not require economics as we know it, but economics could not tell you what the planned society would look like, because economic science is a science of the laws of commodity production and commodity relations – it is a science of the market. When there is no market, the problems created by the market will disappear. With socialized means of production new laws will govern and the new relationships will emerge, and no science that we have today can tell us what this will look like.

Of course, this was wrong. All of the same forces and relationships remained. If the socialists had seen economic laws as immutable, even if the structure of society were to undergo a complete transformation, then use of the science would have predicted the outcome: without markets prices would not exist and calculation would be impossible. Instead, they had to come to this realization the hard way, beginning in the late 1950s when the Soviet Union finally conceded that perhaps economic laws existed outside of commodity relations.³

Essentially, Robbins and Marx have made the same mistake- believing that it isn't important to apply economic principles and assume economic laws when considering socialism. Robbins dismissed it as useless and irrelevant to socialism, while Marx considered it inapplicable. But, during the experiment of socialism in the Soviet Union, the applicability and importance of the laws became clear in every single instance where they came up.

The Soviet Union literally wiped out their market system and started over from scratch. They were reinventing economics. All of the fundamental questions of economic science were tested thoroughly over several decades as planners tried to get around the fundamental behavioral laws which they saw simply as laws of the market. Alec Nove⁴ steps through each series of reforms aimed at solving the various crises of planning.

Planners tried every possible alternative to allowing relationships to emerge in a free market, before conceding any reform. When the reform inevitably triggered new paradoxes because it was within a planned system, the cycle began again. In each case if there was a way to achieve the same ends through socialism it would have been uncovered. So each of the fundamental relationships in economic science was put to an empirical test under socialism and from each we may learn a lesson.

There has been nothing closer to a laboratory experiment in the field of economics for testing our basic assumptions and laws and mapping out the boundaries of their reach, applicability and impact. If this experiment isn't useful and important to economic science, I can't imagine what is.

³ The Soviet Economy, Constantin Krylov, 1979

⁴ Alec Nove, The Soviet Economic System, 1986