

Socialism

Socialist ideas in various forms have accompanied human development from time immemorial. First attempts to put it in practice are connected with medieval religious movements but the roots of the ideology reach much deeper. The basic thought connecting all the incarnations of socialism is the elimination of private property. People are good, according to the socialist theoreticians, but the institution of private property corrupts them and is thus responsible for the evil existing in the real world. Abolish it, and eternal peace and prosperity will prevail. This is the message linking the Brethren of the Free Spirit in 13th century, Taborites of the 15th century, French utopian socialists – Babeuf, Fourier – in 18th and 19th century together with 20th century political regimes of Lenin and Stalin, Mao Zedong, and Pol Pot. History of mankind, in their view, is but a suffering that is made worth only by the final establishment of socialism which will put an end to history and bring about a state of unheard of affluence and eternal peace.

The word socialism is much newer than the idea itself. It appeared in the first half of 19th century. Since, socialism is known as a system challenging capitalism, pointing to its alleged injustices, and offering an alternative that promises to relief the burden of the poor. It found its theoretical background mainly in the works of Karl Marx and Fredrick Engels. They incorporated into their system all the traditional utopian ideas but added a bit of originality – mainly the class struggle and the dialectical method of reasoning which was supposed to deliver it a scientific status. The core – critique of private property and individual freedom – remained untouched, however.

Marx, using his dialectical method, attempted to formulate the laws of history. On the one hand he praised capitalism for liberating the working class from serfdom that prevailed before the industrial revolution; on the other, he criticized it since exploitation survived though it assumed a different form. In capitalism, says Marx, workers are exploited by the class of capitalists – the factory owners. His explanation goes as follows. Capitalists buy the working power of a worker (his full capacity to work) and pay him what this power is worth – subsistence wage, the costs of creating and maintaining the worker, in other words, costs of his living. However, the worker is able to produce more value than he is paid for, he is able to generate more than is required to feed and dress him. This is called a surplus value and is appropriated by the capitalist though it should, Marxists insist, belong to the workers, hence the exploitation. Even without any further exploration this inference is absurd for at least two reasons: First, capitalists do not buy the working power of workers (only the slave owners do) but rather the hours of their work, so they cannot appropriate any surplus value. Moreover the competition among capitalists for labor drives the wages high above the subsistence level as is witnessed by the enormous rise in the standard of living in capitalist societies from Marx's times on.

Marxists considered socialism a superior stage to capitalism not only because it puts an end to exploitation of workers but also because of its allegedly rational production system. The superiority does not, however, entail that people will recognize it and intentionally opt for socialism. Marx insisted that it is not a matter of choice; socialism is bound to come with the inexorability of a law of nature.

Before the ultimate stage of affluence is attained a transitory period is necessary. It is admitted that for the existence of a socialist society – where people are freed from the necessity of labor and where they “only realize their natural tendency to arrange things according to the laws of beauty” (Marx, *Economic Manuscripts*) – the birth of a new man is a must. Leon Trotsky, one of the foremost socialist theoreticians, pictured a socialist man as “immeasurably stronger, wiser, and subtler;” he predicted that “his body will become more harmonized, his movements more rhythmical, his voice more musical.” (Leon Trotsky, *Literature and Revolution*).

Until the nature of men transforms a raw socialism will prevail. This historical period is characterized by the elimination of private property in the means of production, centralized management of production and distribution of resources, abolition of production for the market and of money relations, the centralized distribution of consumption goods "to everybody according to his needs/or work" and last but not least by the dictatorship of the proletariat. Despite the theoretical proclamations no society was able to overcome the transitory period of raw socialism, no new men aroused, people in socialist countries had to work hard and their standard of living was far cry from what was promised by Marx and his followers.

Why has the socialist program failed? It was assumed that once all means of production get under the control of a governmental authority, central planning will substitute the "anarchy of production" which exists under capitalism and the productive capacity of a society will consequently skyrocket until it makes the problem of scarcity obsolete and irrelevant. It did not, however, happen and economics can show that it was no accident.

The dispute over the ability of socialism to generate higher living standard for the masses became one of the decisive intellectual quarrels in the field of economics with very real practical consequences for billions of people. Economic nature of the problem is given by the fact that the crucial point of interest was an economic (and not political or philosophical) one: which system produces more material well-being? So the dispute was not about the end – both individual planners in capitalism and central planner in socialism are assumed to aim at better living standard – but "only" about the means suitable for reaching that end. A towering figure in this debate was an Austrian economist Ludwig von Mises who in his pioneering article from 1920 "Economic Calculation in the Socialist Commonwealth" stated clearly that socialist planner can never attain their own objectives of "rational planning" and guide societies to prosperity as they lack the necessary and crucial factor upon which they must base their decisions: market prices. If there are not numerous owners of the means of production, there is no market and no trade therein, hence no prices – no social appraisal mechanism to discover relative scarcities of respective factors of production. Without prices there is no way to decide rationally how to allocate scarce resources among various competing uses in the production structure of a society.

Imagine a socialist planner thinks of building a railroad. Should it be built at all? The railroad will make transportation of some goods less costly. In capitalism it is possible to calculate whether this cost reduction is greater than the value of scarce resources necessary for constructing and maintaining the new line. It is calculated in money. In socialism, however, how can the planners decide whether the hours of labor, machines, tons of iron, coal and other building material are worth more than hours saved due to the faster transportation? They simply cannot. Mises sums up the distinction between capitalism and socialism in the quote from his *Bureaucracy*: "To the entrepreneur of capitalist society a factor of production through its price sends out a warning: Don't touch me, I am earmarked for the satisfaction of another, more urgent need. But under socialism these factors of production are mute." Yet even if the calculation was possible in theory – and it is not – the complexity of real world would make it impracticable. The central plan in the Soviet Union was specified for only 105 commodities in 1934 which is a desperately small proportion of commodities produced in the country inhabited by 162 million people.

This deficiency entails enormous waste of scarce resources. Socialist objective of more rational decision-making processes and higher production is therefore impossible to reach. Hence, concludes Mises, socialism is impossible. Without private property in the means of production it is impossible that there exist a complex economy with the division of labor. One can indeed attempt to plan centrally, but the result will be a planned chaos, rather than rational production, raising the standard of living.

We should keep in mind that this analysis gave socialist argument its best – it assumed only the best intentions on the part of the central planners. In reality, however, it need not be the case. We can thus easily identify other factors making socialism an unrealizable utopia. F. A. Hayek, 1974 Nobel Prize laureate, names one of the chapters in his famous book *The Road to Serfdom* “Why the worst get on top”. There, he explains what kind of qualities and skills one needs to succeed in hierarchical political structure as opposed to skills and virtues that are indispensable for becoming a successful entrepreneur in the market place. Widespread corruption, chronic political intrigues and barbaric behavior of top political leaders experienced in socialist countries gives empirical support to these arguments.

The impact on the standard of living was no doubt disastrous. Chaos prevailed in all the socialist countries be it Europe, Asia, or Africa. Let’s take just one example of an African country that embraced socialism. Ghana gained independence in 1957. At that time it was a leading exporter of cocoa and produced 10 % of world gold. Its gross domestic product per capita equaled that of South Korea. Then, socialist policies of Kwame Nkrumah called *Big push* were implemented. As a result, in 1980s GDP per capita was 20 % below its 1957 level. Just a few notorious examples suffice to illustrate how socialism devastated the country. One of the biggest fiascos was the cattle hide-leather-shoe complex. The slaughter house was located in the north of the country. However the market for cattle was traditionally not in the north, probably for good reason. The tannery for turning the hides into leather was in the south. As a result of this dislocation the plant in the north could not supply enough hides so the tannery had to import them. The same irrationalities appeared in the production of shoes. The footwear factory was built in western Ghana and was equipped with machinery from Czechoslovakia – another socialist country – that could only produce a poor quality product; so poor that the Ghanaian consumers were not willing to buy it. The government then tried to give the boots to the police force but even the state employees tried to avoid it. Another example is the sugar plant at Asutuare which was built without a water system and because of that remained idle for a year before this flaw was corrected. A similar story is the tomato and mango canning plant built in western Ghana. After it was built at a cost 80 percent above budget the government discovered there were hardly any mango trees in the area of the plant and it would take seven years for newly planted mango trees to start bearing.

Economically, socialism means waste, corruption, inefficiency, and poverty. There is, however, much more to say about the impact of socialist ideology on the people’s wellbeing. According to R. J. Rummel, socialism can be blamed for the death of 169.2 million men and women. Most of them died as a direct consequence of the Soviet (62 million), Chinese (35 million) and Cambodian (3 million) experiments. In this context it is important to stress that also other ideologies often considered as antithetical to socialism grow from the same roots. Hence, socialism is not only “red” but also “brown”. Nazism (national socialism) or Fascism is in its practice as close to pure socialism as Bolshevik’s rule in Russia: four year central plans in Germany and five year plans in Soviet Russia, class struggle, absolute dictatorial state, concentration camps, and hate for religion – all of these are essential features of both red and brown socialism. Anyway, in his conversations with Herman Rausching Hitler conceded, “I am not only the conqueror but also the executor of Marxism”. He also insisted that “National socialism is socialism in evolution, socialism in everlasting change.” Not only the ideology behind but also the outcomes bind Nazism and red socialism together. Twenty million dead civilians rank Germany among the most tragic socialist regimes in the history. Soviet Russia was even worse; as many as 10 million casualties entailed the great famine in 1921 caused by the socialist rationing system and the elimination of monetary relations from economic reality together with collectivization of the farming sector. Poverty spread over the already poor country. In 1919 labor conscription was enacted by the leaders who promised to free people from any form of exploitation. Instead, abandoning one’s job assigned by the

state was considered desertion and punished accordingly. In 1920, 50,000 people were imprisoned in concentration camps – one of the inventions that socialism gave birth to. Other socialist regimes did no better. Socialist experiment in Cambodia under Pol Pot left behind 3 million deaths, reducing the population by more than one third in just 4 years. Pol Pot's regime was probably the most thorough attempt to put socialist ideas in practice. People were forced to wear cotton made pajamas, as formerly only peasants did, money was banned, and banks were closed. Individuals needed written authorization to move outside their own commune.

China is the second country, only after the Soviet Union, where socialism destroyed the greatest number of people. Its development was highly uneven with abrupt changes in policy. There were several campaigns intended to spur economic growth and "catch up and overtake" the west. In 1958 Mao Zedong launched the Great Leap Forward program which was intended to bring about a substantial increase in steel production. Steel was viewed as a crucial commodity in industrialization of the country. In three years China was supposed to produce 15 % more steel than the United States. This goal should have been attained through the formation of self-sufficient communes, collectivization, and mass labor.

Thousands of small backyard steel furnaces were built across China. The results of this policy were, however, catastrophic. Millions of people died in one of the greatest famines in the history of mankind. The production of steel initially increased but then plummeted and did not recover until 1964. In order to crush the opposition and mask the failure of his policy Mao launched another program called the Great Proletarian Cultural Revolution in 1966. Its motto was to smash the four olds: old ideas, old culture, old customs, and old habits. Chaos ensued as Red Guards – young civilians who were summoned by Mao to fight against evil forces in Chinese society and carry on the Cultural Revolution – destroyed temples, artwork, books, and anything associated with traditional or foreign cultures. Instead, 350 million Mao's *Quotations* were printed and distributed. Radical leaders and the Red Guards also persecuted artists, writers, and those with foreign connections. Victims were subjected to public criticism, humiliation, and physical abuse in meetings known as struggle sessions. Students attacked their teachers and beat them to death. Economic system was halted as well as the system of education. Destruction of 56 Chinese ethnic minorities tops the bill. The Cultural Revolution ended officially in 1981 with the death toll of several million.

European socialist countries were generally less faithful in following the Marxist dogmas. In spite of the lower number of victims, they still were characterized by totalitarian politics and widespread poverty though much of it has not been captured in the official statistics, where the production of iron, coal, steel, and heavy equipment made the appearance of relative affluence. Yet, people do not consume steel; they want cars, refrigerators, washing machines or TV sets. None of those were available because of general technological backwardness and the existence of shortage economy. Even if some of those articles became available they were sold only under the counter. It was true for even more prosaic goods like meat and vegetables.

Common people were thus made equal but it was equality in poverty. Contrary to the proclamation of the leaders and official ideology the ruling elite erected an impervious border separating itself from the ruled class. The elite had special stores with luxurious goods imported from capitalist countries while the population had to content itself with procuring the basic needs with the goods produced in the member countries of the Council for Mutual Economic Assistance (COMECON). Members of the politburo had a special medical treatment whereas the life expectation of common people was substantially below the western average and was even decreasing. Only the ruling class could travel abroad and import capitalist goods because only they did have access to foreign currency. The environment was devastated because it was no one's property. Contrary to capitalism where the self-interest is led by the invisible hand to socially desirable outcomes, in socialism it

leads to over-exploitation of existing resources, discoordination and poverty. Socialism therefore cannot and did not fulfill its promises. Rather than successfully conquering poverty, it caused enormous suffering and deaths to hundreds of million people around the world. Whenever socialism was applied strictly, the suffering was immediate and very painful; had it been applied partially – and socialist planners adopted for their planning capitalist prices emerging in the non-socialist part of the world – the suffering and process of economic destruction was gradual, so that we could witness “socialist” economies in existence for decades. In no case, however, a success of socialism can be found.

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