

CAPITALISM AS SOCIALISM

DEFENCE OF SOCIALISM IN THE SOCIALIST CALCULATION DEBATE REVISITED

A Marxian Approach

It is sixty years since Oskar Lange defended socialism in a famous debate with Mises, Hayek and Robbins, who had argued that rational allocation of productive resources was impossible in socialism, inasmuch as the absence of private ownership in the means of production would do away with the price system, the only rational basis for allocating the productive resources.

In reply to the anti-socialists, Lange, while accepting the argument that there could be no rational economic calculation in the absence of the price system, rejected the other argument of the opponents that such calculation could not be effected in the absence of private ownership in the means of production. Lange's demonstration was built on the arguments earlier advanced by a number of non (and anti-) socialists — Pareto, and particularly Barone and Taylor — on the viability of socialist economy based on rational economic calculation. At about the same time Abba Lerner, often in close collaboration with Lange, developed similar ideas (Lerner 1934, 1935, 1936). Though Lange's initial contribution appeared in the form of two journal articles (1936-1937), the final version appearing one year later (Lange, Taylor 1938), was in fact a revised version in important respects in the light of Lerner's significant critical comments on Lange's work appearing in the same journal (Lerner 1936). Afterwards, Lerner, though not abandoning socialism, considerably modified his original position on socialism attaching more importance to the question of democracy and less importance to the question of ownership of the means of production (Lerner 1944). (Lange, a convinced socialist, did not, in his later years, depart substantially from his initial position.) Here we give a brief outline of the substance of the so-called Lange-Lerner model (LLM for short) as we find it in Lange's work published in 1938 before we comment on it generally.

We justify the Marxian approach adopted in this paper by the fact (noted below) that Lange himself, the principal defender of socialism in the debate, not only claimed to have derived his basic concepts (of capitalism and socialism) from Marx but he also squarely placed Marx and the "Marxist school" on his side in the debate, in spite of the "limitations" of the latter's "simplistic solution" through the labor theory of value.

THE MODEL

The aim of Lange's work was to argue that the same principle which operates in a (perfectly) competitive economy for the rational allocation of resources — that is, the trial and error method à la Walras — was equally applicable to a socialist economy for the same purpose. The possibility of a competitive solution for a socialist economy was clearly, though briefly, argued earlier by Pareto (1896-97, 1909) and, in a more elaborate

fashion by Barone (mathematically) (1908, 1935) and Taylor (non-mathematically) (1928, 1938). None of them, though, made the argument from a socialist point of view. Lange's was, on the other hand, a fervent defence of socialism, elucidating the earlier argument in greater detail.

Lange starts by assuming — like the earlier socialists, at least beginning with Kautsky — the freedom of choice in consumption and the freedom of choice of occupation. Thus there is a "genuine market" for consumers' goods and for the "services of labor." But there is "no market" for "capital goods" and other non-labor productive resources which are under "public ownership." However, a price structure as objective and as economically significant as one under capitalism can be obtained in socialism if the "parametric function of prices" (of the competitive system) is retained. This would be done by imposing "accounting prices" — fixed by the Central Planning Board (CPB for short) — for the means of production and non-labor productive resources on the managers of production (plants and industries) who would, exactly like the entrepreneurs in competitive capitalism, treat these prices as constant. These prices, arrived at through a process of trial and error as in competition, would be such that all markets are cleared. In the process of price determination the CPB imposes two rules on the managers of production to determine both the optimum combination of factors and the optimum scale of output. As regards the choice of the optimum combination of factors, the rule imposes the choice which minimizes the average cost, the combination being effected in such proportion as to equalize the marginal productivity of the amount of each factor which is worth a unit of money. As regards output, a second rule determines its scale by making marginal cost equal to the price of the product. In this way the prices of factors and products are given (as in a competitive market). In the case of consumers' goods and services of labor, they are determined (freely) on a market, in all other cases they are fixed by the CPB. Thus the process of determination of equilibrium prices in a socialist economy is "quite analogous to that in a competitive market." It follows that "a substitution of planning for the functions of the market is quite possible and workable."

Coming to income distribution, citizens' income is composed of two parts: one part consists of receipts for "labor services performed" and the other part consists of a "social dividend" constituting the individual's share in the income derived from capital and other non-labor resources publicly owned — due consideration being given to the needs of capital accumulation. Social dividend is to be distributed in such a way as not to interfere with the optimum allocation of labor services between industries and occupations. In other words, social dividend must be distributed in a way that does not have any influence on the choice of occupation — the social dividend paid being entirely independent of one's choice of occupation.

As regards the accumulation of capital, its role cannot be determined by the market — capital being under public ownership — but has to be fixed "arbitrarily" by the CPB which sets the appropriate rate of interest for this purpose. The rate of interest is determined — again, through a process of trial and error — by the condition that the

demand for capital is equal to the amount available. This is for the "short period," when the supply of capital is given. As for the "long period," when capital can be increased by accumulation, the function of saving for this purpose is not left to the preference of the individual (citizen), but is determined "corporately." This means that the decision regarding the rate of accumulation reflects the way that the CPB and not the individual consumers evaluate the "optimum time shape of the income stream."

Lange claims that socialism is superior to capitalism in two respects which also constitute the two features that distinguish socialism from capitalism.

One feature is the distribution of income. Only a socialist economy can distribute income so as to attain the maximum social welfare. Under capitalism, with its highly unequal distribution of ownership of the productive resources, demand prices do not reflect the relative urgency of the needs of different individuals. The opposite will be the case under socialism, once the highly unequal ownership distribution is gone.

The other feature distinguishing the socialist from the capitalist economy is the comprehensiveness of the items entering into the price system. Capitalism, based on private enterprise, takes but a very imperfect account of the alternatives sacrificed and realized in production. A socialist economy would be able to put all the alternatives into its economic accounting and thus avoid much of the social waste connected with private enterprise. This would include external economies and diseconomies of scale with which social benefits and costs are associated. Finally, as a result of the possibility of taking into account all the alternatives, a socialist economy would not be subject to the fluctuations of the business cycle.

In what follows we shall leave aside the usual criticisms that have been levelled at the model — its static character, the problem of convergence of the trial and error procedure, questions regarding information and managerial motivation, the problem of increasing returns to scale etc., all of which accept the socialist character of the model. Our examination of the model is rather directed at finding out the type of society that emerges as the outcome of its own logic.

LANGE-LERNER SOCIALISM AS AN ALTERNATIVE SOCIETY

What kind of society does emerge from the LLM, and in what way does it constitute an alternative to capitalism? The answer to this question crucially depends on how one conceives of capitalism and its differentia specifica in relation to any other society. This would at the same time show how socialism as an alternative society would be different from capitalism.

In Lange (though not in Lerner) we find an attempt to make precise the meanings of capitalism and socialism. Here we have to take account of, besides the basic

work we have been considering, an article comparing "Marxian economics" and "modern economic theory" that Lange had published immediately before his work under consideration (Lange 1935). In fact, this important paper constitutes the conceptual — theoretical foundation of the LLM as well as Lange's ideas on capitalism and socialism in later years.

Asserting that he is using the term 'capitalism' in its "Marxian sense," Lange observes that capitalism is an exchange economy with private ownership in the means of production to which is added a "sociological" or "institutional datum" that the population is divided into two parts one of which owns the means of production while the other part, owning no means of production, is compelled to work as wage-earners. This "institutional datum" — that is, the "existence of a class of people who do not possess any means of production" — "distinguishes capitalism from other forms of exchange economy" (Lange in Kowalik 1993: 3,6). However, in his principal work (on socialism), which we are considering in this paper, this definition undergoes some modification. Here the "institutional" aspect of capitalism is not emphasized — at least not explicitly — and capitalism is conceived simply as an "economic system based on private enterprise" or "a competitive regime with private ownership of the means of production" (1938: 104,107). Correspondingly, by "socialism" or "socialist economy" Lange means "socialized production," that is, "public ownership of the means of production." in other words, socialism signifies "production and centralized ownership of (non-labor) productive resources." Lange calls this the "classical definition of socialism" (1938: 72, 73, 81). Let us note that regarding capitalism and socialism there is a very similar approach in one of Lange's principal opponents, Mises, for whom also the distinction between the two turns basically on the question of juridical ownership in the means of production — "private" in the case of capitalism, "socialized," that is, "nationalized" in the case of socialism (Mises 1932: 28, 128, 241; in Hayek 1935: 92, 111-12)

Examining Lange's statements it becomes clear that they do not really constitute the "Marxian concept" of capitalism (or of socialism), if by Marxian concept(s) we mean the concept(s) developed by Marx in his own texts. For Marx "capital" — that is, capitalism or the capitalist mode of production — is simply the "separation of the conditions of production from the laborer" (1962b: 419; 1964:822) or the "absolute divorce of the objective wealth from the living labor power (1982: 2238-39).ⁱ Similarly, and logically, Marx conceives of socialism — the same as communism — as a free association of individuals — that is, voluntary union of individuals (who are all producers) as well as the unconstrained and unmediated union of producers with the conditions of production. This necessarily implies social appropriation of the conditions of production where the whole society itself is the subject. Needless to add, this is only remotely, if at all, related with famous "public ownership" of the means of production, so much emphasized by Lange and the "Marxist school."

Let us return to Lange's (own) definition of capitalism, which says — as we saw earlier — that capitalism is an exchange economy with private ownership of the

means of production where one part of the population owns all the means of production rendering the other part propertyless, as a result of which this latter part is "compelled" to become "wage earners." Let us take the first part of the statement and leave aside, for the moment, the second part which is supposed to be only a consequence of the first. Now, taking account of Lange's (correct) assertion, made in a number of places, that exchange economy existed in the different pre-capitalist modes of production, we find that Lange's definition of capitalism would correspond equally to a social formation such as ancient Rome based mostly on unfree labor, where there was exchange economy and where citizens alone had private ownership in the means of production, which fact rendered the (non-citizen) laborers propertyless. Indeed, capitalism took over the institution of private ownership from the Roman law. Thus capitalism as defined by Lange loses its specifically historical character. On the other hand, the situation of wage labor does not necessarily follow from Lange's basic premise, contrary to his assertion. In the ancient social formation as such Rome the fact of monopoly of ownership of the means of production by one part of the population did not result in the other part (unfree laborers) being "wage earners." In other words, Lange's definition of capitalism would equally apply to different types of class society. It fails to present capitalism as a historically specific (class) social formation.

In the same way, the juridical institution of "public ownership" of the means of production, which Lange posits as a distinguishing characteristic of socialism, was also an important form of ownership in ancient Rome in the form of ager publicus which existed side by side with private ownership (Marx 1953: 378; 380-81). (Needless to add, in ancient Rome both "private ownership and "public ownership" of the means of production excluded a "part of the population" — basically the unfree laborers.) "Public ownership" is also completely within the purview of the so-called nationalization of the means of production undertaken by the modern state at one time or another and considered even by the non-Marxists as perfectly compatible with the capitalist social order. Thus the juridical "public ownership" in the means of production cannot define socialism as a specific social formation. The argument is further strengthened by Lange's own statement that in "actual socialist community there must be a large number of means of production (e.g. small scale enterprises) privately owned (which) does not introduce any new theoretical problem" (1938: 73; our emphasis).

A distinguishing characteristic of capitalism — emphasized by the LLM — is the highly unequal distribution of income which socialism is destined to replace by a greater equality in distribution. Now, a high degree of income inequality does not distinguish capitalism as a specific social formation inasmuch as different pre-capitalist social formations were also marked by great distributional inequality. Secondly, in the LLM, the major part of income for the individual would continue to be the differentiated wage to which is added a social dividend which is simply what remains after the accumulation needs are met — that is, what remains after the bigger part of "social profit" is retained for further investment (as in a capitalist firm). The mere addition of social dividend to wage is not likely to qualitatively alter the pattern of income distribution. The basic instrument for

allocating labor to different occupations would continue to be the "labor market," with the workers "bidding for highest wages," and the distribution of social dividend would not be allowed to affect the choice of occupation. On the other hand, the post-Keynesian economists have argued (as opposed to the neo-classicals) that the distribution of income could be "significantly altered" (within capitalism) without "impairing the productivity of the system" and without implying the "elimination of profit" (Eichner: 1979: 17, 59). It is well-known that even among the really existing capitalist countries there are important differences in this regard. Indeed, there could be no objective criterion for recognizing clearly a particular (absolute) level of income distribution distinguishing capitalism from socialism.

Finally, regarding another supposed distinguishing characteristic of capitalism, namely, its inability to take account of the alternatives sacrificed and realized in production, including external economies and diseconomies of scale, leading to the non-accounting of social costs and benefits — which socialism alone could redress — Lange himself (in a contradictory way) very interestingly refers approvingly to the work of the doyen of 'orthodox' economics of the time, A.C. Pigou, and writes: "As Professor Pigou has shown, much of this waste can be removed by proper legislation, taxation and bounties also within the framework of the present economic system" (Lange 1938: 104; our emphasis).

What, then, would be the defining characteristics of the social formations in question? As regards capitalism, it appears that what, more than anything also, marks it off as a specific social formation lending it a unique character in relation to any other social formation that preceded it, is the total separation of the immediate producers from the conditions of production necessarily implying wage labor as the fundamental form of social labor. Means of production are of course "private property" under capitalism but in a sense more profound than what its popular (or textbook) representation or Lange's "Marxist school" tells us or what the jurisprudence recognizes it to be. Means of production in this regime is private property precisely as the non-property of the immediate producers — that is, as "private property of a part of society" or "monopolized by a distinct part of society" (Marx 1956: 32; 1964: 823) which is the direct consequence of the "separation" in question. As long as the means of production remain separated from the immediate producers — hence remain their non-property necessarily rendering them wage laborers, — the means of production continue to exist as private property in a fundamental sense even when these take the juridical form of "public property."

It follows that a social formation that is supposed to be an alternative to the capitalist social formation cannot have this central distinguishing characteristic of the latter. In other words, a social formation alternative to capitalism, which at the same time is not supposed to revert to pre-capitalism, can only be the one based on the negation of both the separation of the producers from the conditions of production — the basic characteristic of capitalism — and the forced union between them — the basic characteristic of pre-capitalism. That is, this alternative to capitalism can only be based on a free union of

the producers with the conditions of production necessarily implying the disappearance of private ownership in its fundamental sense along with wage labor (as well as all forms of subjective dependence of the individual) and the appearance of social labor as associated labor dominating the conditions of labor. Let us note that this would be identical with the cessation of social labor as fragmented and reciprocally isolated individual labors, the foundation of commodity production. However, let us abstract from this aspect of the question and try to inquire into the inner logic of commodity production — the very basis of the LLM.

LOGIC OF COMMODITY PRODUCTION

Let us assume that for the rational economic calculation a socialist society, like the capitalist society, must be based on commodity production or "market." As soon as we posit commodity production as the basis of the economy, it is important to recall that money is the necessary result of the double contradiction inherent in a commodity — contradiction between use value and exchange value as well as the contradiction that the private labor of the individual has to appear as social labor. However, in the first form of commodity circulation, selling for buying, where commodity is both the starting point and the terminus of the process ending in the consumption of use value, money serves simply as a measure of value and instrument of circulation and is merely the fugitive mediation facilitating exchange. Thus even though value form exists in this process, first as price of the commodity to be sold, then as realized exchange value in money and finally, again, as price of the commodity bought, the value form here "appears only to disappear." Here is a contradiction. In simple circulation exchange value is not realized as exchange value. Exchange value — money — is realized only in its disappearance. If commodity is exchanged against money — the form of exchange value — money remains as long as it is outside of exchange, that is, in a negative determination in relation to circulation. Exchange value, which has become autonomous in money, finds its absolute mode of existence by going out of exchange. However, money's self-realization is at the same time, its self-negation. By going out of the exchange process money negates itself inasmuch as, disconnected with commodities, prices and the process of circulation, money ceases to be money (Marx 1976: 2, 29, 31).

Naturally, the first form of commodity circulation — selling for buying — which is really only a mediated form of barter and where money acts only as a measure of value and instrument of exchange cannot be the general form of commodity exchange where all or most products are commodities. This first form could rather correspond to a society which is only partially commodified, where the main aim of production is to create use values and where what is exchanged is at best the surplus above the immediate self-satisfaction of the producers. Contrariwise, corresponding to a society where all or most products are commodities and where, consequently, exchange value and not use value is the principal aim of production, we encounter a different kind of circuit, that of buying for selling. Here exchange value does not disappear in the consumption of the commodity, the vanishing character of exchange value vanishes and exchange value

becomes simply the means of producing and reproducing exchange value (Marx 1953: 932, 933). Here money re-enters the circulation process not, however, as a simple measure of value or medium of exchange, but in its third determination, as money as such, as the autonomised exchange value and, as such, means of payment. In this second case the two extremes, constituted by money, are not qualitatively different, unlike in the first case or simple exchange process, where the two extremes are constituted by qualitatively different commodities. On the other hand, to imagine that the two extremes constituted by money are quantitatively equal will make no sense. The operation would be rational only if the two extremes are unequal quantitatively, the second having a greater magnitude than the first. Here money, arising from the simple circulation process, becomes both the initial and the terminal point of the circuit. Here money as autonomous, -adequate exchange value must conserve itself in circulation and in this new positing cease to be money which as such does not go beyond negative determination — and becomes value in process, money in process, in which function alone exchange value could be multiplied to make any sense of the second form of circuit.ⁱⁱ

However, under the assumption of equivalent exchange this additional value cannot be generated in circulation though it can be realized only in circulation. Nor is money itself capable of generating this additional value if one excludes merchant capital and usury capital — the so-called ante-diluvian forms of capital.ⁱⁱⁱ On the other hand, creation of additional values is impossible outside the reciprocal contacts of the commodity producers, given the assumption that the individuals can relate to one another only as independent possessors of commodities in a society where all or most products of human labor are commodities, which excludes individual's subjective dependence through extraeconomic relations like slavery or serfdom. In the circulation process money has to buy a commodity whose use value has the unique property of producing more value than it costs to reproduce it, and this commodity is living labor power the possessor of which is obliged to sell it, being unable to exchange labor in the form of objectified labor in another use value. The consumption of labour power, like the consumption of any other commodity, takes place outside the circulation process. We should note that in the exchange process, the second type of circuit of the possessors of money necessarily implies its opposite — the first type of circuit, commodity — money — commodity, which is the circuit of the possessors of living labor power, and where, as in any such transaction, the commodity that the laborers sell is use value to the buyer and exchange value to the seller. It is only the specificity of the use value of the commodity acquired by exchange which tends to transgress the bounds of simple circulation.

The selling and buying of living labor power as a commodity would of course necessarily imply that the possessors of the living labor power have already been separated from the conditions of production where the separation has been brought about by the transformation of the law of appropriation of the simple commodity production into its opposite.^{iv} In other words, the second commodity circuit, money — commodity — money, implies the transformation of money into money in process, value in process, that is, capital.^v The necessary trajectory of simple commodity into money and of money into

capital should now be clear. As Marx observed in a letter to Engels: "The simple commodity form contains the whole secret of the money form and thereby, in germ, the whole secret of all the bourgeois forms of the product of labor," adding that the "economists have overlooked this simplest thing" (22.6.1867). In a striking passage of one of his manuscripts of 1861-63 Marx stresses the contradiction within the person of the simple commodity producer and remarks that "as the possessor of the means of production he is a capitalist, as a laborer he is his own wage laborer." (1956: 371) In other words, the contradiction between capital and wage labor is already present in germ in the person of the simple commodity producer, which only shows the contradiction of the commodity itself.

In the process of understanding the transformation of simple commodity production into capitalist production the most difficult thing to grasp is, as Marx observes, the necessary money form of the commodity — that is, money in itself, money as the autonomised exchange value, as the universal form of wealth, which means going beyond viewing money as simply a measure of value and a convenient medium of exchange. This popular notion of money, confined only to its first two determinations, seems to have been shared also by the classical political economy, particularly Ricardo. Indeed, Marx faulted Ricardo for his incomprehension of the nature of money — of money in itself — as it necessarily arises from the contradictions of commodity production. This was due to Ricardo's failure to investigate the specific character of labor which produces commodities, this labor which has necessarily to be represented as social labor in money. Ricardo was preoccupied with labor as the measure and magnitude of value. Ricardo regarded money as a simple sign of value and a medium of exchange (1958: 185; 1959: 500). Ricardo's failure to understand the money form of value — necessarily connected with his misunderstanding of the commodity form as a specific form and by no means a natural form of the product of human labor — naturally affected his understanding of value's ultimate form, that is, the capital form of value as well. Ricardo's concept of money would imply that commodity production remains at the stage of the first circuit which is only a mediated form of barter, thereby ignoring the first condition of capitalist production that the product as commodity has to have the necessary form of existence in money and go through the process of metamorphosis (1959: 497; 1962b: 129; 1962c: 358). Similarly Marx faulted the left Ricardians and some socialists of his day for their failure to understand the necessary relation between commodity production and money inasmuch as these people, under the false notion that labor contained in commodities is directly social, wanted the abolition of money — substituting it with some kind of labor money — while retaining commodity production (1976: 690; 1958: 83-87).^{vi}

CAPITALISM AS. SOCIALISM

Let us return to LLM. Could we say that commodity production ('market') in the model is only partial, not general, so that the logic of generalized commodity production indicating capitalism does not apply here? The model's assertion that there is no "genuine market"

for the means of production might suggest such an interpretation. However, that would be a mistaken reading of the model.

First let us note that Lange goes all lengths in his effort to `free' commodity production and competition from capitalism and also tries to have Marx on his side in this respect. Thus referring to a passage in Capital I (without citing the text itself) Lange makes Marx say that the labor theory of value "holds not only in capitalist economy but in any exchange economy in which there is free competition." (Lange in Kowalik 1993: 8-9). We submit that Lange here misreads Marx. True, in the passage in question (as elsewhere) Marx asserts that the phenomena of commodity production and commodity circulation belong to the most varied modes of production, and Lange is absolutely correct in holding this position himself, but nowhere does Marx bring in the question of "free competition" in this context, which is Lange's own `improvement' on Marx's text (see Marx 1962a: 128). In fact, Marx, in a different text, says even the opposite of what Lange is asserting on Marx's behalf. In the latter text Marx cites Ricardo on the scope of Ricardo's labor theory of value which englobes (according to Ricardo) "such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint."^{vii} Then Marx (approvingly) interprets these lines as asserting that "the law of value for its full development presupposes large industrial production and free competition, that is, the modern bourgeois society" (1959: 58-59; our emphasis).^{viii}

By making (simple) commodity production and free competition independent of capitalism Lange clears the way for his own model of market socialism with competitive solution of the allocation problem. However, in the process, by taking value (price) mainly as a magnitude, he completely ignores the logic of what Marx calls the "value form" of the product of labor and betrays a lack of awareness that simple commodity is the point of departure for capital, that it is the "cell-form" of capital, that to the extent simple commodity production expands, it tends towards capitalism and that capitalism is simply the generalized exchange economy.

On the other hand, Lange presents Marx as a partisan of the price system as the mediating instrument for allocating resources in a "socialist economy," Marx's only defect being that he had allegedly sought to "solve the problem by the labor theory of value," besides not clearly understanding the "demand factor" (1938: 130-134). In his historical survey of the discussion on the allocation of resources under socialism in "Marxist literature" beginning with Marx, Lange asserts: "The leading writers of the Marxist school were and are quite aware of the necessity of the price system in a socialist economy. They saw and solved the problem only within the limits of the labor theory of value, being thus subject to all the limitations of the classical theory." Lange observes specifically that though "Marx was fully aware of the problem of allocation of resources in a socialist society, . . . he wanted to solve the problem by the labor theory of value," and then adds: "only the technique provided by the modern method of marginal analysis enables us to solve the problem satisfactorily." In this context Lange praises Mises (and N.G. Pierson)

for exposing the "inadequacy" of Marx's "simplist solution" (1938: 132-33, 141-42).^{ix} However, Lange misreads Marx. Interestingly, nowhere in Marx's texts that Lange cites in this regard, does Marx speak of (labor) value categories as the mediating instrument for the national allocation of resources in the socialist society. This is, of course, as it should be. The existence of commodity-value categories — the symbol of "alienated labor" — would completely contradict the Marxian concept of socialism, considered as a society of free and associated producers.^x

Lange insists (correctly) that commodity production is not as such capitalist production, that commodity production existed for hundreds if not thousands of years before capitalism entered on the historical scene, and that, hence, it is erroneous to confuse commodity production with capitalist production.^{xi} It is of course true that commodity production is not capitalist production and that the first pre-dates the second over many years. However, in pre-capitalist societies, by and large, commodity production was not the predominant type of production. The economy was only partially commodified mostly involving the exchange of surplus over immediate consumption, and the basic aim of production was not exchange values (including their self expansion) but use values. Naturally there was no question of capitalism. But in the contrary case, when the whole or at least the major part of the economy is commodified, where "purchase and sale seize not simply the surplus of production but its substance itself" (Marx 1969: 91), that would only indicate that use values have ceased to be the principal aim of production. It is now the second commodity circuit that dominates the exchange process necessarily leading to the continuous self-expansion of exchange values, in other words, production by wage labor, which is just another name for capitalist production.

Could it be that even when Lange rigorously separates commodity production from capitalism and tends to ignore the relation of reciprocal implication between capitalism and generalized commodity production, his (and Lerner's) own model avoids this relation by simply excluding the means of production from "genuine market," thus making commodity production only partial? Let us see.

To start with, Lange completely agrees with Mises that there could be no "market" in the absence of multiple ownership of the (exchangeable) product. That is why he denies the means of production, which are under a single ("public") ownership, a "genuine market." Here market is associated with what Lange calls a "narrow" concept of price, which is "price in the ordinary sense, that is, exchange ratios of two commodities on a market." But — continues Lange — there could also be a "wider" meaning of "price" conceived as "terms on which alternatives are offered," and the means of production, though under a single ownership in socialism, could have price in this sense. Now, interestingly (and not surprisingly) Lange literally takes over these two meanings of "price" from the well-known 'neo-classical' economist P. Wicksteed whom Lange also cites textually: "'Price' in the narrow sense of 'money for which a material thing, a service, or a privilege can be obtained' is simply a special case of 'price' in the wider sense of the 'terms in which alternatives are offered to us'" (The Common Sense of Political Economy, 1910,

1932, cited Lange: 60).

However, even by interpreting "price" in the sense of "terms in which alternatives are offered" Lange cannot avoid the fact of transactions of the means of production between public enterprises being effectively mediated by money-price form. "Each industry has to produce exactly as much of a commodity as can be sold or 'accounted for' to other industries at a price which equates marginal cost incurred by the industry producing this amount." (77; our emphasis). Thus the "indices of alternatives available" still take the commodity-money form. Indeed, as Lange insists, the accounting prices, far from being "arbitrary," have "quite the same objective character as the market prices in a regime of competition," to be treated as they are treated by entrepreneurs in a competitive market, and actually the CPB's fixation of accounting prices would proceed "on the basis of prices historically given," only "small adjustments of the prices" being necessary (81, 82, 86; emphasis in text).

What is remarkable is that Lange, exactly like Weeksteed, cannot see any alternative to the price (value) form of the product of labor for representing the "terms on which alternatives are offered" — whether the price appears as "market price" or "accounting price." This only shows that in the socialist model in question social labor remains fragmented and the units of production correspondingly (reciprocally) isolated, necessitating exchange of products taking value form; that is, the relations between producers continue to present themselves as relations between the products of their labor.

On the other hand, Lange could arrive at his contention that "capital goods" have a non-market character, only by accepting the position of his opponents regarding "market," namely, that ("genuine") market or commodity exchange is necessarily associated with the private ownership of the means of production (in its formal-juridical sense). However, there is no need to accept this contention. Commodity production is not necessarily associated with the (juridical) private ownership of the means of production. All that is required for such production is that the use values are produced by non-immediately social labors (in reciprocal isolation) with a view to exchange. If this condition is satisfied we have commodity production, irrespective of the specific juridical form of ownership of the means of production. In Lange as well as in his opponents there seems to be a confusion between private labor and private ownership. For commodity production it is private, that is, non-immediately social labor, that is relevant, not (juridical) private ownership.

Among the contemporary economists J. Kornai is one of the few who seem to have a correct perspective in this regard. His definition of "market" shows the nature of commodity production much more accurately than the 'standard' representation of market. "Market" in this definition is "a system in which isolated producers and consumers are functioning as actors; products are exchanged between them for money, . . . whether the seller and the buyer decide on selling and buying in full independence, or under the supervision of higher organs, . . . whether the price is based exclusively on contractual

agreement between seller and buyer or fixed by a central pricing authority." "This broad definition covers, therefore, the market which is centrally planned and controlled in full detail, the one that is only influenced by the centre as well as the one that is totally decentralized and free" (Kornai 1983: 153). It is the obsession with juridical private property form — in fact property-fetishism — obscuring the real (social) relational character of commodity production (as well as capital) — a dominant trend with the Marxists of the Second and the Third Internationals — which prevents the authors of the LLM from seeing the continuation of the fragmented (non-immediately social) character of labor under "public ownership" and, correspondingly, from considering the products of labor (means of production) as "genuine" commodities. The very existence of the price-form ("accounting" or otherwise) of the product of labor as well as the presence of wage labor, explicitly posited in the model, would of course automatically signify the continuation of the non-immediately social character of labor in the model. Thus what we have here is a model of socialism based not on the simple, commodity economy but on the generalized commodity economy where the principal aim of production is not use value, but ever expanding exchange values through wage labor.

It follows that when the LLM posits "genuine market for the services of labor," that "laborers offer their services to the industry or occupation paying the highest wages" (73, 79), that is, posits unambiguously "wage labor" as the form of labor in the model, it is only being consistent with the commodity production as the basic form of production dominating the economy assumed by the model. The existence of wage labor as the basic (if not the only) form of labor, on the other hand, would signify that the means of production really remain private property even though they might take the juridical form of "public property." Let us add that the very existence of exchange of the means of production taking the value form (through "accounting prices") between the units of production based on (free) wage labor would simply indicate that even though these units are under a single juridical ('public') ownership they are, in fact, reciprocally autonomous units and as such compete with each other. That is, the individual units of production (based on wage labor) "confront one another as mutually independent and competing commodity producers" (Marx, 1962a: 654). And this is precisely what constitutes the competition of capitals (in the sense of Marx, though not necessarily in the sense of classical or post-classical political economy). We are here, indeed, dealing with a capitalist society. Now, here is a curious situation. In his definition of capitalism Lange argues, as we saw earlier, that the wage system is a necessary consequence of capitalism's "sociological" or "institutional datum" — supposed to be unique for the system — that the means of production are owned only by one part of the population, the other part being deprived of them. Now, if socialism is different from (if not opposed to) capitalism, LLM's socialism (with wage labor) would mean that the "institutional datum" uniquely characterising capitalism continues to prevail in socialism as well!

Again, quite consistently with the assumption of generalized commodity production based on wage labor LLM refers to the means of production (other than natural resources) of the society underlying the model as "capital" or "capital goods" and their

extended reproduction as "accumulation of capital," though, contradictorily, there is no capitalist (and capitalism) in the model.^{xii}

CONCLUSION

The problem of rationally allocating productive resources in an economy is common to all human societies — at least as long as these resources remain relatively limited compared to needs. However, there is no need to assume that this allocation could be effected rationally (if at all) only through the exchange of resources taking the value (price) form. The authors of the model under consideration — in common with their opponents — confuse the rational allocation of resources as such with the rational allocation of resources uniquely through the price system (Lange completely misreading Marx in the process). The point is that the allocation through the value form of the products of human labor is only "a particular social manner of counting labor employed in the production of an object" precisely in a society in which "the process of production dominates individuals, individuals do not dominate the process of production" (Marx 2962a; 95; 1965: 617.^{xiii} Only the "routine of daily life" makes us accept as "trivial and self-evident" that a social relation of production takes the form of an object" (Marx 1958: 28). By positing a competitive solution for rationally allocating resources, that is, by positing an economy based on the commodity form of the product of (wage) labor as the dominant form of production, the LLM has, indeed, presented us with a specific model of capitalism as a model of socialism.^{xiv}

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ENDNOTES

- i. Laborers' separation from the conditions of production is equivalent to what Marx calls laborers' "double freedom." This relation between the laborers and the conditions of production, this specific production relation, constituting the "economic existence of capital" (Marx), marks capitalism as a historically specific, and not eternal and natural, mode of production. The property relation — "private ownership of the means of production" — which Lange emphasizes — following what he calls the "Marxist school" — constitutes capital's "juridical existence" and is based on capital's "economic existence." "Juridical relations arise from production relations," and "the juridical forms as simple forms cannot determine the content itself, they can only express it" (Marx 1966: 177; 1964: 352, emphasis added).
- ii. Marx writes in Urtext (1958): " As wealth, as wealth held in its general form, as value, (money) has the constant drive (Trieb) to cross its quantitative limits; endless process. Its vital force consists exclusively in this that it maintains itself as value-for-itself by distinguishing itself from use value while it multiplies constantly through the exchange process itself" (1953: 936). Strictly speaking, however, M-C-M need not always show itself as M-C-M' ($M' > M$). There could be occasions when the money circuit simply returns to its point of departure, when buyer becomes seller. Marx mentions two such cases of "reverse current of the same sum of money": the case of commercial capital and the case of the exchange of constant capital (1956: 286-87).
- iii. It should be observed that the circulation of commodities does not contain within itself elements of its own renewal. "Commodities have to be continuously thrown from outside into circulation in order that it continues like fire which would be extinguished unless continuously fed by combustibles from outside" (Marx 1953: 920).
- iv. "The law of appropriation or the law of private property based on commodity production and commodity circulation is transformed, by its inner, inevitable dialectic into its direct opposite . . . The separation between ownership and labor becomes the necessary consequence of a law which apparently started out from their identity" (Marx, 1962a: 362, 413-14). It is the simple commodity production itself, Marx adds, that "brings about the material means of its own destruction" and creates the conditions of the genesis of capital (1962a: 789). The same formulation about the "dialectical reversal" (dialektische Umschlag) already appears in a manuscript a decade earlier (1953: 362, 413-14).
- v. "The eternity (Unvergänglichkeit) to which money aspires by relating itself negatively to circulation is attained by capital precisely through its self-conservation by

abandoning itself to circulation" (Marx, 1953: 938; 1976: 29). The same sentence, identical in these two texts, appears later in Capital with slight modification (1962a: 168; 1965: 699).

- vi. Speaking of the value form and thereby the money form already hidden in the simple value expression of barter exchange, unrecognized by the economists, Marx noted in the first edition of Capital (not reproduced in later editions) that inasmuch as, before Hegel, the professional logicians overlooked the formal content (Forminhalt) of the paradigm of judgment and conclusion, it was not surprising that the economists, under the influence of material interests, have overlooked the formal content (Formgehalt) of the expression of relative value (1966b: 274).
- vii. See Ricardo 1962:12.
- viii. Again, not appreciating Marx's method, Lange repeats the usual (mistaken) argument — shared by a number of Marxists and non-Marxists — that the labor theory of value in Capital I is concerned with "simple commodity production," not capitalism, while production in "capitalist economy" is taken care of in Capital III through a modification of the theory (Kowalik: 1993, 9-12).
- ix. Indeed, as regards the alleged (mistaken) Marxian attempt at economic calculation in socialist society by means of labor theory of value, the views of Mises and Lange are strikingly similar. (See Hayek 1935: 112-116.) However, Marx contradicts this interpretation unambiguously as early as 1847. In his 'Anti-Proudhon' Marx writes: "The determination of value by labor time, which Proudhon gives us as the regenerating formula of the future, is nothing but the scientific expression of the economic relations of the present-day society as Ricardo has clearly and precisely (nettement) demonstrated" (1965:42). Let us note that to reemphasize the relevance of the modern "theory of equilibrium" as opposed to the "inadequacy" of the "Marxian economics" for the "correct administration of a socialist economy," Lange writes: "It is obvious that the Marshallian economics offers more for the current administration of the economic system of Soviet Russia than Marxian economics does" (Kowalik 1993:5).
- x. "Nothing is more false and more absurd than to suppose that the associated individuals could collectively control their production on the basis of exchange value" (Marx 1953:76). This same position is encountered in all the extant texts of Marx, dealing with the post-capitalist society, beginning at least as early as 1844.
- xi. As Lange put it in his elaboration of the socialist model before the University of Chicago's Socialist Club (1944): "Prices and money are much older than modern capitalism Prices and money are not only characteristics of modern capitalism, but they are an institution which has to be preserved in the socialist society"

(Kowalik: 310).

- xii. "Some socialists say," writes Marx, "we need capital, but not capitalist. Then capital appears as a pure thing, and not as a relation of production which, reflected in itself, the capitalist is" (1953: 211). Marx adds: "Capital (which) can only be a production relation is essentially capitalist . . . Capital is contained in the concept of capital" (1953: 412-13). In a later manuscript Marx, referring to Rossi, observes that "The stupidity consists in recognizing wage labour (or also the autonomous form of capital) and to explain away (wegdemonstrieren) the relation of this labor to capital which constitutes it (1976: 126). A non-relational position on Capital, strikingly similar to Lange's, is also held by Mises: "It is obvious that the production activities of the socialist community will involve not only labor but also the material instruments of production . . . These instruments of production are called `capital' . . . If we adhere to this terminology, we must admit that the socialist community must also work with capital" (1932: 142).
- xiii. The term "counting" (compter) was substituted in the French version for the term "expressing" (auszudrücken) of the original version. Similarly Marx writes: "Where labor is common, the relations of individuals in their social production do not show themselves (darstellen) as `values' of `things.' Exchange of products as commodities is a certain method of exchanging labor, and of the dependence of labor of each upon the labor of the others a certain mode of social labor or social production" (1962b: 127-28; `values,' `things,' and the whole of the last sentence are in English in the text).
- xiv. Referring to some "socialists" of the epoch, Marx writes in the Urtext: "To wish that exchange value will not develop from commodity and money into capital or that labor, producing exchange value, will not develop into wage labor, is as pious as it is absurd" (1953: 916). Later in Capital Marx would refer to the "illusion of certain schools of socialism" which "imagine that they can do away with the regime of capital by applying the eternal laws of commodity production," as if "in order to remain pure, commodity production must not develop" (1965: 1090). ("regime of capital" and "laws of commodity production" in the French version replace, respectively, "capitalist ownership" and "laws of ownership of commodity production" of the German version where, moreover, the statement is explicitly directed against Proudhon. See 1962a: 613).

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