

# Market Economy and Socialist Road

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The relationship between market economy and socialism has become a point at issue among Marxists in every part of the world after the collapse of the socialist system in the Soviet Union. This paper, based on Marx's historical materialism, tried to clarify two questions: why the socialist countries like China must develop market economy, and why the developed capitalist countries like the United States cannot move towards socialism through market economy.

## **1. Marx on the Relationship between Market Economy and Socialism**

What is market economy? In Marx's works, market means the sphere of circulation of commodities. Since commodity economy consists of commodity production and commodity circulation, the market is an internal part of the commodity economy. So what is called the market economy is nothing but another version of the commodity economy from the angle of the commodity circulation.

Commodity economy is a mode of production which is opposite to natural economy. The natural economy means a mode of production which mainly produces use-value, and the commodity economy means a mode of production which mainly produces exchange-value. Because that in the view of Marx, "developed commodity production is itself capitalist commodity production" (Capital, II, Penguin Books, 1978, p.190), he used to refer to commodity economy as capitalist mode of production, and correspondingly, to refer to natural economy as pre-capitalist mode of production.

Socialism is the lower phase of communist society, in which commodity economy will not exist. The whole social production will be no longer spontaneously regulated by market, but proceed in a planned way. The socialist mode of production can also be called the planned economy in contrast with the anarchy of capitalist economy.

The relationships between market economy and socialism are mainly embodied in two aspects:

First, the full development of market economy is essential to the realization of socialism. In the view of historical materialism, the development of human society is a process of the successive replacement from pre-capitalist society to capitalist society, then to communist society. Correspondingly, the evolution of the economic formation displays itself as a process of successive replacement from natural economy to commodity economy then to planned economy. So a socialist society cannot be founded on pre-capitalist natural economy, but only on the full developed capitalist commodity economy.

Second, only by abolishing the market economy can socialist society be founded.

The planned economy as a basic feature of the socialist mode of production is incompatible with a market economy. The base of a planned economy is public ownership, but a market economy is related to different kinds of private ownerships. A planned economy means that the whole of social production is controlled by men's conscious planning, but a market economy depends on the fact that the whole of social production is spontaneously carried out by every enterprise according to the law of value.

## **2. Why the socialist countries like China must develop market economy?**

Marx imagined that a socialist revolution would first occur and be successful in the capitalist countries where the commodity economy had gained full development. The actual socialist movement, however, was contrary to his expectation. The countries which first claimed to have realized socialism are those where commodity economy was still underdeveloped and natural economy occupied a large proportion in the national economy. All of them tried to establish their economic systems in the light of the blueprint of planned economy roughly designed by Marx. How did they achieve this aim? Firstly transforming former capitalist enterprises based on commodity economy into state-owned economy; then transforming individual economy based on natural economy into collective economy by compulsory measures; finally establishing a planned economy on the basis of these two different kinds of public economy.

Why did the socialist countries turn to develop market economy after carrying out a planned economy for many years? The basic reason is that the composition of natural economy in those countries cannot be transformed directly into the planned economy described by Marx. The evolution of the economic formation is a process of natural history, which cannot be realized by compulsory measures. The natural economy can only grow into commodity economy first, and then be able to grow into planned economy. It is obvious that the establishment of the planned economy in socialist countries oversteps the stage of the full development of commodity economy to a great extent. As the planned economy was established in this way, it would be bound to hinder the further development of the productive forces and could not exist for long.

The transformation in socialist countries has an important significance for realization of socialist society imagined by Marx. Only by this transformation, can socialist countries transform the composition of natural economy into a commodity economy, and create the conditions to realize the planned economy designed by Marx. A market economy is not superior to a planned economy, but superior to a natural economy. Now that socialist countries cannot realize the direct transformation from a natural economy to a planned economy, the market economy is the only middle link between natural economy and the planned economy designed by Marx. So the transformation does not place socialist countries further from the socialism described by Marx, but make them to come closer to it.

Since the existence of market economy means the existence of capitalist

economy, there is indeed a possibility of moving to capitalism during the transformation from the former planned economy to market economy in socialist countries. But it is not unavoidable. The effective measure to avoid moving to capitalism is to continue carrying on planned economy in the state-owned economy.

The state-owned economy in socialist countries was transformed from a capitalist economy based on commodity economy and got the rapid development under the system of the planned economy. It does not need to go back to market economy, for it has passed the stage of full development of commodity economy and possesses the conditions needed to carry out a planned economy.

To develop market economy presupposes the existence of multiple sectors of the economy. It means that the transformation from the former planned economy into a market economy is one from two kinds of public economy, i.e. the state-owned economy and collective economy into multiple sectors of the economy. To achieve this aim, socialist countries need only to abolish the planned economy being carried out in the collective economy. Since the collective economy was just an outcome of mandatory order, it will rapidly disintegrate and transform into individual economy, capitalist economy or real independent collective economy once it is free from the control of the planned economy. Thus to continue carrying out the planned economy in state-owned economy does not hamper the emergence of multiple sectors of economy.

As placing itself in the market economy, the activities of state-owned economy are certainly restricted by the law of value, and will necessarily take profit as a major aim. Is the state-owned economy able to continue carrying on a planned economy under the circumstances of market economy? Here we need to emphasize that the state-owned economy which placing itself in a market economy is that as a whole, not each enterprise as its component part. Though the state-owned economy is a part of a unified market economy, this does not hamper to carry out of a planned economy within the enterprises belong to it. It can makes each enterprise produce according to its unified plan, that is to say, each enterprise cannot arrange production by itself according to the law of value which spontaneously takes effect. Of course, the planned economy which is carried out in the state-owned economy is bound to be conditioned by the unified market economy, and so it is not the planned economy described by Marx. But it does possess some basic features of the planned economy described by Marx.

The existence and development of state-owned economy in socialist countries are maintained only by the planned economy, for it is the economy of public ownership based on large-scale socialized production. If socialist countries abandon carrying out a planned economy in the state-owned economy and push each enterprise to the market during the transformation from the former planned economy to market economy, the state-owned economy will inevitably transform into capitalist economy.

The state-owned economy is the conscious strength to move to socialism described by Marx. Individual economy is neither willing nor able to direct move to socialism. Capitalist economy cannot move to socialism spontaneously and certainly opposes socialism. If only the state-owned economy occupies the leading position in

the whole market economy, socialist countries will have the possibility of insisting on a socialist orientation for the whole of society and transforming the sector of the capitalist economy, when it has lost its reason for existence, into socialist economy.

### **3. Why the developed capitalist countries like the United States cannot move towards socialism through market economy.**

The collapse of socialism in the Soviet Union and Eastern Europe makes some left scholars in the West believe that only through market economy can the developed capitalist countries like the United States move towards socialism (therefore they are called market socialists). I do not agree with them.

What is the root cause that led up to the failure of socialism in the Soviet Union? The market socialists' answer is that it practised a central planning economy. From this they further deduce the conclusion that market socialism "is the only form of socialism that is, at the present stage of human development, both viable and desirable. Non-market forms of socialism are either economically non-viable or normatively undesirable, often both at once." (David Schweickart, *Market Socialism-The Debate among Socialists*, Routledge, 1998, p.10)

It is undoubtedly true that the failure of socialism in the Soviet Union and Eastern Europe was closely related to their central planning economy. The crux of the matter, however, does not lie in this fact which is emphasized by market socialists, but in whether their proposition can be deduced from this fact. Through careful analysis we shall find that their proposition is, logically speaking, utterly unjustifiable.

First, the central planning economy which was practised in the Soviet Union and Eastern Europe was not that envisaged by Marx, and, therefore, the failure of the former can not prove that the latter, too, is bound to fail. Marx emphasized many times that the presupposition of establishing a planning economy is the full development of a market economy. Was the presupposition satisfied in the Soviet Union when it established their planning economy? It is obviously not. Since the planning economy which was practised in the Soviet Union was totally different from that envisaged by Marx, and it is therefore unjustifiable to lump them together and to use the failure of the former to deduce that the latter, too, must fail.

Second, the level of the productive forces of the Soviet Union and Eastern Europe was different to that of developed capitalist countries, and, therefore, the fact that the former could not practise the planning economy envisaged by Marx does not prove that developed capitalist countries cannot do so.

The level of productive forces of the Soviet Union was relatively low when they established their planning economy. What was compatible with the level of productive forces at that time was not the planning economy but in fact the market economy. The level of productive forces of developed capitalist countries is obviously higher than that of the Soviet Union and Eastern Europe. In developed capitalist countries, the market economy has been fully developed and has become a fetter on the further development of productive forces. This manifests itself, on the one hand, in all sorts of economic and social problems in these countries, such as unequal distribution of

wealth, unemployment, economic crisis, pollution of the environment, all of which relate to the existence of market economy, and, on the other hand, in the development of some non-market or semi-market economic elements or social elements, such as the share of public sector, state-guidance plan, government intervention in the economy, various welfare projects and so on. This means that these countries to a great extent possess the prerequisite for realizing the planning economy envisaged by Marx, and therefore, for them, the issue of how to realize socialism is not that of how to continue and develop the market economy, but of how to abolish the market economy and establish the planning economy, step by step.

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