Barreto

Hist Econ

The Socialist Calculation Debate

What did Marx expect to happen in terms of how socialism would arrive and work?

P.1 *RP*: Kism is wonderful machines and ragged humans; make it share with everyone not just rich

How can Marx’s vision be used by Marxists trying to run the economy of Russia after 1917?

P.2: Not at all. Pass out handout on Marx’s view of communism

What was the Socialist Calculation Debate?

P. 3: whether a state-run economy could substitute for capitalism

AG #1: started in 1908 by Barone, is a planned economy possible, practical, desirable?

Blaug: Important because it popularized GE theory; explain with mountain of resources figure

Who was on the NO side? What did they argue?

P. 3: Mises

AG #2: Mises 1920 said you needed markets to get prices; Hayek 1945 “The Use of Knowledge in Society”

Blaug: Order matters: Mises said no, then Lange convinced people on yes, then Hayek explained the concept of coordination as a DISCOVERY PROCESS (and wins a Nobel Prize many years later)

Hayek’s case was about INFORMATION, not computation. The problem is not how to solve 1,000,000 equations but how to write them down. Key is each agent solves a tiny piece.

Who was on the YES side[[1]](#footnote-1)? What did they argue?

AG #2: Lerner, Lange (Lan-gay), Taylor said we could use equations to solve for prices

Market Sism is markets for consumer goods, but state planning for machinery, intermediate goods

Key sectors, commanding heights (Lenin’s term), would be state run

Also, in Russia, mathematicians—Russians really good at math; cybernetics institutes

Kantorovich invents linear programming

What is mechanism design?

Adam #3: A new discipline born out of the socialist calculation debate. Hurwicz

Design rules to reach outcomes – like the Game of Life, but starting from a given configuration.

He mentioned auctions—here are three alternatives:

English, Dutch, sealed bid auctions. What are these?

Explain that Roth won a Nobel Prize for matching—used in medical school, school choice, organs

Finish with videos, back to Red Plenty

What is collectivization and nationalization? Why is it so bloody?

Taking of private property; collective is a farm term

P. 4: Created a society that is utterly hierarchical

Do Soviet Leaders: Lenin, Stalin, Krushchev, Breshnev, Gorbachev

How did the Soviet economy actually function? Soviet means local council

p. 11: Describe & draw units in a pyramid reporting to ministries. Scientific Socialism. GOSPLAN.

p. 12 “method of balances”

In practice, it was a bureaucratic nightmare, with a lot of corruption and scheming

p. 16-17: making of viscose (makes rayon), easy but massive pollution “fortunately it was remote”

p. 17-18: truck wrecks machine🡪propagation of disruption everywhere “from folder to folder”

p. 20 All consumers did with viscose was to wear it.

Tell my story of the pork factory and the slicer that did not work.

Did the Soviet economy grow?

p. 5 *RP*: Yes after WWII and into 1960s. Sputnik was a huge success.

But it was *catch-up growth*. They were so poor and so far off the path, that they grew, but not sustainable. Draw graph.

In fact, central planning is poor at allocating resources, but it’s terrible at dynamic, innovative growth. Think about it—new products, new production techniques in the “method of balances”? What a hassle!

End class with “Any other questions?”

1. “Lange himself did not escape the corruption after he returned to Poland. By all reports, he ended up a tragic figure, a willing puppet of the communist regime, never able to achieve in practice what he had preached in theory. His personal life, also, was devastated. He abandoned his wife, who returned to the US, a sad and lonely figure. When he traveled abroad, it was with another woman, widely suspected of playing a dual role as companion and communist watchdog.” (Friedman and Friedman 1998, *Two Lucky People*, p. 55) [↑](#footnote-ref-1)