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What (is/was) socialism?

Variations of a theme of János Kornai honoring the 60th birthday of  
József Böröcz

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My esteemed colleague and dear friend József Böröcz is celebrating his 60<sup>th</sup> birthday. We are also sort of “comrades-in-arms”, among the few non-communists of the state socialist area who while trying to be “objective” in our social analysis we never betrayed our political commitment to the ideals of a democratic socialist left.

While Józsi, an eminent world system scholar as far as I can tell never contributed in any systematic manner to the library long literature what is/was socialism his work is deeply influenced by the tradition of socialist thought.

In order to honor Józsi I made the somewhat unusual decision to write a “verbal sonata” in three “movements on a theme” of János Kornai. In the waste literature on what is/was socialism Kornai with his brilliantly clear mind made a sharp definition – based on three pillars - what are the characteristics of socialism<sup>1</sup>. Each of his definitions can be interpreted and expanded, modified in different ways, so I use his definitions as musicians often used “themes” from “old master” to write “variations” of these themes.

**Movement 1: Allegro vivace** (“passage vigorous” from feudalism/capitalism to socialism). The first thesis of Kornai is that socialist countries outlawed private ownership of the means of production and all those means became government (publicly) owned. This indeed was a rather “vigorous passage” and in the process a few eggs were broken – as it is necessary as we know from –anarchism 101 for any revolution.

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<sup>1</sup> János Kornai.1992. The Socialist System. Princeton: Princeton University Press, pp.33-109.

**Movement 1/Variation 1.** Kornai is quite right: all actually existing socialist societies made a (rather) dramatic (hence: “allegro vivace”) effort to eliminate private ownership of the means of production

But let’s not forget, that Marx in his early formulation saw state ownership as “crude communism” rather than real socialism, which will establish the ownership of direct producers on the means of production <sup>2</sup>

In fact Marx in his debate with Bakunin<sup>3</sup> found himself on the defensive. Bakunin in 1872 accused Marx to be a “statist” and substituting the dictatorship of the proletariat with the dictatorship of the [statist] “socialist scholars”: “Marx is the Bismarck of Socialism”. Marx himself tried to ignore the criticism of Bakunin, this difficult task was left to Engels, who in his *Anti-Dühring* [1877]<sup>4</sup> where he introduced the term of “withering away of the state”, a variation to this theme repeated and elaborated in V.I. Lenin: *The State and Revolution* [1918]<sup>5</sup>. Engels had to accept that initially socialism can only proceed by nationalizing private property, but he believed this was just one step in a long process which eventually will lead to the “withering” away” of the state. Lenin went a step further, since he argued that with the “proletarian revolution” the working class “smashed the bourgeois” state, but did not quite explain what the future of the new proletarian state will be and how it will “wither away”. Stalin went one step even further, in his “The possibility of building socialism in one country” [1926]<sup>6</sup>. Since socialism is now built in one country, Soviet Russia, surrounded by enemies it requires the strengthening of the state. The “withering away” is a dialectical

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<sup>2</sup>Marx, Karl, the Paris Manuscript [1844, In Karl Marx and Frederic Engels, *Collected Works*, Vol.5. New York: International Publishers, 1975, pp-294-295

<sup>3</sup> Bakunin [1870].1966. „Marx the Bismarck of Socialism”, in *Patterns of Anarchy*, L... Krimmermann and L. Perry (Eds) *Patterns of Anarchy*. New York: Anchors, pp.882-83

<sup>4</sup> Friedrich Engels [1877], 1987. *Ani-Dühring*. In *Marx and Engels Collected Works*. Volume 25. Lawrence and Wishart.

<sup>5</sup> V.I. Lenin [1918] 2004. *The State and Revolution*. Whitefish, Montana.

<sup>6</sup> J.V. Stalin [1926] 1954. „The possibility of building socialism in one country”, in *Collected Works*, Volume 8. Moscow: Foreign Language Publishing House...

process, the state will wither away, but first strengthening it. And indeed this was the reality of Stalinist version of socialism.

But not only anarchists, like Bakunin, were uncomfortable with this “statist vision” of socialism. Kautsky as early as in 1920 defined the emerging Soviet state as “state capitalism”, rather than socialism<sup>7</sup>. Leon Trotsky [1937]<sup>8</sup>, once exiled, accepted that nationalization of private ownership completed the “economic revolution”, but this was politically betrayed, the USSR under Stalin was a “deformed worker’s state” in need of “political revolution”. It was socialist all right, but to become “genuine” socialism it needs an anti-bureaucratic revolution (this was very much on the mind of the reform communists behind the 1956 Hungarian Revolution, or the reformers of the Prague Spring, who never considered privatization of public good). After the Hitler-Stalin pact the “deformed worker’s state” was not a precise enough description of the USSR for many followers of Trotsky, As far as property relations were concerned now the emphasis is put on “control by the direct producers”, hence state ownership was defined as a “collective private ownership by the bureaucracy and therefore the USSR was regarded either as state capitalist<sup>9</sup> or bureaucratic collectivist<sup>10</sup>

The bottom line: Marx and even Engels hesitated whether state ownership of the means of the production is either a necessary or sufficient condition of socialism, later Marxists often tended to identify state ownership with bureaucratic control, antithetical to the socialist project.

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<sup>7</sup> Karl Kautsky, 1920. *Terrorism and Communism: A Contribution to the Natural History of the Revolution*. London: Allen and Unwin

<sup>8</sup> Leon Trotsky [1837]1962. *The Revolution Betrayed: What is the Soviet Union and where is it doing?* New York: Pathfinder

<sup>9</sup> Tony Cliff. [1955] 1974. *State Capitalism in Russia*. London: Pluto Press

<sup>10</sup> Antonio Carlo. 1974. „The socio-economic nature of the USSR”, *Telos* 21: 2-86 and Cornelius Castoriadis. 1978. „The Social Regime in Russia”, *Telos* 38:212-48. The bureaucratic collectivist view deeply influenced Fehér, Heller and Markus as well, see Ferenc Feher, Agnes Heller and George Markus. 1983. *Dictatorship over Needs*. Oxford: Blackwell

**Movement 1/Variation 2.** The distinction between socialism and capitalism. Marx in his later work, the most forcefully in *Critique of the Gotha Program*<sup>11</sup> distinguishes two distinct phases of transition from capitalism to communism, the first is called variably as “socialism” or “revolutionary dictatorship of the proletariat”, the second communism. In the first phase a strong state is required, the dictatorship of the majority over the minority of capitalists, and people are regarded according to their contribution to the collective good, the second phase will be the control by the direct producers, the state withering away and people will be rewarded according to their needs.

This distinction came handy to the USSR and even contemporary China, where the parties are called “communists” but the societies are described as a transition stage, socialism, where dictatorial means and state ownership are necessary until the social and material base of an egalitarian communist society is established.

It can be on the other hand debated whether “state capitalism”, or “state socialism” is indeed a step forward from free market capitalism, or it is more a step backward to a society based on rank rather than merit. Piketty<sup>12</sup> for instance foreshadows the raise of “patrimonial capitalism”. While in Piketty’s work the concept of “patrimonial capitalism” is not that clearly defined in my interpretation it is such a rent-seeking economic system in which either big capital captures the state – what Donald Trump seems to try to do in the US – or what Putin’s Russia or Orbán’s Hungary is a good approximation of, namely “market capture by the state”. In both cases it is a “statist version” of capitalism. Some commentators see in re-nationalization in Russia or in Hungary as a “restauration of communism”, but it is probably better called “state capitalism”, a step backward to feudalism.

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<sup>11</sup> Karl Marx. [1875]. 1970. „Critique of the Gotha Program”, in Marx and Engels, *Selected Works*. Vol. 3. Moscow: Progress Publisher.

<sup>12</sup> Thomas Piketty. *Capitalism the Twenty-First Century*- Cambridge: Harvard University Press

**Movement 1/Variation 3.** The property form also varied under most actually existing socialist societies. Distinction was made between “state ownership” and “cooperative ownership”<sup>13</sup>. Whether this difference was consequential and even which form was more “progressive” was debated. The official Soviet doctrine regarded the kolkhoz (agricultural cooperative) as a temporary survival of the Russian village commune, which eventually will turn into the more advanced state ownership (in agriculture that was called sovhozes). Critics of the communist system often argued that under socialism only pseudo-cooperatives existed, they were not genuine collectives.

This all can be debated. Even in rigid socialist systems cooperatives had some unique features. Members of cooperatives typically received only an “advance payment” on their annual earning and at the end of the financial year they received their “share”, while in state owned enterprises monthly wages were paid. Coop leadership often were – at least formally – elected rather than just appointed. What is even more interesting in the last stages of communism in former communist countries, like in Hungary cooperatives gained more autonomy even within state firms, the bureaucratic organization was complemented by sort of cooperative associations of workers<sup>14</sup>. Occasionally even in state owned firms workers formed sort of semi-private work organizations, used the firm’s facilities, but stayed after working hours and continued production but in a sort of profit sharing arrangements. As communism was collapsing in 1988-1990 some theorists saw an opportunity to pass ownership to workers rather than privatize firms: one may say even some kind of Proudhonian socialism<sup>15</sup> appeared as a distinct possibility out of state socialism.<sup>16</sup>

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<sup>13</sup> Frank Ellis. 1993. *Peasant Economics*. Cambridge: Cambridge University Press.

<sup>14</sup> David Stark. 1989. „Coexisting Organizational Forms in Hungary’s Emerging Mixed Economies”, in Victor Nee and David Stark (Eds) *Remaking the Economic Institutions of Socialism*. Stanford: Stanford University Press, pp. 137-168

<sup>15</sup> Proudhon wanted to generalize property rather than eliminate it. Passing state ownership in vouchers to post-communist firms to workers is consistent with Proudhon’s initial ideas of „mutualism”. See Pierre-Joseph Proudhon, *Theory of Property* [1866]1969. Selected Writings. Garden City, N.Y. Anchor Books

<sup>16</sup> Szalai Erzsébet, 1989. *Gazdaság és Hatalom*. Budapest: Aula Kiadó. pp.177-197

**Movement 2: Minuetto** (dances around market and redistribution). The second thesis of Kornai is that socialism replaced market coordination of the economy with bureaucratic coordination (it was also called a “command economy, centrally planned economy or redistributive economy). Indeed all “actually existing socialist societies” tried to eliminate or at least reduce the operation of markets, hence Kornai is right on the dot.

**Movement 2/Variation 1.** How “bureaucratic” were socialist societies? Weber believed that bureaucracy is the purest form of legal-rational authority. If socialism was a “command economy” as many analysts believed it was<sup>17</sup> it inevitably was the opposite of the Weberian notion of bureaucracy. Command economy assumes that a central authority has absolute power to issue commands, which will be carried out along the line of command. Weber<sup>18</sup> understood bureaucracy as an organization, which is bound by pre-established rules, where activities are carried out by qualified people, experts, where there is a channel of appeal against decisions, where members of the staff have no property rights (including the rights of disposal) and which is operated on the grounds of formal rationality. Socialist economies are a far cry from such a bureaucratic organization. Whether their description as “command economies” is disputed (a great deal of “plan-bargain” occurs at various levels), but they certainly in principle operate on substantive rather than on formal rationality, the staff is often accused of incompetence and the appropriate at least certain right of disposal.

**Movement 2/Variation 2.** Ironically it appears the Weberian ideal type of bureaucracy seems to be operating within capitalist market economies. Oliver Williamson<sup>19</sup> pointed out that too much uncertainties on competitive markets demand a hierarchical

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<sup>17</sup> Gregory Grossman. 1963 „Notes for a theory of Command Economy”, *Soviet Studies* 15(4):101-23

<sup>18</sup> Max Weber. [1920]1978. *Economy and Society*. Vol. I. Berkeley: University of California Press, .pp-217-220

<sup>19</sup> Oliver Williamson.1975. *Markets and Hierarchies*. New York: The Free Press

(bureaucratic) organization within firms. If uncertainties on the market impose too high costs the firm will incorporate such activities within its own organization. Vertical integration of economic activities within the same firm has its costs, when those costs become too high activities will be subcontracted to other business organizations in market transaction. Hence a balance is created between market transactions of hierarchical organization depending transaction costs. A smart firm will not rely on an external supplier if there are too high risks whether the supplier will deliver the good necessary for production in a timely manner but will produce those goods within the hierarchy of the firm. If supervision of such sub-organization becomes too expensive, the alternative will be to use another firm as a contractor. Markets and hierarchies (bureaucracies) do not contradict each other, other they complement each other.

**Movement 2/Variation 3.** Given the above mentioned imprecisions of the term “bureaucracy” I prefer to use the concept borrowed from Polanyi: “redistribution” to describe the nature of socialist economy. Polanyi used the term “redistribution” to characterize the economic integration of Early Empires<sup>20</sup>. economies, where one central hand concentrated the means of expanded reproduction and redistributed it according one central will and local needs. Ancient China with its extensive irrigation system, which required a central authority to build and maintain such a system covering large areas, multiple communities was a classical empire. Polanyi never used systematically the concept of redistribution for Soviet type of economies but I found this concepts adaptable (better than bureaucracy, central planning and command economy). In actually existing socialist economies central authorities appropriated all surplus from the production organization and in a complex bargaining process with regional and firm level authorities redistributed it. It would be misleading to regard the central hand as an all-powerful “command center”, it had to make compromises with lower level

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<sup>20</sup> Karl Polanyi (ed). 1957. *Trade and Market in Early Empires*. New York Free Press

organizations. Planning or central planning was also misleading since it assumed a well-conceived pre-established aim for the action of the central hand though it often resulted in outcomes of political compromises, which may have contradicted the initial intentions of the “central hand”. Kornai brilliantly showed<sup>21</sup> that such a bargaining with various levels of economic actors systematically produced shortages. The central hand as a good patron tried to please all of its clients, hence redistributed thinly its resources, investments, which were initiated and inevitably run out eventually of resources. This resulted in a great volume of incomplete, unproductive investments. Socialist economy entered a stage of crisis: given the shortages of resources they had to freeze some investment project, once the selected one were completed the economy moved from the crisis into a new boom. While market capitalist economies were driven by the tendency of over-production, socialist economies were driven by crisis of acute shortages<sup>22</sup>. David Stark called this type of analysis as “mirrored comparison”<sup>23</sup> : both capitalist and socialist systems are driven by “business cycles”, but the causes of the cycles are the opposite. Ironically, when a redistributive economy entered a severe crisis of shortages socialist economies began to rely to market forces to compensate for the chronic shortages<sup>24</sup>. While market capitalist economies use welfare redistribution to fight crisis caused by overproduction, socialist economies rely on markets to compensate for chronic shortages.

**Movement 2/Variation 4.** What about market socialism? The ghost of “market socialism” haunted socialist ideologues early on. Michael Kalecki was one of the first Marxist theorists who in responding to inefficiencies of centrally planned economies considered in some of his essay is the 1930’s and early 1940’s the need of market

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<sup>21</sup> János Kornai. 1980. *Economics of Shortage* Amsterdam: North Holland

<sup>22</sup> Kornai János. *A Hiány*. Budapest: Közgazdasági és Jogi Kiadó, 1982. . pp.224-229

<sup>23</sup> David Stark.1996.” Recombinant property in East European capitalism”, *The American Journal of Sociology* 101 (4): 993-1027

<sup>24</sup> Ivan Szelenyi. 1978. „Social Inequalities in State Socialist Redistributive Economies”, *International Journal of Comparative Sociology*. No.1-2:63-87



mechanisms for properly functioning socialist economies<sup>25</sup>. Oscar Lange as early as in 1936 suggested a market socialist model<sup>26</sup> and the idea became quite fashionable during the reform years of the 1960's and 1970's in former socialist societies. Liska went as far as to suggest proper market economy impossible with private property<sup>27</sup>

Private ownership and especially inherited wealth is a limitation of free markets, so genuine free markets are only possible under socialism. In contrast János Kornai in a brilliant article delivered during the mid- 1980's on a conference in Moscow pointed out that there is an "elective affinity" between forms of ownership of coordinating mechanism: free market presumes the existence of private ownership<sup>28</sup>. If Kornai is right "market socialism" is not possible, it is contradiction of terms.

**Movement 2/Variation 5.** Is China "market socialism? China since the mid 1980's put the concept of "market socialism" back on the agenda. Kornai himself is hesitant for a while to decide whether China is in the late 20<sup>th</sup>, early 21<sup>st</sup> century socialist or capitalist. Ideologues of late 20<sup>th</sup>, early 21<sup>st</sup> century China insists it is still a socialist country on its way to capitalism, but it is a market economy<sup>29</sup>. China undoubtedly applied a great deal of market forces after 1978 and after the late 1990's even started privatization of public firms. Nevertheless the Chinese Communist Party retained its power monopoly, ownership of large Chinese corporation looks rather "recombinant property rights" to use David Stark's term and the Chinese government interferes in multiple ways (especially through the banking system) into the functioning of the economy. Victor Nee called the Chinese economy a "hybrid one"<sup>30</sup>. For World System

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<sup>25</sup> Michal Kalecki. 2011. *Selected Essays in Economic Planning*. Cambridge: Cambridge University Press contains his early essays.

<sup>26</sup> Oscar Lange. 1936. "On the Economic Theory of Socialism". *Review of Economic Theory* 4(1):53-71

<sup>27</sup> Liska Tibor. 1988. *Ökonosztát*. Budapest: Közgazdasági és Jogi Könyvkiadó

<sup>28</sup> János Kornai. 1990. "The Affinity between Ownership Forms and Coordinating Mechanisms", *The Journal of Economic Perspectives*, 4(3):131-147

<sup>29</sup> For a fuller discussion see Ivan Szelenyi. 2010. "Capitalism in China? Comparative Perspectives", in Yin-wah Chu (ed) *Chinese Capitalisms* Hong Kong: Palgrave Macmillan, 2010

<sup>30</sup> Victor Nee. 1992. "Organizational dynamics of market transition. Hybrid forms, property rights and mixed economy in China", *Administrative Science Quarterly*, 37(1):1-27

Theorists this is not much of a challenge, at least in his early work Immanuel Wallerstein<sup>31</sup> and many of his disciples see even the USSR after interacting with the world market and by implication China entering the world economy were “capitalists”, since they become integral parts of the “world system”. Only those countries (like North Korea in the 1970’s, 1980’s, which did break the logic of the world market) remained genuinely socialist according to orthodox world system theorists.. For some Marxists this grossly overemphasizes the role of market, instead of property and class relations in the definition of capitalism hence Wallerstein was accused to commit the crime of “Smithian Marxism”<sup>32</sup> (I actually do not know where Böröcz stand in this debate, if he took a position at all, there are pros and cons for both arguments). The world system debatable: actually existing socialist societies usually depend themselves – to use Kark Polányi’s terminology - “port of trades” (foreign trade companies which adjust world market prices to domestic prices) and to some extent keep the pressures of the world market from domestic economy. Even at the time of the oil boom its impact was greatly limited on the Satellites of the USSR since USSR was not member of OPEC and adjusted its oil export prices to world market prices just gradually.

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<sup>31</sup> Immanuel Wallerstein. 1974. *The Modern World System*. Berkeley: University of California Press.

<sup>32</sup> Robert Brenner.1977. „The Origins of Capitalist Development: a Critique of Neo-Smithian Marxism”, *New Left Review*, 25, July:25-94

**Movement 3: Finale presto** (dramatic end of the Communist Party rule). The third thesis of Kornai is that socialist countries are ruled by one party, which legitimates itself by the ideology of Marxism-Leninism (Maoism). Kornai is of course right, all “actually existing socialist societies” were one party states and they tried to legitimate themselves with reference to Marxist-Leninism (or some further elaboration of the classical doctrine).

**Movement 3/Variation 1.** Socialism on the periphery? But is it conceivable by “true” Marxist to establish socialist systems at the periphery of the world system? Classical Marxism without any doubt believed that socialism will emerge at the very core of the capitalist systems, once the “relations of production” does not allow any longer the development of the “forces of production” This is Marxism 101 from the German Ideology. Socialism was supposed to emerge in England, or to put it with 20<sup>th</sup> century terminology in Scandinavia, but certainly not in backward Russia, rural China or in Cuba. It was Lenin’s great contribution to Marxism (Marx might have felt uncomfortable with this “innovation”) that the revolution should start at the “weakest chains in the capitalist system”<sup>33</sup>. Mao Zedong further added to this theory by emphasizing the peasant masses are more capable to carry out the proletarian revolution than (the practically hardly existing) industrial proletariat in the late 1940’s in China. So is it really Marxism, which attempts to implement the Marxian project in a mostly peasant backward country? Can the system thus created called “socialism” at all?

**Movement 3/Variation 3.** Socialism in one country. Marx and Engels anticipated a world-wide proletarian revolution and even Lenin and following him. Trotsky saw the Russian revolution just the beginning of a world-wide revolution. As communism won the civil war and established itself in the USSR Stalin developed the concept of

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<sup>33</sup> V.I Lenin. 1917. *State and Revolution*

Socialism in one Country<sup>34</sup>. This was of course a major deviation from the original project of Marx and Engels and was met with vehement criticism by Leon Trotsky and the 4<sup>th</sup> International. They always insisted the socialism can only be conceived as a world-wide system. Can a party which gives up the ideals of internationalism called Communist at all?

Let me allow a little personal anecdotic digression. in 1986-88 I was the chair of the Sociology Ph.D. program at the City University of New York, which at that time was located on the 42<sup>nd</sup> street. My predecessor was Bogdan Denitch, who was active in the so called “Democratic Socialist Movement”. Bogdan appointed democratic socialist faculty and admitted students affiliated with the movement, which during the 1980’s did play some role in New York City. Sociology occupied the 13<sup>th</sup> floor of the building. When I took over Bogdan’s job some of my colleagues jokingly asked: will you keep building socialism on the 13<sup>th</sup> floor? Well, I did not and my first appointment was a good statistician.

**Movement 3/Variation 4.** After the possibility of socialism in one country was accepted the question was occasionally posed – not without reason - are these parties communists at all, or are they nationalist. During the Second World War the USSR was not fighting for the international revolution but was engaged in the “Great patriotic war”. While Mao was fighting Confucius during post-communist times some principles of Confucius were adapted in “communist China, so the young American political scientist half-jokingly recommended Chinese Communist Party should be rename Chinese Confucian Party, so it could remain CCP<sup>35</sup>. Yugoslavia followed its “national” model of socialism and that idea was greatly appealing to various countries from Albania, Hungary, Poland and North Korea... Were these countries communists at all?

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<sup>34</sup> I.V. Stalin. 1926. “The Possibility of Building Socialism in one Country”, in I.V. Stalin, *Collected Works.*, Volume 8. Moscow: Foreign Language Publishing House.

<sup>35</sup> Daniel Bell. 2008. *China’s New Confucianism*. Princeton: Princeton University Press.

**Movement 3/Final Variation.** Marxist parties OK, but which Marxism? Marx once famously said about himself (in a letter written to Bernstein in 1882): I am not a Marxist. And indeed Marx changed over his life-time from the Paris Manuscript (1844) “voluntaristic”, or Hegelian Marxism to the “scientific Marxism” of *Das Capital* (1867).

Karl Korsch in his wonderful *Marxism and Philosophy* [1923] applied the Marxist method and Marxism and demonstrated a great deal of varieties within Marxism<sup>36</sup>. Yes, Kornai is absolutely right, all actually existing socialist societies legitimated themselves to some sort of Marxism but they interpreted Marx from the Paris Manuscript or *Das Kapital* to Stalin’s brilliant piece on socialism in one country. So one party rule: by all means, but which one – if any of them – was “Marxist”?

Kornai is of course right: the disintegration of the Communist party is the most dramatic end of “socialism as we know it” (hence it is *Finale Presto*)

So the question what (was) socialism has not been resolved. Kornai’s lucid definition gives us a great starting point but what the final answer is, or will be (if there ever be a final answer) remains subject of social struggles. More interesting: we can still debate whether socialism “was” or “real socialism” will just occur sometimes in the future hence so far it never really existed. Let’s continue the conversation.

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<sup>36</sup> Karl Korsch [1923] 1972. *Marxism and Philosophy*. London: New Left Books