K. Christ / History of Economic Thought
10: The systems debate

Outline

I. The Socialist Alternative
   • The lack of a plan: *Socialism: Utopian and Scientific* (Friedrich Engels, 1880).
   • Capitalistic “laws of motion”.
   • Marxian economics refers to a vast and varied body of work that follows from Marx’s initial criticism of capitalism. Important (but not well-known) Marxian economists include Karl Kautsky (1854 – 1938), who helped develop an economic theory of social democracy.

II. Fabian Socialism and Social Democracy
One answer to the question of how to bring about and organize a socialist society was supplied in the 1880s by a group of British intellectuals who became known as the Fabians. George Bernard Shaw, Sidney Webb and others published *Fabian Essays in Socialism* in 1889, in which they called for a gradualist and democratic transition to a socialist society.
   • Fabian critique of capitalism: Basically an assimilation of Ricardian rent theory and Marxian exploitation theory, yielding disruptive inequalities of wealth.
   • Fabian interpretation of historical progress to socialism.
   • Evolution of social democracy and market socialism.

III. The “Systems” Debate
The Russian Revolution (1917) and the period of civil war and “war communism” in Soviet Russia (1918 – 1921) was a brief and chaotic attempt to organize a society without markets and prices. The Soviet government’s implementation of a New Economic Policy in the early 1920s might be seen as an acknowledgement that government planners would have to make some use of markets and prices even in a communist society. This historical experience gave impetus to more detailed investigations into the practicality of socialist systems.
   • In “Economic calculation in the socialist commonwealth” (1920), Ludwig von Mises argued that socialism could never work and set off what became known as the socialist-calculation debate.
   • Hayek’s discussions of dispersed knowledge (“The Use of Knowledge in Society”, 1946) and personal liberty represent the most passionate and sophisticated responses to socialist planners. *The Road to Serfdom* (1944) is a classic defense of individual liberty and unrestricted capitalism.