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**MARKET SOCIALISM AS A
DISTINCT SOCIOECONOMIC
FORMATION INTERNAL TO THE
MODERN MODE OF PRODUCTION**

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**MARKET SOCIALISM AS A DISTINCT SOCIOECONOMIC FORMATION
INTERNAL TO THE MODERN MODE OF PRODUCTION**

Abstract

This paper argues that, during the present historical period, only one mode of production is sustainable, which we call the modern mode of production (MMP). Nevertheless, there can be (both in theory and in practice) enough differences among the specific forms of MMP prevailing in different countries as to justify the identification of distinct socioeconomic formations, one of them being market socialism (MS). In its present stage of evolution, MS in China and Vietnam allows for a rapid development of productive forces, but it is seriously flawed from other points of view. We argue that the development of a radically reformed and improved form of MS is far from being an inevitable historical necessity, but constitutes a theoretically plausible and auspicious possibility.

1. To our view, the correct interpretation of the presently existing market socialism system (MS) in China and Vietnam requires a new and partly modified utilization of one of Marx's fundamental categories, that of mode of production. According to Marx, different modes of production could be identified in different historical periods and in different parts of the world. In each territory and in each moment of time several modes of production usually coexisted, but one of them could be considered to prevail on the others. In the long historical time, relative stability predominates in some periods, while other periods are characterized by the transition from one prevalent mode of production to another one.

2. Marx argued that the most advanced mode of production existing at his time, capitalism, was still prevailing only in a few countries, but thanks to its intrinsic superiority and to its in-built tendency towards incessant expansion it would eventually embrace the whole world. He admired several dynamic and modernizing features of capitalism, but criticized its defects, advocating its demise and the advent of a new mode of production, socialism. Socialism was to be founded on the public ownership of means of production and on rational economic planning, as opposed to private property and the spontaneous play of anarchic market forces which characterize capitalism.

3. However, historical experience has shown that the high and ever-increasing degree of complexity of modern economies, linked as it is to continuous and stratified knowledge accumulation on the part of numerous and diverse agents, does not allow for simplistic or over-centralized solutions to the core governance problem. Soviet-style command economies proved to be too rigid to be able to absorb from outside, internally generate and diffuse innovations in a satisfactory manner. XXI century socialists should realize that, under the objective conditions likely to prevail in the present historical era - to be seen (à la Braudel) as a period of long duration - the role of coordinating ordinary economic activities must be entrusted to the market to a large extent. Therefore, in a medium-to-long term historical perspective, only one mode of production is sustainable, which we propose to call simply and neutrally the "modern mode of production" (MMP). In the framework of the MMP, however, several alternative forms can develop as a result of various factors.¹

4. Our approach implies to consider all major contemporary social and economic systems as different forms of the MMP. As opposed to the previous ones, this mode of production is critically based on the production of surplus value, capital accumulation, and technical progress, as well as on the pervasive role of market exchanges/relations²: these elements, if a number of ancillary conditions are satisfied, allow for a continuous increase in per capita production for a relatively long period of time. In the longer run, all presently-existing forms of MMP are likely to prove not sustainable, due to - inter alia - environmental considerations, unless they are profoundly reformed. In the very long run, it is also likely that the survival of human civilization might eventually require truly revolutionary changes³ in production and exchange relations, changes of such a quantitative and qualitative magnitude as to imply a transition to a radically new and diverse mode of production, which can be thought of as an authentic and mature form of socialism. However, at the present stage we can hardly envisage its concrete features, and therefore we must leave this task to the future generations.

5. The concept of MMP can be applied both at the global and at the national level, but must be understood very differently in the two opposite contexts. At the global level, each historical phase is marked by the prevalence of one specific type of MMP.⁴ So far, all of them have been clearly capitalist in nature, and the present one is still strongly characterized by the categories of imperialism and global quasi-monopolistic competition. Nation-states' degrees of freedom in the area of economic and social policies are obviously constrained, but not completely negated, by the international economic and political forces of global capitalism. As a result, at the national level, a limited but significant range of different variants of the MMP can coexist, at least for a certain period of time. In this paper we focus precisely on one of these national variants.

6. National forms of the MMP differ among themselves to varying degrees. One convenient way to conceptualize these differences consists in classifying their social and economic systems according to their position in a multidimensional space, determined by vectors that describe key structural economic and social characteristics⁵. Such characteristics have both positive and normative⁶ components,

and can be quantified *strictu sensu* only in some cases, while in others they can be evaluated only tentatively, on the basis of heuristic assessments which are arbitrary to some extent.

7. Socioeconomic vectors belong to two categories. The vectors of the first category represent structural features of social production relations, and are thus essentially positive in nature. One of the most important vectors describes the relative weight of the State and of the market respectively in regulating economic activities⁷ – taking for granted that the space of possible states of the world excludes the extremes “no state” and “no market” as they are not sustainable. Another structural vector describes the distribution of the ownership of the main means of production. A third vector, strictly related to, yet not identical to the second one, identifies the class(es), or social group(s) controlling the economy as whole, and determining the joint process of accumulation and technical progress. Other vectors could be identified, referring to other, less crucial positive aspects of a country's economic and social reality.

The vectors of the second category are normative, and represent the degree of achievement of intermediate (e.g., GDP growth, energy consumption, speed of technical change) and final goals (such as poverty elimination, universal satisfaction of basic needs, equity in opportunities, an ethically and socially satisfactory income distribution, environment protection).

8. Each country's socioeconomic system can be identified by a given point in the multidimensional space described above. Many of both the positive and normative characteristics described by the corresponding vectors can be seen as describing a higher or lower level of “socialisticity” of a country's specific version of MMP. Necessarily, even the criteria which might allow to define a country's socioeconomic system “more socialist” than that of another country are arbitrary to a large extent, and not all observers can necessarily be expected to agree on their choice. Nevertheless, it is likely that the majority would accept two very schematic criteria, each one valid only in its own sphere (positive and normative respectively).

9. The positive criterion is simple: the more relevant the socioeconomic role of the state, the more a country's system is “socialistic”. From a normative

viewpoint, "socialisticness" is directly correlated to the degree of effective and measurable achievement of the traditional and relatively less traditional goals of the international socialist movement, such as low social and economic inequality (both in terms of possibilities and of outcomes), the universal satisfaction of basic needs, environmental sustainability, and the like.

10. Taking into account that social production and exchange relations are extremely complex, and that history itself is dialectic and to some extent contradictory in nature, there is not necessarily a bi-univocal correspondence between the positive and the normative spheres. Yet, the two spheres are significantly related to each other. The relationship between systemic structure and economic and social outcomes can be seen as a specific form of the more general relationship between means and ends in the historical-social domain.

11. According to our conceptual framework, different countries separated by a distance not inferior to an arbitrarily established threshold in the multidimensional space described above, can be considered as belonging to different subsets of the quasi-universal MMP.⁸ Utilizing in a partly different fashion a Marxian terminology, we call these subsets "socioeconomic formations". In our view, the presently-existing Chinese economic and social system (and the Vietnamese one, that shares with it several structural characteristics) can be considered as historically new and diverse socioeconomic formations with respect to the typical capitalist one prevailing in most other countries.⁹ We also argue that the term "market socialism" (MS) is at least partially apt to define them, with the big caveat that the word "socialism" must be interpreted a weak, strictly positive sense.

12. The structural feature which allows to significantly differentiate MS from the standard capitalist model is as follows: the State¹⁰ is endowed with a high degree of direct and indirect control of the means of production, and, as a result, social production relations are different from those prevalent in capitalism. This difference is significant and meaningful at the macroeconomic and systemic levels, but does not necessarily manifest itself at lower levels, those which are subjectively relevant for individual human beings. On the contrary, most Chinese and Vietnamese, who are either small farmers or wage laborers, must confront as workers social

production relations which are essentially market-determined, and therefore are not subjectively different from capitalistic ones.¹¹

13. Under the presently-existing form of MS, the role of key agent of the accumulation and economic development process, as well as of holder of political and military power, is played by the Party, not by the bourgeois class. The party is a social group which does not privately own the main means of production from a legal point of view. Yet, it exerts a strong form of strategic control on them through a network of public and semi-public bodies, in the context of a complex, multi-layered system of property rights.

14. We warn readers that this point is a central one in our argument. There is little doubt that the Party did control directly the mean means of production during pre-reform times. However, nowadays, to gauge that the Party maintains such strategic control on the economy, on one hand, and has not transformed itself into a new form of capitalistic bourgeoisie,¹² on the other hand, constitutes a value judgment proceeding from a holistic assessment.

15. In sum, our concept of MS is a purely positive one, centered on the economic role of the State. It acknowledges the seriousness of real-world social and environmental problems and contradictions, and ignores the crucial (albeit not strictly "economic") issues of workers' participation, alienation, and democracy. At this stage, some readers might be tempted (understandably) to argue that the concept of MS is just a fig leaf which covers another kind of animal, and a very old one indeed: State capitalism. The two concepts can in fact be seen as rather close to each other.¹³

16. However, we prefer the term MS, for two main reasons. First, the term State capitalism has a long history, and it has been applied with various meanings to many socioeconomic formations which are quite different from contemporary China and Vietnam (from the USSR, to the US, and again to contemporary Russia¹⁴). It is thus bound to be interpreted in confused and contradictory ways. Second, even taking for granted the pursuit of scientific objectivity on the part of all honest social scientists, it is fair to acknowledge that the language itself is not a totally neutral tool, and the choice of one term over another does imply to some extent a form of value

judgment, as we mentioned above. The choice of the term MS suggests the underlying assumption that China and Vietnam cannot be seen (at least, for the time being) as fully de-linked from their past socialist history, and that they should rather be considered as relatively sustainable transition socioeconomic formations (see Schettino F.,2006, p.1). To our view, such socioeconomic formations do contain elements of socialism and, more importantly, embody significant potentialities, which might allow them to evolve towards a superior and less contradictory socialist direction. Other observers, of course, might not share our value judgment, which does not, in any case, exclude the opposite eventuality (i.e., an overall irreversible capitalistic degeneration, which might eventually become unstoppable some time in the future).¹⁵

17. The MS, in theory, can allow to overcome an intrinsic drawback of capitalism: the potential contradiction between savings and investment, which is caused by the appropriation in financial form of the socially-generated surplus value on the part of an extremely tiny social class - the bourgeoisie. This class is not endowed with effective internal coordination mechanisms to undertake long-term key economic decisions (such as the determination of the rate of capital accumulation), and each of its members has little alternative from relying on the myopic signals stemming from the market.¹⁶

18. We argue that in fact, under the presently-existing form of MS, the State enjoys a capability to affect and determine the rate of investment to an extent which is significantly larger than under typical capitalist conditions. This advantage is made possible by the availability of a vast array of tools for controlling directly and indirectly the production and utilization of the socially-generated surplus value, and to the absence of a properly structured and politically hegemonic national bourgeois class.

19. In the present epoch, characterized by the availability of sophisticated and ever more powerful calculation devices, such a direct and indirect strategic control on the main means of production and on the *loci* of generation and reproduction of technical knowledge, can allow the State (in principle) to formulate and implement an advanced form of planning, focusing on the speed and the

qualitative characteristics of the accumulation process.. This potentiality is the key historical element of superiority of MS with respect to capitalism, seen from a theoretical viewpoint.

20. This theoretical potentiality has been exploited so far in real-world China and Vietnam only to a modest extent. Nevertheless, the extraordinary dynamism of the Chinese economy (and, to a slightly lesser extent, of the Vietnamese one) is largely attributable to the structural characteristics of MS. In sum, MS allows in theory (and,, gauging from the last three decades' experience, also in practice) to achieve more effectively that under a standard capitalist regime a key intermediate goal: the rapid development of productive forces. This goal, which is particularly important for less advanced countries, is synthetically measured ex-post, in a notoriously inadequate fashion, by the GNP¹⁷ rate of growth¹⁸.

21. Moreover, without going beyond the frontier of theoretical possibilities offered by the structural characteristics of MS, a high degree of public control on most of the surplus potentially implies relevant distributive and, more generally, normative advantages in the realm of the rational planning of an important portion of final consumption. MS, in fact, potentially allows to minimize the superfluous consumption of those privileged classes which, under capitalism, capture non-labour incomes, and to earmark the corresponding resources towards public and/or social consumption. As a result, the degree of satisfaction of basic needs through public, non-market supply of social services could be distinctively and structurally higher than under standard capitalistic conditions¹⁹. Both from the side of production and from that of consumption, a similar line of thought would suggest an analogous superiority of MS in minimizing negative environmental externalities.

22. Unfortunately, it is plain that this second set of potentialities of MS is far from being exploited nowadays in real-world China and Vietnam. On the contrary, as it has been officially or quasi-officially acknowledged in China (and, to a lesser extent, also in Vietnam), the perverse spiral towards an ever-worsening distribution of incomes has virtually gone out of hand, essential public services such as health and education have been partially privatized and are in a parlous state²⁰, and pollution has reached alarming proportions.²¹ In other words, the presently-existing form of MS has

largely failed to translate the achievement of an intermediate and instrumental goal - GNP growth - into final social and "humanistic" goals (where the latter is a series of reasonable objectives, which are not class-based but of crucial importance for humankind as a whole, the main one being establishing an adequate and sustainable relationship between the sphere of human activities and that of the natural environment).

23. In China, market-oriented reforms generated new class contradictions, which were nonexistent, or anyway of minor importance, during the command economy era, when paradoxically Mao theorized the intensification of class struggle in the post-revolutionary period²². Such contradictions have not been even officially acknowledged until a few years ago and, in absence of an adequate subjective intervention of political power, they have gone progressively out of control. The CCP itself manifested serious forms of opportunistic degeneration, and economic policies were vitiated by an excessive and paroxistic priority accorded to quantitative growth. Notwithstanding the extraordinary improvement of living standards for most Chinese people, the Party underplayed the worsening of the welfare and livelihood conditions for consistent, underprivileged groups of the population, especially in poor rural areas. More importantly, the CCP also underestimated the gravity of the relative impoverishment of the majority of the people, which is an inevitable consequence of the excessive growth in the incomes of new, dynamic, but still relatively minoritarian social groups.

24. The present CCP leadership has recognized in its official political discourse the seriousness of the problems mentioned above, criticizing sometimes explicitly the market-fundamentalist deviations of the recent past. It has also emphatically proclaimed a new and diverse political course, axed on maintaining and perfecting the key dynamic features of the presently-existing form of MS in the sphere of production, but abandoning to a large extent the role of market mechanisms in the fundamental areas of income distribution, provision of social services, and environment protection, in favor of an enhanced role of State intervention.

25. Hu Jintao and his leadership have done something and have obtained some results, but have so far largely failed to achieve their ambitious objectives. MS

is alive and kicking in China, but still essentially in what we can only hope future social scientists will classify as its first, primitive, severely flawed historical phase. If the theoretical approach proposed in our paper is correct, there is at least the logical possibility that the present Chinese leadership will eventually succeed²³, and/or that other, more advanced forms of MS will develop in other parts of the world, including the most advanced and industrialized regions, over a period that we can only tentatively imagine as being a very long one²⁴.

26. Such auspicious social and economic changes would be consistent with the spirit of Marx's famous words: "From the standpoint of a higher socio-economic formation, the private property of particular individuals in the earth will appear just as absurd as the private property of one man in other men. Even an entire society, a nation or all simultaneously existing societies taken together are not the owners of the earth. They are simply its possessors, its beneficiaries and have to bequeath it in an improved state to succeeding generations, as *boni patres familias*." (*Capital*, Vol. III, p.911, Penguin Books, New York, 1991).

¹ The most important factor is the class struggle, focused on the control of the power relations determining the extraction and the appropriation of the surplus value.

² The extraction of surplus on the part of dominant classes, of course, has been in existence long before: it presents different characteristics in the MMP, as in this mode of production the generation of surplus value is linked to the existence of a labor market, to which workers participate as formally free agents.

³ The contradiction between the present trends prevailing worldwide in the global capitalistic system and the need to preserve minimally sustainable environmental standards is acknowledged also by the most responsible sectors of the transnational bourgeoisie. In this respect, Bjorn Stigson, the head of the Geneva-based World Business Council for Sustainable Development (WBCSD), recently declared that a revolution of society on a scale never witnessed in peacetime is needed if climate change is to be tackled successfully (Financial Times, September 5, 2007).

⁴ With the term "phase" we refer to one of several stages of development of the same mode of production.

⁵ According to such a mathematical metaphor, most of these vectors are to be imagined as continuous. Of course, the continuity of the vectors and the "density" of the multidimensional space containing all theoretically possible features of socioeconomic systems has nothing to do with the advisability or not of adopting certain forms of political action (revolutionary vs. reformist/gradualist) on the part of political organizations trying to modifying the existing socioeconomic setting in a socialist direction, in the context of a concrete historical situation.

⁶ The distinction between positive and normative enquiry (i.e. between focusing on "what is" and on "what should be" respectively) is an ancient one, and has its roots in Aristotle. This useful methodological distinction, however, cannot be translated into practice in a fully dichotomous way in the realm of social sciences. We basically agree with Yuengert on the need to avoid "any unwarranted imperialism of economics", and to accept with some humility - without prejudice for its relative methodological autonomy - that economics cannot isolate itself from social ethics, and should rather ultimately be seen as hierarchically subordinated to the latter (see Yuengert A., 2000, *The Positive-Normative Distinction Before the Fact-Value Distinction*, Pepperdine University, July, in www.gordon.edu/ace/pdf/Yuengert_PosNorm.pdf).

⁷ This vector is positive by itself, as it describes objective features of the world as it is. However, the way different observers assess it is inevitably influenced by ex ante normative principles, as is always the case in the realm of social sciences. Actually, liberals and conservatives consider a very minor role of the state as an intrinsic virtue by itself. Socialists, on the contrary, tend to see public intervention in the economic sphere as a potential tool to achieve goals such as rational planning, social justice, and environmental sustainability.

⁸ It might be argued that there is still at least one country, North Korea, which features a mode of production radically different from the MMP. However, we believe that the North Korean "model" is not historically sustainable, apart from being obviously not defensible from a normative viewpoint. The extraordinary surviving capacity of Cuba, on the other hand, shows at the same time the maximum potential and the inevitable limitations of a socioeconomic system which is still based at the core on traditional command economy principles.

⁹ Depending on the magnitude of the imaginary threshold referred to above, other distinct socioeconomic formations could be identified, such as, for instance, the Scandinavian social-democratic model, or the peculiar Singaporean form of quasi-State capitalism.

¹⁰ With the term "State" we refer not only to the central bureaucratic machine, but to all public institutions, including the most peripheral ones. Thus, a strong role for the State in the economy is to be seen exclusively in the public-private continuum, and does not imply a higher or lower level of centralization. In China, for instance, it is well-known that provinces enjoy a high degree of autonomy.

¹¹ It can be pointed out, however, that - notwithstanding the boom of the private sector, - the absolute majority of Chinese and Vietnamese workers is still constituted by independent farmers, workers of SOEs and other public enterprises, and civil servants. These social groups are not subject to capitalist exploitation in the Marxian sense.

¹² Notwithstanding the severity of well-known degenerative phenomena such as corruption and the collusion between local party leaders and with private enterprises.

¹³ Actually, for instance, one of us has recently used the term State capitalism to refer to some concrete aspects of China's economic reality: "China's modus operandi (in the global geopolitical/economic arena characterized by latent inter-imperialistic conflicts) would be hard to define as anything different from State capitalism" (Schettino F., (2006), *The Factory of the World - Tendencies and Contradictions in XXI century China*, Presented at conference "La Cina è vicina", Bologna, December 2006).

¹⁴ See, for instance, Trotsky, L., 1936, *The Revolution Betrayed - What is the Soviet Union and Where is it Going?*, available in <http://www.marxists.org/archive/trotsky/1936/revbet/index.htm>, Cliff T., *State Capitalism in Russia*, 1974, available in <http://www.marxists.org/archive/cliff/works/1955/statecap/index.htm>;

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¹⁵ See, for instance, Satyananda Gabriel, 2005, *Chinese Capitalism and the Modernist Vision*, *Routledge Studies in the Growth Economies of Asia*.

¹⁶ Modern, large, semi-monopolistic transnational corporations enjoy a significant and increasing degree of market power and ample planning capabilities. These advantages allow them to alleviate the negative consequences of those exclusively market-based, atomized investment decisions typical of less advanced forms of capitalism, but only to a point.

¹⁷ The awareness of the inadequacy of (conventionally measured) GNP growth, mainly because this indicator ignores or seriously underestimates environmental costs, is widespread in China. Due to one of the paradoxes typical of the present phase of great and fast changes, statistical progresses towards a realistic estimate of the "green GNP" are more advanced in China than in most industrialized countries. However, this methodological progress has not been matched so far by significant practical results in terms of environmental policies.

¹⁸ Our focus is far from the debate on the ultimate advisability (or not) of economic growth per se. However, broadly speaking, we believe that there is nothing wrong by itself in pursuing growth and development goals, provided growth is seen as a progressive widening of technical possibilities apt to satisfy legitimate human needs, among which an adequate and sustainable relationship with the environment figures prominently. This approach is quite different from endorsing an indefinite and uncontrolled expansion of commodities production, thereby progressively destroying the natural environment, as it typically happens where capitalistic social production relations prevail.

¹⁹ In Marx, the distinction between productive and non-productive labor is an important but complex one. Marx himself appears to implicitly define productive labour sometimes in a more restrictive, and other times in a less restrictive way (see Dumenil and Levy 2006, [Unproductive labor as profit rate maximizing labor](#), Rethinking Marxism). Anyway, we maintain that the decisive characteristic of productive labor (be it material or immaterial in itself, and be it applied to the production of material goods or immaterial services) is the fact that it creates a surplus value, which is appropriated by a capitalist (see, for instance, Vasapollo L. 2007, *Trattato di Economia Applicata - Analisi critica della mondializzazione capitalista*, Jaca Book, p.65). To our view, under MS, as well as under capitalism, the distinction between productive and non-productive labor maintains its validity. In a theoretical "pure" MS system, where all firms are publicly owned, the law of value still operates, although in a partially different way. In such an abstract system, "directly" productive labor may be identified with the labor applied to the production of goods and services which are eventually sold on the market. Under such conditions, the surplus value is appropriated by the public enterprise and by the state via the fiscal levy. This monetary form of surplus value - which does not imply exploitation as under capitalist conditions - constitutes the source of financing for both the accumulation process and the non-productive sphere of the economy. The latter consists in activities aimed at providing socially necessary goods and services which are allocated according to needs, rather than according to market criteria. Such needs include both directly human needs (such as health care and education) and the need to support the productive sphere of the economy, as it is the case, for example, for infrastructure. There is in fact a trade off between prioritizing the productive or the non-productive sphere, notwithstanding the numerous complementarities between the two (which are evident, for instance, in the case of public education expenditure). However, growth-obsessed policy makers in MS countries often overestimate this trade off. In doing so, they adopt a value-maximizing attitude similar to that of capitalists, overlooking the fact that the real objective of socialism is the satisfaction of human needs, and therefore a progressive increase in the relative weight of the non-productive sphere of the economy should actually be welcome.

²⁰ This stark statement refers mainly to the severe degradation of their very public nature, related to the crucial goal of assuring to everybody non market-based, universal and egalitarian access to health and education. Semi-privatization and marketization of public services , however, produces (not differently, in this case, from what happens in capitalist countries) other evils, such as loss of economies of scale, perverse profit-oriented oversupply, and corruption.

²¹ See , for instance, Gabriele A. and Schettino F., (2006): *Child Mortality In China And Vietnam In A Comparative Perspective*, available in <http://mpira.ub.uni-muenchen.de/3987/>

²² To a lesser extent, the same type of class contradictions is emerging in Vietnam.

²³ At the present moment, however, other, less optimistic possibilities - such as a progressive degeneration towards capitalism, or even the eruption of a devastating systemic crisis - cannot be excluded either. A key historical passage is likely to be constituted by the XVII Congress of the CCP, which is about to be held less than two weeks from now.

²⁴ A necessary, albeit not sufficient condition for the realization of more advanced forms of MS might be constituted by political democracy. We do not explore further this important question.