SOCIALISM: THE 20TH CENTURY AND THE 21ST CENTURY

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This paper was presented as part of a September 2011 Festschrift Conference in honor of Thomas Weisskopf.
PREFACE

This working paper is one of a collection of papers, most of which were prepared for and presented at a festschrift conference to honor the life’s work of Professor Thomas Weisskopf of the University of Michigan, Ann Arbor. The conference took place on September 30 - October 1, 2011 at the Political Economy Research Institute, University of Massachusetts, Amherst. The full collection of papers will be published by Elgar Edward Publishing in February 2013 as a festschrift volume titled, Capitalism on Trial: Explorations in the Tradition of Thomas E. Weisskopf. The volume’s editors are Jeannette Wicks-Lim and Robert Pollin of PERI.

Since the early 1970s, Tom Weisskopf has been challenging the foundations of mainstream economics and, still more fundamentally, the nature and logic of capitalism. That is, Weisskopf began putting capitalism on trial over 40 years ago. He rapidly established himself as a major contributor within the newly emerging field of radical economics and has remained a giant in the field ever since. The hallmarks of his work are his powerful commitments to both egalitarianism as a moral imperative and rigorous research standards as a means.

We chose the themes and contributors for this working paper series, and the upcoming festschrift, to reflect the main areas of work on which Tom Weisskopf has focused, with the aim of extending research in these areas in productive new directions. The series is divided into eight sections, including closing reflections by our honoree himself, Professor Weisskopf. Each section except for the last includes comments by discussants as well as the papers themselves.

The eight sections are as follows:

1. Reflections on Thomas Weisskopf’s Contributions to Political Economy
2. Issues in Developing Economies
3. Power Dynamics in Capitalism
4. Trends in U.S. Labor Markets
5. Discrimination and the Role of Affirmative Action Policies
6. Macroeconomic Issues in the United States
7. Applications of Marxist Economic Theory
8. Reflections by Thomas Weisskopf

This working paper is 2 of 4 included in Section 2.

- Jeannette Wicks-Lim and Robert Pollin
Socialism: The 20th Century and the 21st Century

Minqi Li

According to classical Marxism, capitalism is characterized by the basic contradiction between the objective tendency towards socialization of production and the capitalistic system of private appropriation. The contradiction would lead to increasingly irreconcilable class conflicts as well as progressively more devastating economic crises. The contradiction could only be resolved by replacing capitalism with a fundamentally new economic and social system, based on social ownership of the means of production and society-wide economic planning that would allocate social resources rationally to meet social needs (Engels 1978[1880]).

The 20th century socialist states were the historical products of workers’ and peasants’ revolutions in the periphery and semi-periphery of the capitalist world system. The basic means of production were nationalized or collectivized. Industrial and agricultural production was organized by state-wide economic planning. Despite their historical limitations, the 20th century socialist states were characterized by internal class relations far more favorable for the ordinary working people than those typically found in a capitalist state, especially in the context of periphery and semi-periphery.

The 20th century socialist states remained a part of the capitalist world system and had to compete against capitalist states economically and militarily. Political and economic power were concentrated in the hands of privileged bureaucrats and technocrats, which over time evolved into a new exploitative ruling class that favored capitalist restoration.

After 1989, the consensus among the mainstream economists and a large section of the leftist intellectuals was that socialism as an economic system was fundamentally flawed and suffered from fatal problems such as the information problem, the motivation problem, and the innovation problem. This paper argues that this consensus against socialism is not consistent with available evidence. Moreover, an examination of both theory and the current world historical conditions suggests that the actual and potential failures of capitalism are far more devastating to the long-term future of the humanity.

To the extent that contemporary capitalism fails to resolve escalating financial instability, the impending global ecological collapse, and the growing global class conflicts, global capitalism has entered into a new structural crisis that can no longer be resolved within the historical framework of capitalism. As the global capitalist crisis deepens and broadens, socialism as a revolutionary movement by the working class and other exploited people as well as a historical search for a post-capitalist society freed from exploitation and oppression will soon be back on the world historical agenda.

HAD SOCIALISM WORKED? THE 20TH CENTURY EXPERIENCE

After 1989, a consensus was established among the mainstream economists that socialism, as an economic system characterized by social ownership of the means of production and society-wide planning, was fundamentally flawed. It was widely accepted that the socialist economic system could not work rationally because
it failed to solve the information problem, the motivation problem, and the innovation problem. The consensus was shared by large sections of the leftist intellectuals.

According to the mainstream consensus, a modern economy with millions of different inputs and outputs is too complicated for centralized economic planning to operate effectively and rationally. It is not possible for the central planning authority to collect, process, and efficiently utilize the massive amount of economic information required for rational allocation of resources. Moreover, without private property, people are not rewarded properly and adequately for their work effort and risk-taking. As a result, the overall levels of effort and risk-taking tend to be far below the economically optimal levels.

By comparison, in a capitalist market economy, all individuals are rewarded for their pursuit of self-interests. All individuals are motivated to collect and utilize any potentially useful economic information that is dispersed throughout the economy. Through market prices, the economic information collected by many different individuals is efficiently transmitted and shared across the whole economy. A market economy thus efficiently solves both the information problem and the motivation problem.

According to the mainstream view, a major failure of the socialist economies had to do with their inability to promote innovation. Without private property, there was insufficient reward for innovation and risk-taking. On the other hand, without competition and the threat of bankruptcy, there was no penalty for failure to innovate.1

Did the post-1989 consensus provide a broadly correct assessment of the actual historical experience of the 20th century socialist economies? Did the 20th century socialism fail because it failed to work rationally as an economic system?

The historical socialist states were a part of the capitalist world system and constrained by the basic laws of motion of the capitalist world system. The capitalist world system was divided into three structural positions: the core, the semi-periphery, and the periphery. The core included the historical imperialist powers where the global surplus value was concentrated. The semi-periphery included the geographic areas that had made advances in basic industrialization in the early 20th century but continued to lag behind the western advanced capitalist countries in high value added activities. The periphery included the geographic areas where the great majority of the world population lived. Until the late 20th century, the periphery had had limited advances in industrialization and specialized in agriculture and raw materials exports in the global capitalist division of labor.2

The capitalist world system has been characterized by the three structural positions since the 16th century. Western Europe emerged as the core of the capitalist world system through plunder and exploitation of the rest of the world. Since then the core countries have been able to maintain their advantages through monopoly over technology, finance, and the high value added activities in the capitalist world economy. Over time, North America and Japan managed to move up the ladder and become members of the core and some peripheral countries have managed to rise to the semi-periphery. But overall, the mobility between the three structural positions has been very limited (Wallerstein 1988; Arrighi 1991).

The 20th century socialist revolutions took place in the periphery and semi-periphery of the capitalist world system. In the early 20th century, Russia was a declining semi-peripheral state (Wallerstein 1979: 30-31). The more advanced Eastern European states, such as Czechoslovakia and Hungary were a part of the semi-
periphery (though East Germany was a part of a core imperialist state). The rest of Eastern Europe, such as
Poland, Romania, Bulgaria, and Yugoslavia, were peripheral states that had yet to complete industrialization.
China, North Korea, Vietnam, and Cuba were peripheral colonies and semi-colonies before the revolutions.

Thus, a proper assessment of the historical socialist performance needs to take into account the historical
origins of the socialist states and recognize the reality of the different structural positions within the capitalist
world system. Figure 1 compares the index of per capita GDP of the major peripheral and semi-peripheral
regions from 1950 to 1990. The semi-periphery included the former Soviet Union, Eastern Europe, Latin
America, and West Asia, with per capita GDP ranging from 20 to 35 percent of the US level. The periphery
included China, East and South Asia (excluding China and Japan), and Africa, with per capita GDP ranging
between 5 and 10 percent of the US level.

**Figure 5.1. Index of Per Capita GDP**
(US=100, 1950-1990)

Both the Soviet Union and Eastern Europe succeeded in significantly narrowing their respective income gaps
with the United States from 1950 to 1975. After 1975, their relative economic performance deteriorated. By
1990, their per capita GDP indices were roughly back to their respective levels in 1950.
However, the relative decline of the Soviet Union and Eastern Europe from 1975 to 1990 was not an isolated experience. The 1980s was the lost decade for Latin America, Africa, and West Asia. Under the neoliberal global restructuring, development efforts collapsed in the entire semi-periphery and a large part of the periphery (mainly Africa).

From 1950 to 1980, the Chinese economic performance was unspectacular. Its per capita GDP fluctuated around 5 percent of the US level. But this was by no means a failure when China was compared to the rest of the periphery. From 1950 to 1980, the average index for East and South Asia fluctuated around 7 percent and the average index for Africa declined slightly from 9 percent to 8 percent.

The Chinese economy grew rapidly in the 1980s as China started to undertake market-oriented economic reform. But throughout the 1980s, China's urban sector was dominated by state owned enterprises and central planning continued to dominate the allocation of industrial sector inputs and outputs.

As one makes assessment of the historical socialist economic performance, it seems fair to say that any unbiased observer would make the following observations. First, the 20th century socialist economies operated with reasonable effectiveness in the sense that they not only managed to produce millions of different modern goods and services in large quantities, but also succeeded in delivering substantial improvements in living standards for hundreds of millions of people over several decades.

Secondly, the 20th century socialist economies operated in a variety of economic and cultural contexts, ranging from primarily agricultural economies such as China to modern industrial economies with relatively high levels of technical sophistication such as the Soviet Union and the German Democratic Republic.

Thirdly, the 20th century socialist economies clearly demonstrated the ability to conduct innovation on a large scale and in a systematic manner, and to deliver rising labor productivity over time. In some areas, the socialist states even managed to match or surpass the achievements of the advanced capitalist countries. Though it could be argued that the socialist states did not succeed in achieving a pace of innovation that was more rapid than what was found in the best performing capitalist economies.

Fourthly, with the exception of Yugoslavia (which practiced “market socialism”), the historical socialist states had practically achieved full employment, as a part of their normal economic and social conditions.

Fifthly, in the provisioning of the population’s basic needs, such as health care and education, the performance of the historical socialist states was decisively better than that of capitalist states with similar levels of economic development.

Vicente Navarro (1993: 23) studied the health indicators of capitalist and socialist states and concluded that “at least in the realm of underdevelopment, where hunger and malnutrition are part of the daily reality, socialism rather than capitalism is the form of organization of production and distribution of goods and services that better responds to the immediate socioeconomic needs of the majority of these populations.”

Similarly, Giovanni Arrighi (1991: 58) pointed out that “[socialism] versus [capitalism] has made a big difference in the status and welfare of the lower social strata of the regions in question – strata that in middle- and low-income regions constitute anything between one-half and two-thirds of the population. … The USSR has probably done no better (and may have done worse) than Latin America in the ‘race’ to catch up with the
standards of wealth set by the West. Yet the lower social strata of its population have done incomparably bet-
ter than the lower social of the population of Latin America (Brazil included) in improving their nutritional,
health and educational standards. And the improvement has been even greater for the lower social strata of
China in comparison with those of South Asia or Southeast Asia.\textsuperscript{14}

In all of these aspects, the 20th century socialism had “worked” as an effective economic system.

In what sense had socialism “failed” then? The historical socialist states had failed to catch up with the most
advanced capitalist country in living standards and labor productivity. But so had the rest of the periphery and
semi-periphery in the capitalist world system.

The historical socialist states had also failed to match the performance of some capitalist economies that had
done exceptionally well. For example, Japan managed to rise from semi-periphery into the core after the Se-
cond World War. But exceptions are exceptions.

Certainly, the 20th century socialist experience did not provide evidence that an economic system based on
state ownership of the means of production and centralized economic planning could develop “productive
forces” more rapidly than capitalism. In the actual historical context of the 20th century, this meant the so-
cialist states had failed to prevail in the economic competition against the capitalist states.

Within the capitalist world system, all states (including the socialist states) are forced to compete against one
another in both economic and military terms. Those that fail the competition would lose their share in the
world market, suffer from internal instability, or be defeated in wars against other countries. Economic
growth (or capital accumulation) provides the basic means to achieve both economic wealth and military
power. Thus, the constant and intense drive towards rapid economic growth is among the basic laws of mo-
tion of the capitalist world system.

But the capitalist laws of motion would remain the laws of motion only to the extent that the capitalist world
system itself remains a viable historical system.

HAS CAPITALISM WORKED, OR FAILED?

According to the conventional wisdom, capitalism is a rational economic system that efficiently allocates re-
sources and generates the maximum possible economic growth and rising living standards over the long run.

Under capitalism, people are free to pursue their self-interests. Guided by the “invisible hand” or prices de-
termined in competitive markets, people’s actions in pursuit of their self-interests lead to economic results
that turn out to be socially optimal.

Of course, no serious modern economist would deny that there are market failures. Despite the recognition
of market failures, the mainstream consensus is that the positive side of capitalism greatly outweighs the nega-
tive side and capitalism remains the best among all possible economic systems.

When there are market failures, prices are “wrong” or they do not correctly reflect social costs and social
benefits. The mainstream argument would be valid if the wrong prices are limited to exceptional cases, if the
wrong prices do not deviate from the correct prices by large margins, and if the wrong prices can be quickly corrected.

However, a careful consideration of the actual performance of global capitalism suggests that there are at least two major “market failures” that could lead to capitalist market prices that are pervasively wrong, persistently wrong, and wrong by large margins.

First, consider the labor market and capital market. It is well known that both markets normally tend to suffer from asymmetric information and moral hazards. Thus, the prices of factors of production normally tend to be wrong. Since the prices of goods and services are based on the factor prices, one has to conclude that the prices of all goods and services normally tend to be wrong and for this reason, wrong prices are pervasive.

Moreover, because of the lack of complete future markets, uncertainty about the future could result in sudden and wide fluctuations of capital asset prices that bear no relation with the actual economic performance. The experience over the past two decades suggested that capital asset bubbles could result in capital asset prices that deviated from “fundamental values” by very large margins and failed to correct themselves for prolonged periods. Thus, the capital asset prices could be persistently wrong and wrong by large margins.

To the extent that the capital asset prices help to determine the future production of goods and services, the prices of all goods and services could also be wrong by large margins and for prolonged periods.

Second, consider the environmental externalities. All economic activities directly or indirectly involve material exchanges with the natural environment. In this sense, all economic activities have environmental impact. It is now common knowledge that the global ecological system is deteriorating in almost every important aspect and the deteriorating trends have persisted for centuries since the beginning of the capitalist world system.

Thus, when environmental externalities are concerned, it is safe to conclude that the observed prices of goods and services in capitalist markets are persistently and pervasively wrong. Further, the global ecological crisis has by now developed to the point that the global ecological system is on the verge of collapse and the very survival of the human civilization is at stake. Thus, one has to conclude that the observed prices of goods and prices are likely to be wrong by very large margins compared to what are required to achieve global ecological sustainability.

Why do the wrong prices matter? The entire invisible hand argument rests upon the belief that the capitalist market prices are “correct,” or at least roughly, mostly, or generally tend to be correct. It is because of the correct prices that individuals’ pursuit of self-interests would happily ends with social optimal outcomes or at least the best among all possible outcomes.

Both advocates and critics of capitalism agree that in a capitalist society, individuals are highly motivated or heavily pressured to pursue the maximization of their self-interests. But if the individuals’ actions are not guided by at least roughly correct prices but by prices that are pervasively and persistently wrong, it would have to mean that under capitalism, individuals are highly motivated to pursue far from socially optimal objectives.
To the extent that the pervasively and persistently wrong prices are wrong by large margins, it may not be inaccurate to conclude that capitalism is in fact an economic system which strongly motivates or forces individuals to pursue actions with socially destructive outcomes.

THE HISTORICAL LIMITS OF CAPITALISM

All social systems are historical and capitalism is not an exception. The rise and the development of capitalism have rested upon a particular set of historical conditions. With changing historical conditions, it has become increasingly difficult for capitalism to reproduce its essential conditions of operation.5

In particular, the following developments suggest that capitalism may have approached its own historical limit:

1. Modern capitalism cannot operate without the stabilizing functions of big government institutions. However, the big government stabilization has costs and side effects that over time tend to grow and we may have reached the point where the costs of the big government stabilization start to exceed the benefits.

2. Capitalism is based on the endless accumulation of capital which implies the expansion of material production and consumption on increasingly larger scales. This is in fundamental conflict with the basic requirements of ecological sustainability. The fact that the global ecological system is now on the verge of collapse suggests that the existence of capitalism is no longer compatible with what would be required for the survival of the human civilization.

3. The development of capitalism has led to the rise of proletarianized working classes. Historically, proletarianization was limited to the core of the capitalist world system which was accommodated by capitalism with a set of welfare state institutions. The western capitalist social compromise is now in crisis. Moreover, proletarianization is now taking place in the much larger non-western part of the world. Capitalism may not be able to simultaneously accommodate the challenges from both the western and non-western working classes.

Socialization of Risks without Socialization of Investment

In Chapter 1 of *Stabilizing an Unstable Economy*, Hyman P. Minsky made the following comments:

It may also be maintained that capitalist societies are inequitable and inefficient. But the flaws of poverty, corruption, uneven distribution of amenities and private power, and monopoly-induced inefficiency … are not inconsistent with the survival of a capitalist economic system. … A capitalist economy cannot be maintained, however, if it oscillates between threats of an imminent collapse of asset values and employment and threats of accelerating inflation and rampant speculation, especially if the threats are sometimes realized (Minsky 2008[1986]:6).

Since the Great Depression, it has been widely recognized that free market capitalism was fundamentally unstable and a modern capitalist economy cannot function normally without the intervention and regulation of a big government sector.
In *The General Theory*, John Maynard Keynes argued that capitalist investment was fundamentally unstable and moreover, the development of capitalist financial markets was likely to have further intensified investment instability (Keynes 1964[1936]: 147-164). Towards the end of *The General Theory*, Keynes proposed that “a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation of full employment” (Keynes 1964[1936]: 378). However, Keynes insisted that the proposed socialization of investment would not require social ownership of the means of production.

Hyman Minsky argued that “big government” institutions were indispensable for stabilizing the fundamentally unstable capitalist economy. In a modern capitalist economy, the big government helps to sustain capitalist profits during recessions and the central bank helps to stabilize asset prices during financial crises. These institutions help to prevent the declines of capitalist profits and investment from developing into a self-sustained downward spiral that had often plunged the free market capitalist economy into devastating depressions (Minsky 2008[1986]).

However, big government institutions have strong side effects. Big government deficits in effect help to socialize business losses, and the central bank’s lender of last resort actions in effect help to socialize risks of private financial markets. Despite the partial socialization of risks and losses, investment decisions continue to be made by private businesses for the purpose of making private profits. Big government capitalism thus encourages excessive risk-taking in finance and investment and tends to increase the potential of financial instability.

Thus, on the one hand, big government institutions are indispensable for preventing depressions. On the other hand, big government capitalism does not abolish the inherent tendency under capitalism towards financial instability. On the contrary, with the effective socialization of risks and losses, the excessive risk-taking in private investment and finance has led to frequent financial crises with increasingly destabilizing consequences (Pollin and Dymski 1994; Li 2009).

The financial crises necessitated government interventions, forcing the government to run large deficits during recessions. The deficits that occurred in recessions were typically not offset by surpluses during expansions. As a result, there has been a tendency for the government debt to rise in relation to GDP. The tendency was intensified under neoliberalism as interest rates tended to be relatively high in relation to economic growth rates (Li 2009). The government debt-GDP ratios cannot keep rising indefinitely. Beyond a certain point, the debt-GDP ratio could be so high that the government’s ability to stabilize the capitalist economy would be seriously compromised.

From the Marxist perspective, this contradiction of big government capitalism reflects the underlying contradiction between the capitalist system of private appropriation and the objective tendency of socialization of production. While the development of the capitalist economy requires growing social regulations through institutions such as the big government and the central bank, the basic means of production continue to be owned by private capitalists and used by private capitalists to make private profits.

Thus, on the one hand, a high level of socialization of investment risks and losses has become indispensable for the normal operations of modern capitalism. On the other hand, the lack of social control over investment has led to growing financial instability and increasingly larger government debts. This underlying contradiction has found its expressions through progressively more destructive economic and financial crises.
Contrary to what Keynes argued, the eventual resolution of this structural contradiction may require nothing short of a comprehensive socialization of the basic means of production.

**Endless Accumulation vs. the Limits to Growth**

All human societies depend on the earth’s ecological system for survival and development. Human societies use renewable and nonrenewable resources for material production and consumption. The human production processes, in addition to producing useful goods and services, generate material wastes or pollution. To sustain the normal functioning of the ecological systems, the human consumption of nonrenewable resources should be minimized, the human consumption of renewable resources should stay within the ecological system’s natural regenerative capacity, and the material wastes generated by human activities need to stay within the ecological system’s natural absorptive capacity.

Thus, to maintain ecological sustainability, the human environmental impact (resources consumption and pollution) must stabilize at a level that is within the ecological system’s natural limit. However, the capitalist economic system is based on production for profit and endless accumulation of capital. The normal operation of capitalism tends to lead to unlimited expansion of material production and consumption. The basic laws of motion of capitalism are therefore in fundamental conflict with the requirements of ecological sustainability.

This may be illustrated by the following simple formula:

$$\text{Environmental Impact} = \text{GDP} \times \text{Environmental Impact per Unit of GDP}$$

Thus, unless the growth of GDP is more than offset by declining environmental impact per unit of GDP, capital accumulation (economic growth) will result in growing environmental impact, potentially leading to ecological collapse.

After centuries of relentless capital accumulation, many aspects of the global ecological system are now on the verge of total collapse. In particular, climate change, caused by greenhouse gases emitted by human consumption of fossil fuels, is now threatening the very survival of the human civilization. The global average temperature is now about 0.8 degree Celsius higher than it was in pre-industrial time and rising at a rate of 0.2 degree per decade. There is a growing consensus among scientists that if global warming rises above two degrees Celsius, dangerous climate feedbacks may be triggered, leading to the release of more greenhouse gases from the ocean and terrestrial ecological systems. In the event of runaway global warming, much of the world would cease to be inhabitable and catastrophic declines of global population may ensue (Spratt and Sutton 2009).

Is it possible for the global ecological crisis to be resolved within the historical framework of capitalism? According to the defenders of the existing system, capitalism is an exceptionally innovative system. With proper incentives, capitalists would be motivated to develop “eco-friendly” technologies that help to reduce environmental impact per unit of economic output, allowing capitalism to achieve both endless accumulation of capital and ecological sustainability.

However, in reality, economic growth rate is almost always higher than the reduction rate of environmental impact per unit of output, so that the global consumption of most natural resources and the global generation...
of most pollutants continue to grow exponentially. Why has capitalist technological progress failed to deliver ecological sustainability?

In addition to various economic and technical limits, the pace of technological progress is limited by the pace of infrastructure transformation. Each year only a fraction of the existing capital equipment and buildings may be replaced. Suppose an economy each year replaces 5 percent of its capital infrastructure. Making the heroic assumption that the new capital is twice as efficient as the old capital so that the environmental impact per unit of output falls by 50 percent for the new capital, for the economy as a whole, this represents a reduction of environmental impact per unit of output by 2.5 percent. But a modern capitalist economy often needs a 3 percent economic growth rate to prevent the unemployment rate from rising. Thus, even with this very optimistic assumption about technological progress, the rate of technological progress is smaller than the economic growth rate required for capitalist stability, implying rising environmental impact.

In many areas, resources depletion and environmental degradation are now proceeding at rates far above the sustainable rates. Thus, to stabilize the global ecological system and achieve sustainability would require not stable environmental impact, but declining environmental impact. For example, to prevent long-term global warming of more than two degrees Celsius, global carbon dioxide emissions need to start to fall immediately, declining at an annual rate of 5 percent from now to the end of the century. To prevent long-term global warming of more than three degrees Celsius (which would carry a significant risk of runaway global warming), global carbon dioxide emissions need to decline at an annual rate of 1.5 percent from now to the end of the century (Anderson and Bows 2011; Li 2011).

Thus, it is impossible for global capitalist accumulation to be made compatible with global ecological sustainability. To the extent that the continuing existence and operation of the capitalist world system is now in fundamental conflict with the survival and development of human civilization, capitalism has ceased to be a historically viable social system.

SOCIALISM AND THE WORLD HISTORICAL AGENDA IN THE 21ST CENTURY

In the *Communist Manifesto*, Karl Marx predicted that as capitalism developed, a growing proportion of the society’s labor force would become wage workers (or the proletarians). As the proletarianized working class grew in strength and learned to get organized, sooner or later it would become so powerful that it would prove to be the “grave diggers” of capitalism (Marx and Engels 1978[1848]).

From the mid-19th century to the mid-20th century, working class organizations had grown throughout the advanced capitalist countries. In Western Europe, socialist and communist parties became powerful political forces. In response to the growing working class challenge, the capitalist classes made some major concessions. After the Second World War, the capitalist institutions were restructured to be based on a new scheme of social compromise (the “new deal”) which provided the western working classes with a package of social welfare as well as the promise of rising living standards over time, in exchange for their political loyalty to the capitalist system.

The new deal compromise did not secure social peace forever. The postwar rapid economic expansion led to the depletion of the remaining rural surplus labor force in the advanced capitalist countries. The working class
bargaining power was further strengthened by the welfare state institutions. By the 1960s, the western working classes had become strong enough to demand wage rises that started to undermine capitalist profitability. From the mid-1960s to the early 1980s, the profit rate fell in all the advanced capitalist countries, leading to a prolonged period of economic and political instability.

In response to the crisis, the capitalist classes organized a counter-offensive which has been known as “neoliberalism.” The neoliberal policies attempted to roll back some of the economic and social gains won by the western working classes over the previous decades. Much of industrial capital was relocated from the advanced capitalist countries to areas with a large cheap labor force, especially China. The massive expansion of the global cheap labor force helped to undermine working class bargaining power and the capitalists enjoyed rising profit rates from the 1980s to the 1990s.

However, the neoliberal “success” had some serious side-effects. As the working classes in much of the world suffered from declining living standards, global effective demand was constrained. Many economies attempted to get around this problem by pursuing export-led growth. But it was impossible for all countries to pursue export-led growth. From the 1990s to the early 2000s, the US had sustained the global economic expansion through debt-financed consumption. The large US trade deficits allowed the rest of the world to pursue export-led growth. The growth model was unsustainable and eventually led to the “Great Recession” of 2008-2009.

All the advanced capitalist countries are now confronted with serious fiscal crises. According to the Bank of International Settlements, under the existing trends, government debt to GDP ratio is set to rise to 400 percent in France, 300 percent in Germany, 250 percent in Italy, 600 percent in Japan, 500 percent in Britain, and 400 percent in the United States by the mid-21st century (Cecchetti, Mohanty, and Zampolli 2010). In the advanced capitalist countries or the core zone of the capitalist world system, the historical space for social compromise seems to have been exhausted.

On the other hand, in recent years there have been large formations of industrial working classes in the non-western world. Until now, the large cheap labor force in the non-western world has been functioning as a pool of global reserve army that helps to undermine the global working class bargaining power. But this is about to change. In the coming decades, one would expect that as the non-western working classes continue to grow in size and learn to get organized, the workers in the non-western world will demand higher wages as well as a growing range of political and social rights. Can the demands by the non-western working classes be accommodated by the capitalist world system?

Historically, the western capitalist classes had managed to accommodate the working class challenge by providing a package of social reform. However, if the capitalist world system can no longer afford the social reform package for the comparatively small western working classes, there is little chance for it to offer and afford a similar package for the much larger non-western working classes.

The historical social compromise between the western capitalist and working classes took place when global energy and natural resources remained abundant. By comparison, centuries of relentless global capital accumulation has by now exhausted the global ecological space.
In the coming decades, if global capitalism fails to accommodate the growing demands of the non-western working classes while maintaining social peace in the core zone of the world system, then socialism as a global revolutionary project will be back on the historical agenda.

CHALLENGES FOR THE 21ST CENTURY SOCIALISM

According to classical Marxism, the historical contradictions of capitalism could only be resolved by replacing capitalism with a fundamentally new economic and social system based on social ownership of the means of production and society-wide planning.

The 20th century socialist states remained a part of the capitalist world system and had to compete against the capitalist states economically and militarily. While the socialist states failed to prevail in the competition against the capitalist states, the 20th century socialism did demonstrate that an economic system based on state ownership of the means of production and centralized economic planning was able to achieve full employment and meet the population’s basic needs more effectively than capitalism.

The 21st century socialism will face fundamentally different historical challenges. As global capitalism ceases to be a historically viable social system, the question is no longer about how socialist states could compete effectively against capitalist states within the capitalist world system. Instead, the overwhelming challenge for the humanity is to reorganize the global material production and consumption in ways consistent with global ecological sustainability.

To prevent global ecological catastrophes, economic growth rate needs to be adjusted down so that the economy grows more slowly than the pace of ecological technological progress. If necessary, the absolute level of global material consumption may need to be adjusted downwards.

For this to happen, it requires an economic system where the society exercises collective and democratic control over the use of the surplus product (the part of the society’s total product that is above the population’s basic consumption), so that the society could collectively decides to use the surplus product not for capital accumulation, but to contribute to the population’s physical and mental development and to improve the ecological system.

The requirement of social control over the surplus product not only rules out any economic system dominated by private ownership of the means of production, but also any economic system dominated by market relations. With the dominance of market relations, individuals, businesses, and states would be under constant and intense pressures to compete against one another. To survive and prevail in market competition, individuals, businesses, and states would be both motivated and forced to use their profits or revenues to accumulate capital, leading to uncontrolled economic growth that in the long run inevitably leads to ecological catastrophes.

The environmental records of the historical socialist states were mixed. The former socialist states suffered from some of the world’s worst pollution problems and environmental degradation, partly due to their orientation towards heavy industrial development. Though in the case of China, the environmental conditions have further deteriorated under capitalist transition (Smil 1993; Auer 2005; Wen and Li 2006).
On the other hand, since the 1990s Cuba has undertaken a relatively effective transition towards ecological agriculture in response to the major energy challenge Cuba had to confront after the collapse of the Soviet Union (Pfeiffer 2006: 53-65). According to *The Living Planet Report 2010*, Cuba is one of the few countries in the world that has managed to achieve near “sustainable development”, with sustainable development defined as achieving a high level of human development measured by the United Nations Human Development Index while keeping the per person ecological footprint at a level below the world average bio-capacity (WWF et al. 2010).

The historical socialist states remained a part of the capitalist world system and had to engage in economic and military competition against the capitalist states. As a result, the system of centralized economic planning was mobilized to maximize economic growth instead of promoting ecological sustainability. It should be noted that while the historical socialist states suffered from notable environmental failures, it is the leading capitalist states that have been responsible for the bulk of the greenhouse gas emissions that threaten to bring about global climate catastrophes.

According to James Hansen, one of the world’s leading climate scientists, the United States accounted for 27 percent of the world’s cumulative carbon dioxide emissions from fossil fuels burning from 1750 to 2010, the United Kingdom, Germany, and Japan together accounted for 16 percent. On the other hand, China accounted for almost 10 percent and Russia accounted for 7 percent. The bulk of China’s emissions have taken place since China began the transition to capitalism (Hansen 2011).

Politically, the historical socialist states were non-democratic and Cuba remains a non-democratic state as the term is conventionally defined. The non-democratic feature reflects primarily the historical origin of the socialist states. It should be pointed out that in the early and the mid-20th century, when socialist revolutions took place in Russia, Eastern Europe, China, and Cuba, few peripheral and semi-peripheral states were democratic and some were yet to become formally independent states. Even in the United States, a significant portion of the population (the African Americans in the Southern states) was deprived of basic civil rights. In the 21st century, as the population’s political consciousness rises to a much higher level, it is difficult to imagine a future socialist state without formal democratic institutions.

The precise form of the 21st century socialism will have to be decided by the actual practice and struggle of the global working classes. However, the classical Marxist conception of social ownership of the means of production and society-wide planning are likely to be essential features of any future socialist system.
REFERENCES


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1 For a classical critique of socialist economic planning, see Hayek (1996[1948]). For a summary of the contemporary mainstream critique of socialism, see Stiglitz (1994). For critique of socialist economic planning from the market socialist perspectives, see Blackburn (1991) and Roemer (1994).

2 For an elaboration on the structural positions within the capitalist world system, see Wallerstein (1979).

3 When there was a clear social objective, centralized planning can be effective in promoting certain innovation, such as in the military areas (Stiglitz 1994: 197-206). During the years of the Cultural Revolution, China accomplished several scientific achievements of global significance, including hybrid rice crop, the electronic publishing system of Chinese characters, artificial synthetic crystalline
insulin, and the compound Artemether, together known as the new “four great inventions” (Gao 2008: 143-144). The hybrid rice crop made a major contribution to raising the rice yields throughout the world and the compound Artemether is considered the world’s best hope for malaria cure.

4 In saying that the former Soviet Union might have done worse than Latin America in catching up with the West, Arrighi was constrained by the data available to him. Based on the now available authoritative data compiled by Maddison (shown in Figure 1), the Soviet and Eastern European growth records were actually marginally better than those of Latin America for the postwar years and this has not yet taken into account the Soviet industrialization miracle during the 1930s.

5 For more detailed arguments on the historical limit of capitalism, see Wallerstein (1998).