No, Walmart is not evidence that centrally-planned economies work

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It's fair to say the modern left has schizophrenic views about Walmart.

Back in 2005, the left-leaning economist and future head of President Obama's Council of Economic Advisers Jason Furman wrote a paean to the company. He argued that the big-box chain supermarket was a "progressive success story," due to its role in driving down retail food prices for poor consumers. In a new Jacobin book, People's Republic of Walmart, neo-socialists Leigh Phillips and Michal Rozworksi ferociously disagree, calling Walmart an "execrable, sinister, low-down dirty villain of a company."

Believe it or not though, their new book is predicated on admiration for the company which, if it were a country, would be roughly the size of Switzerland or Sweden. For Phillips and Rozworksi's see Walmart's success as a sign that modern socialism can work.

Their argument is essentially this: free-market economists are wrong to denounce the possibility of economic planning, because major companies such as Amazon and Walmart plan extensively every day. They have developed algorithms, tracking tools, logistics and distribution networks that allow them to react in real time to changing demands for their products. Nobel prize-winning economist Friedrich Hayek, then, was wrong to say socialism couldn't work because information was inherently decentralised. In fact, modern technology means information can be acted upon centrally and swiftly. Planning is easier and more accurate than ever.

The problem, in Phillips and Rozworkski's view, is that these planning tools are currently being put to the ends of generating profits. But what is profitable is not always socially useful. Rural broadband and solving the problem of antibiotic resistance are socially needed, but they would not be delivered by private companies. Therefore, they conclude, what we need is a planned socialist economy harnessing the techniques of Walmart and others to socially productive ends.

It's difficult to know where to start with this line of reasoning. From the work of Ronald Coase, free market economists have understood that firms are islands of planning of various sizes within a sea of markets and that in different sectors, the efficient scale of organisations varies considerably (especially over time and depending on technologies).

Most free-market economists acknowledge too that there are public goods and externality problems inherent in markets (although these are often overplayed). But it's difficult to see how evidence of market failures or corporate success stories translates into the conclusion that a completely planned, socialist, non-profit economy is optimal.

The empirical evidence of attempts at central government planning is clear. So much so that this book tries to skirt over it. The Soviet Union, it implies, did not fail because of planning, but authoritarianism which diminished the quality of feedback information from planning. Chile's Allende regime, apparently, was on the brink of a technological revolution that offered promise but was undermined by anti-communist forces. The NHS's problems are being starved of cash and not being democratic enough at lower levels. On the pro-planning side, the only robust argument is that war economies show planning can achieve communal ends.

But their speculative conclusions of what could be achieved under socialist planning today are difficult to counter, because the authors wisely do not really define a vision for what their socialism is. There is an obvious reason for this. The old definition of "government ownership of the means of production and exchange" clearly would not work. Ludwig von Mises' critique of the socialist calculation problem has never been debunked. Absent private ownership and trade of property, there are no prices. Without prices, there is no effective way to allocate resources at a societal level in service of consumers. The authors even acknowledge that Walmart and other companies operate in broader markets where they react to prices in making decisions and are subject to competitive pressures. So the existence of Walmart's planning cannot be extrapolated to justify traditional socialism.

Instead, then, the authors hat tip to other forms of communal ownership, acknowledging "nationalisation is not enough". They are left reaching around for various alternatives or supplements: interventions, worker-owner models (so-called "market socialism") and eradicating or redistributing profits. They never settle on any clear plan though for what planning would entail. This makes it almost impossible to critique their model objectively.

At a high level though, there are two glaringly obvious problems that stem from a non-profit, communal ownership world of economic planning.

The first is that which is outlined by Thomas Sowell, who wrote: "while capitalism has a visible cost – profit — that does not exist under socialism, socialism has an invisible cost – inefficiency – that gets weeded out by losses and bankruptcy under capitalism." While one could imagine theoretically a supercomputer that could plan the allocation of resources to their most efficient use at a single point in time across given products with fixed production methods, the true gains from market capitalism over time come from the efficiency generated by innovation.

Absent profit and loss, there is no incentive to carve out those niches, to differentiate products, to search for the continual improvement in the efficiency of the production process, or for entrepreneurs to dream up new ideas to tap into latent demands to capture profits. One saw this in the Soviet Union. A country full of scientists did just fine at inventing things and in raw accumulation, but didn't have the institutional arrangements to turn inventions into marketable or consumer products. A non-profit, planned economic world cannot generate the dynamic efficiency which drives long-term economic growth.

The second major flaw is that while planning can clearly be appropriate when one has a clear aim: winning a war, or generating profits or revenue growth within a firm, things are much messier when one considers an agenda for the whole economy.

In a capitalist market economy, our starting point is that each individual has their own preferences and ambitions, and that a free economy allows them to pursue their own goals in maximising their own welfare. Sure, there are problems. Western nations do, as the authors argue "experience mismatches between what is produced and what is required", and there are collective action problems. But broadly, a world of prices, markets, free choice and profit and loss allows people to serve individuals' wants and needs. People can fulfil their own desires to such an extent that they can, should they wish, set up worker-owned companies to compete with shareholder-owned firms.

If instead there's some broader aggregated social objective, then what happens when consumers or workers or an individual firm deviate from the plan, democratically or otherwise?

Under the supposed democratic socialist Green New Deal resolution, for example, there is an objective to renovate all buildings to make them energy efficient. This is clearly feasible, if enough resources were thrown at it. But would it be desirable? The economic cost would be extortionate. If individual firms were not making the decisions according to their own profitability concerns, then the government or someone else would have to trade off from a top-down decision – hitting the efficiency target or spurning it for more growth. Ultimately, someone, somewhere in a planned economy ends up imposing their preferences on others.

Planning, of course, works in the trivial sense that many of us, and many businesses, plan every day. Technology has indeed made this process easier and is constantly changing the scale at which it is possible. But all this planning takes place in environments of market prices, with clear firm aims, and with incentives that induce longer-term innovation and efficiency. Strip out the prices, through abolishing private property, and the socialist calculation problem returns. Keep markets but try to suppress profits or intervene extensively, and you sacrifice innovation and individuals' dreams and goal. That Walmart can instigate plans in pursuit of profits tells us nothing about the desirability of planning a whole economy.

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