7 Historic Examples of 'Market Socialism'

The Hungarian economist János Kornai demonstrated that "market socialism" is ultimately inoperable. History shows he was right.

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Iremember not understanding Lenin's New Economic Policy (NEP) when I studied it in tenth grade in Cuba. How was it possible that a dose of capitalism could save Soviet communism? At the age of 15, my friends and I found it to be a paradox. Later, at the University of Havana, my professor of Political Economy of Socialism could not answer how, if Lenin knew that a certain liberalization of the economy was beneficial, why didn't he make these reforms earlier?

I began to believe that the market was superior to the State in managing the economy and that the Soviet and Cuban communist *nomenklaturas* (elites) knew this. Shortly after, I realized that any pro-market reform will not go far as long as the one-party system is in place.

Fidel Castro himself had no choice but to adopt timid economic liberalization reforms in mid-1993. This was the only way to stop the free fall of the Island's economy, which had shrunk by 35% between 1990 and 1993. Similar reforms, albeit it with different scope and duration, occurred in Tito's Yugoslavia, in Czechoslovakia under Alexander Dubček, in Hungary under János Kádár, in China under Deng Xiaoping, and in Laos and Vietnam with the New Economic Mechanism and the Doi Moi reforms respectively. Recently, Nicolás Maduro has done the same in Venezuela.

The scope and consequent success of these reforms has always depended on how much economic autonomy the *nomenklaturas* are willing to give as crumbs to individuals. Make no mistake, this is an economy in shackles, always under the jealous eye of a totalitarian State that at the slightest threat to its political monopoly has not hesitated to curtail and eliminate this autonomy.

The positive results have always been despite the limitations to freedom, property, and commerce. Here are some prominent examples.

1. Kosygin Reforms (1965)

The NEP (1921-1928) reversed the ruin of Bolshevik War Communism. Between 1921 and 1923 trains began to carry twice as many goods and passengers, from 1921 to 1926 manufacturing grew by 200%, and between 1922 and 1925 the cultivated area grew from 78 million hectares to 104. Nikolai Bukharin coined the slogan "Peasants, get rich!" and went from being one of the ideologists of the iron statism of War Communism to being an advocate of the partial pro-market reforms of the NEP. However, already in 1920 Ludwig von Mises had predicted that the problem of economic calculation mortally wounded the utopia of socialist development. In 1965, the Kosygin reforms were another failed attempt by the Soviet leviathan to reform itself.

2. Tito's Yugoslavia

Between 1952 and 1974, reforms in Tito's Yugoslavia sought to increase the entrepreneurial decision-making power of workers, liberalized prices, and reduced taxes on self-managed enterprises. During this period, the economy grew by about 6% annually and Yugoslavia was aiming to be the miracle of "market socialism." However, private non-agricultural enterprises only had a maximum of 5 to 10 employees. In the long run, James A. Dorn confirms, the absence of private ownership meant that neither capital nor labor markets were formed, thus causing a misallocation of resources in the economy and inefficiencies of all kinds. With the counter-reforms and the farewell to "market socialism" in 1974, the decline of the Yugoslavian economy intensified with a fall in Gross Domestic Product, productivity, and employment.

3. Hungary's New Economic Mechanism

With the Soviet invasion of Czechoslovakia in 1968, Alexander Dubček did not have time to see the result of his reforms. However, Hungary did implement its New Economic Mechanism starting in 1968. Prices and wages were partially liberalized, and small private and cooperative ownership was allowed, thus the large distortions of the other centrally planned economies were avoided and product shortages were not chronic. The queues seen in other socialist Eastern European countries were rare here. However, the inconsistency and frequent countermeasures and the influence of the State on the economy made the economy deficient. In 1990, after holding free elections for the first time in more than four decades, the country decided to move completely away from economic statism.

4. Laos's New Economic Mechanism

The New Economic Mechanism was also the name given to the reforms implemented in Laos beginning in 1985. In a few years, inflation was reduced, and macroeconomic indicators improved. However, institutions and laws as a scaffolding for private property and market functioning have been weak, corruption is rampant, and the regime continues to impose interventionist policies on the economy. As a result, Laos remains the poorest country in Southeast Asia apart from tiny East Timor.

5. Venezuela Today

For the first time since 2013, the Venezuelan economy will grow or at least contract less than in previous years. Hyperinflation and shortages, which remain chronic, will be less than in previous years. This is the result of small reforms that began in late 2019. Since then, the regime of Caracas has implemented a lifting of price and foreign exchange controls, the allowance of an informally dollarized economy, the encouragement of foreign investment especially in the hydrocarbons sector, and a macroeconomic policy away from the purest style of populist *chavismo*. In an interview for Bloomberg in June 2021, Delcy Rodríguez, vice-president, and heavyweight in Caracas, commented on the measures applied by her own regime for twenty years: "You cannot say that at the time that was socialism, no. That was going directly against the people, against the purchasing power of the people." It took the *Chavista* regime two decades to secretly admit its failure. The country still has the highest inflation levels in the world, with extreme poverty reaching 77% of the population and grotesque corruption. The scope and results of these reforms, unfortunately, will be limited.

6. China and 7. Vietnam

China and Vietnam are the most successful examples. One must read Frank Dikötter on the horrors of the Great Leap Forward and the Cultural Revolution, the famine and cannibalism, to understand the dimensions of the change that the market brought to China shortly after 1979. The same with Vietnam from 1986 with the Doi Moi reforms after decades of war. However, millions of human beings were lifted out of abject poverty in China and Vietnam, despite the State, not because of it. In both countries, compared to the private sector, the State sector hinders competition, is the least transparent and innovative and the most inefficient. Moreover, according to the CATO Institute's Human Freedom Index (2021), since 2019 the Chinese Communist Party has intensified its attacks on the free market and accelerated arrests of entrepreneurs and the establishment of party cells in 73% of all private companies, a figure that rises to 92% for the country's 500 largest companies.

The hated market has time and again rescued the socialist utopia from its own misery. However, even if it works as a partial and temporary cure, in the long run, statism puts a very low ceiling on reforms. Few understood and lived this reality as well as the Hungarian economist János Kornai who demonstrated that "market socialism" was ultimately inoperable. To Kornai, "the principle and functioning of the socialist system can only be truly understood from the role of political power and official ideology." As a Cuban, I also know that any pro-market reform on the Island will not go far as long as the one-party regime is there.