Principles of Economics
Moral Philosophy
The High Stalinist Experiment

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How Remarkably?: The High Stalinist Experiment
How Much Does Market Organization Matter?

- High Stalinist central planning
  - Marx’s suspicion of markets as surplus-extraction devices
How Much Does Market Organization Matter? II

• High Stalinist central planning
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  – Hence, the communists said, we won’t have any
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How Much Does Market Organization Matter? IV

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  - Communes, economies of scale, GOSPLAN, etc.
How Much Does Market Organization Matter? V

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  – Marx’s suspicion of markets as surplus-extraction devices
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  – Communes, economies of scale, GOSPLAN, etc.

• Effect: you throw away a five-fold amplification of productivity by eschewing the market
How Much Does Market Organization Matter? VI

<table>
<thead>
<tr>
<th>East-Block Country</th>
<th>GDP per Capita</th>
<th>Matched West-Block Country</th>
<th>GDP per Capita</th>
<th>Percentage Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Korea</td>
<td>$700</td>
<td>S. Korea</td>
<td>$7,660</td>
<td>91%</td>
</tr>
<tr>
<td>China</td>
<td>$490</td>
<td>Taiwan</td>
<td>$9,500</td>
<td>95%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>$170</td>
<td>Philippines</td>
<td>$850</td>
<td>80%</td>
</tr>
<tr>
<td>Cambodia</td>
<td>$150</td>
<td>Thailand</td>
<td>$2,110</td>
<td>93%</td>
</tr>
<tr>
<td>Georgia</td>
<td>$580</td>
<td>Turkey</td>
<td>$2,970</td>
<td>80%</td>
</tr>
<tr>
<td>Russia</td>
<td>$2,340</td>
<td>Finland</td>
<td>$19,300</td>
<td>88%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>$1,140</td>
<td>Greece</td>
<td>$7,390</td>
<td>85%</td>
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<tr>
<td>Yugoslavia</td>
<td>$3,240</td>
<td>Italy</td>
<td>$19,840</td>
<td>84%</td>
</tr>
<tr>
<td>Hungary</td>
<td>$3,350</td>
<td>Austria</td>
<td>$23,510</td>
<td>86%</td>
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<tr>
<td>Czech Republic</td>
<td>$2,710</td>
<td>Germany</td>
<td>$23,560</td>
<td>88%</td>
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<tr>
<td>Poland</td>
<td>$2,260</td>
<td>Sweden</td>
<td>$24,740</td>
<td>91%</td>
</tr>
<tr>
<td>Cuba</td>
<td>$460</td>
<td>Mexico</td>
<td>$3,610</td>
<td>88%</td>
</tr>
<tr>
<td>Geometric Mean</td>
<td>$930</td>
<td></td>
<td>$8,030</td>
<td>88%</td>
</tr>
</tbody>
</table>
In Order to Coordinate...

• ...in an economy with N commodities via the market, you have to...
  – 1. Find a whiteboard
  – 2. Write down N prices
  – 3. Laissez-faire
  – 4. Maybe you don’t have to write down the prices
In Order to Coordinate... II

• ...in an economy with N commodities via a bureaucratic command-and-control hierarchy, you have to...
  – 1. Tell everybody what to do
  – 2. Tell everybody what they are going to consume
  – 3. Check up to make sure everybody is doing what they are supposed to be doing
In Order to Coordinate... III

- ...in an economy with N commodities via a bureaucratic command-and-control hierarchy, you have to...
  - 1. Tell everybody what to do
  - 2. Tell everybody what they are going to consume
  - 3. Check up to make sure everybody is doing what they are supposed to be doing
- Insurmountable problems of information and incentives
Questions to Ask of Any Societal Calculating Mechanism

- Is it attainable?
  - i.e., China during the Great Leap Forward not attainable
    - Peng Dehuai’s reprimand of Mao;
    - Hai Jui’s reprimand of Shih Tsung
Questions to Ask of Any Societal Calculating Mechanism II

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• Productive efficiency: will
  • the right people
  • be making the right things
  • in the right way?
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• Productive efficiency: will
  • the right people
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• Allocative efficiency: will anybody say “I don’t want that, I want this instead”?  

Rationing means a fair share for all of us
Questions to Ask of Any Societal Calculating Mechanism IV

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• Productive efficiency: will
  • the right people
  • be making the right things
  • in the right way?

• Allocative efficiency: will anybody say “I don’t want that, I want this instead”?

• Will it be *fair*?
  • Will people get what they need (or deserve)?
What the Market System Gets Us

- People can specialize in what they are most productive doing
- People can become more productive via specialization
- People can trade via this institution called “market”
What the Market System Gets Us II

- People can specialize in what they are most productive doing
- People can become more productive via specialization
- People can trade via this institution called “market”
- Market exchange is win-win  
  – Relative to baseline
- Market exchange maximizes wealth
What the Market System Gets Us III

- People can “specialize” in what they are most productive doing
- People can become more productive
- People can trade via this institution called “market”
- Market exchange is win-win
  - Relative to baseline
- Market exchange maximizes wealth
  - As long as commodities are:
    - excludible,
    - rival,
    - known,
    - and internal
  - As long as people are not miscalculating
- Distribution?