**Oskar Lange: The Complete Social Scientist**

S Ganguli

Oskar Lange’s position in the history of economic thought will remain a unique one.

This is not only because of the vast range of his contributions in economics and other allied subjects, but also because he was not merely an economist. Oskar Lange was a complete social scientist. Though his name is most often associated with a particular model of a socialist economy—competitive socialism where the market mechanism prevails, with a co-operative sector covering the petty commodity producers—, his contribution to the economics of socialism is much broader.

There is one guiding idea in all his writings. It is “the attempt to combine a precise scientific approach to economic study with the needs of social practice, and in particular with the working class movement and socialism” (Papers in Economics and Socialism” Warsaw, 1962; in Polish).

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**The characteristic of a true social scientist are (a) a social purpose (b) a scientific approach and (c) the commitment to put into practice the result of one’s enquiry.**

Economics is not a neutral science. The purpose of economic enquiry differs between economists. Broadly, the purpose may be either to reveal or to conceal objective reality. There are good grounds for some economists to help conceal objective reality. History has ample evidence to offer that when the elements of objective economic reality turn out to be such that if revealed, they will be embarrassing to the Establishment, economists, particularly those who are beneficiaries of the system, find it necessary to conceal the reality. Such is the role of the apologists. Whereas the task of the true social scientist is the task of a revolutionary. His task is to indicate the necessity and direction of change for the better. For the purpose of economic enquiry is to contribute to “human happiness”.

**Approach to Reality**

Every economist approaches reality on the basis of a certain set of initial premises which reflect his social attitude. This choice cannot be explained in a simple way. It is not an overstatement, however, to say that the nature of one’s relationship with the Establishment has something to do with it. Compare the position of Lionel Robbins with that of Lange. Robbins’ “facts of everyday experience” of Britain, which are the basis of his initial premises, are such that they exclude the fact of exploitation of the workers by the capitalists. On the other hand, Lange experienced this—he saw capitalists exploit workers, imperialists exploit colonies. Further, he saw that another man had realised this before him—Karl Marx.

Lange not only made the socialist ideal the supreme value of his life, but was also an active participant in the movement for the establishment of a socialist society, in the process of its development in his own country and in the international socialist movement.

Lange’s was a quest for the totality of economic science, i.e., political economy. As a revolutionary, he could not imagine social progress without a continuous perfection of scientific methods. His scientific attitude and dialectical method of enquiry called for first a study of objective reality as it is and secondly a process of enquiry consisting of further questions being put to the answers he obtained to his initial questions.

**Analysis of Capitalism**

His interest was first in the world economy as a whole which consists of two main systems, capitalism and socialism, secondly in the socialist system as such and thirdly in under-developed economies.

Lange approached the world economy from the point of view of the emergence of a world socialist system. In regard to capitalism the question was whether capitalism could survive. His enquiries dealt with the laws of motion of the capitalist society and its functions. One of his earliest studies was on “Business Cycles in Polish Economic Life in 1923–27” (in Polish) followed by a study of the role of the state in monopoly capitalism. The necessity of understanding the functioning of the capitalist economy led him to study the market mechanism and in this field he made lasting contributions. Although it is recognised that his papers on “Say’s Law” and “Price Flexibility and Full Employment” are permanent contributions to economics, the social question he was seeking to answer is not always appreciated.

**Effectiveness of Price Flexibility**

In his “Price Flexibility and Full Employment” the question he sought to answer was how far the trade unions, alleged to be monopolies, were responsible for unemployment in monopoly capitalism. Bourgeois economists alleged that the trade unions were obstacles to the “parametric adjustments”. The mechanism of parametric adjustment is based on the concepts of “elasticities” and “flexibilities.” Arising out of it, neo-classical economists held that flexibility of prices and wages is a basic condition for the maintenance of economic equilibrium. Hence rigid wages are the source of unemployment. Lange noted a very interesting inconsistency in the attitude of the neo-classical economists, not from the point of view of their social attitude but on theoretical grounds. ‘The people who insist upon the necessity of keeping money wages flexible, are the same ones who demand a ceiling on money wages to prevent an inflation’.

To examine this question of equilibrium theoretically, Lange used the tools of analysis of the neo-classical general equilibrium theory of Walras and introduced “money”, as he had already done in his “Say’s Law” into the theory of general equilibrium and showed that only under very special conditions is price flexibility effective. In the changed conditions of the world economy of today the special conditions are not to be found. Thus, Lango blew up, so to say, the neo-classical doctrine from inside by showing the dynamics of its own internal mechanism.

Two points arise out Lange’s demonstration. First, price flexibility did work as a stabiliser during a particular period of history, 1840 to 1914, and even then only for the long run equilibrium and not in the short run. Secondly, after this period, the
changes in the capitalist economy ‘render price flexibility’ inapplicable under present conditions as a norm of either long run or short run economic policies’. It is not surprising that Milton Friedman finds Lange’s proposition that ‘price flexibility was successful as a long run stabiliser of the economy’ damaging to Lange’s basic answer to the question. But those who have no vested interest in the capitalist system may not find it difficult to comprehend that a Marxist has to examine two hypotheses. First, in capitalism there is a period of correspondence between forces of production and relations of production, the counterpart of which in the sphere of economic mechanism is the applicability of price flexibility during a particular period, though in a particular sphere, i.e., the long run. Secondly, this correspondence breeds lack of correspondence subsequently, i.e., in the phase of monopoly capitalism, when price flexibility does not work. Thus the two main findings of Lange in regard to price flexibility fit perfectly with the requirements of his scientific enquiry.

**Socialism and Objective Laws**

Insofar as the purely analytical aspect is concerned, Lange’s study of price flexibility, particularly his analysis of “stability conditions”, will remain a permanent contribution to the study of the price mechanism. It will have its use in the study of the price mechanism even in a socialist economy when there is a market.

The scope of Lange’s contributions in the field of socialist economics can be best comprehended if his studies are examined, first, in the context of the totality of the debate, both Soviet and Western, on the economics of socialism and, secondly, in the background of the process of development of socialist societies and generalisations from these experiences. The Bolsheviks as they had to build a socialist economy were directly faced with the question whether there can be an economic science of socialism. The answer given by some like Bucharin and before him by Rosa Luxemburg was that there cannot be any because the proletarian revolution was the last act of political economy. A subject of lively debate in the Soviet Union in the 20’s, this was later revived after the Second World War, and was answered by Stalin in his famous booklet on the economic problem. The debate was resumed in the peoples’ democracies in the late 50’s. Those who deny the possibility of a science of economics of socialism also consider its absence a necessity and a good thing—that is, a socialist economy is not subject to any objective laws, hence can be consciously guided at will.

**Marginal Utility Concept**

On the other hand, in the western world the denial of the possibility of an economics of socialism was considered to be a bad thing for the socialist economy. It was alleged by Mises during the 20’s that socialist economies could not work as there could not be pricing and hence no rational economic calculation could be made.

It is at this point that Lange joined issue with Mises. Basing himself, as is well-known, on Walrasian apparatus, he demonstrated conclusively that rational pricing is possible in a socialist economy and further that it is possible even in a fully centralised economy. About the group of socialist economists who deny that a socialist economy is subject to objective laws, he stated that “those who do not recognise the necessity of an adequate price system in a socialist economy do not reach up to the great heritage of Marxian doctrine”. Thus Lange was to challenge both the groups. In this standpoint one can find the key to Lange's socio-economic study, the types of questions he asked himself and the dialectical method of his pursuit of knowledge of the political economy of socialism.

At the very outset of his academic life Lange asked himself the question, what is the scope and method of economics’ — a question he enquired into again and again. In his first study in this direction he found that Marxian economics was unsatisfactory in solving the problem of optimum allocation of resources, although Marx and Engels recognised the existence of and the necessity of a solution to the problem. The Labour Theory of Value as such is insufficient to provide a normative principle for economic calculation in a socialist economy. This requires the use of Marginal Utility analysis. But insofar as the theory of economic equilibrium is merely a theory of allocation of scarce resources between different uses, it is not even a social science. In his *Review of Economic Studies* article in 1946 he tried to answer the same question in a developed form. Here he gave a more sophisticated formulation of the nature of economic rationality, though he was still working on the basis of the Marginal Utility theory with maximisation of utility as the objective function of the consumer. But he introduced the household as the maximising unit. In one of his very last works he found the most satisfactory answer to this question. He could at last get rid of Marginal Utility to find his maximising solution for the household. On the other hand, he could use the concept of the margin, without that of utility, as a tool of analysis wherever applicable.

**Basic Unity in Evolution of Ideas**

One can trace a basic unity in the evolution of Lange’s ideas. He based his enquiry firmly on the experiences of the development of socialist society. Basing himself, as he did, on the tenets of scientific socialism and various branches of economics and other auxiliary subjects, developing his tools of analysis, and drawing from the study of others he attempted certain theoretical generalisations. This synthesis, the theoretical, analysis of the principles of socialist economics, true to his method, he offered as preliminary and tentative, to be developed and verified by continuous studies.

Scientific socialism is a historical undertaking intended to control social development and to create conditions in which it would be possible to use economic laws in order to obtain intended effects. It is here that political economy acquires a new and creative role. It becomes a source of knowledge at the service of social practice. From being a passive observer of spontaneous economic process, it changes into a source of knowledge serving to direct that process. To fulfil this function, political economy must supply true knowledge i.e., knowledge which is an adequate reflection of social laws operating in the economic process.

“The basis of the scientific treatment of the political economy of socialism is the assumption that there exists in a socialist society objective economic laws”.

“A true understanding of economic laws is thus a prerequisite for controlling them and hence the practical importance of Political Economy as a science”.

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In the socialist social formation, then, economic laws do not cease to operate. A socialist society is also subject to the general laws of social development laws of historical materialism. Hence development of socialist society takes place through the operation of contradiction. Socialism is not the realisation of the religious ideal of the Kingdom of God, but a new stage in the development of human society which can and must be studied with the methods of Marxist analysis. It is to the credit of Mao Tse-tung that he has shown with emphasis the fact that a socialist society, too, develops through contradictions.

Lange then goes on to trace the basic contradictions in a socialist society on the basis of historical materialism. These are (a) the interaction between man and nature in the social-process of labour, (b) the contradiction between the new forces of production and the old relations of production, and (c) the contradiction between the new relations of production, i.e., the new economic base, and the old superstructure. However these contradictions are non-antagonistic, though there can develop social conflicts. In society there are not only social classes but also social strata which have their economic bases (unlike the social classes which have their bases in the relations of production in the superstructure of society). Consequently the contradictions which may arise in the development of socialist society between the requirements of the economic basis and antiquated superstructures, such as methods of management of national economy, political superstructures and others, may also provoke the opposition of vested interests of certain strata, which make a change difficult. But these are not social classes—there are no class struggles. This can be better understood in terms of Lange's analysis of the stages of development of socialist society.

Laws of Socialist Society

There are laws which operate in socialist society as well, as the experience of socialism has shown (they need not operate in an elemental way and can be made to operate in accordance with the human will). Lange distinguishes four types of laws in the socialist mode of production.

First, general economic laws which operate in any socio-economic system, such as laws of production and reproduction, laws concerning the general features of the organisation of the labour process. These laws establish certain technical balances between material objects.

Secondly, laws specific to the socialist mode of production, determined by the social relations of production which determine the stimuli (or incentives) governing human economic activity. Out of the economic laws specific to a given formation it fashions a single law which determines the entire mode of functioning of that social formation. This is called the basic economic law of the social formation as introduced by Stalin" (maximum satisfaction of social needs, unlike in capitalism where the stimulus is the maximisation of profits).

Thirdly, there are laws of an intermediate nature which are not general but specific to more than one mode of production. They operate in several modes of production and express certain common features of these modes, for example, the law of value which is the result of commodity production. In socialist society as commodity production takes place, owing to historical circumstances, the Law of Value continues to operate, though it is not specific to the socialist mode of production.

Fourthly, there is a type of economic laws which are not connected with the socialist mode of production but result from the particular types of superstructure of management of socialist economy and which, therefore, change when the organisational and managerial superstructure changes. "Different methods of managing socialist economy which change historically and also from country to country produce their own particular economic laws. They produce specific economic laws because they produce specific incentives and opportunities of action. To study these laws one has to consider two points, first the relative scope of administrative allocation of goods and of the Law of Value and their consequences, and secondly consequences of different types of remuneration of labour because these are related to the question of incentives in a socialist economy.

Thanks to the social ownership of the means of production there are new opportunities for economic development. This means that the rational use of the means of production in social interest is possible because social ownership of means of production makes possible economic planning. Here Lange makes two fundamental contributions to the economics of socialism: first, his formulation of the principle of economic rationality and, second, the statement of the problems of its realisation through the process of construction of socialist society.

Lange answers the basic question—what is the principle of economic rationality, a question which he asked himself some thirty years ago. He found that Mises' assertion that human action is necessarily always rational and that economics is simply rational activity was too narrow and Mises' formulation of the nature and principle of rational activity unsatisfactory. For Mises is unhistorical and his equation of human action with rational action leaves no room for traditional behaviour. Marxist economists so far had a negative answer to this question—that the principle of economic rationality postulated by the neo-classical school as the foundation of political economy was wrong. Lange had to seek a positive answer because economic activity being a part of human activity has to be rational to be most fruitful.

Principle of Economic Rationality

Since human economic activity is conscious and purposive, the science of political economy, if it has to be an instrument of social practice, has to discover not only the economic laws of human behaviour, but also the best method of realisation of given ends by the use of certain means—this is the principle of economic rationality. First, Lange, as opposed to Mises, shows that there is a necessity for a science of rational activity in general because rationality is not automatic, but a power to create an action in many fields of human action to and gives rise to the problem of discovering what is common to all fields of rational activity. This, however, is not economics as Mises asserts but praxeology, "logic of rational activity". Lange arrives at a new formulation of the principle of economic rationality purely from the formal point of view. The concept of optimum allocation of resources depends on the possibility of quantitative measurement of ends and means. Secondly, he shows that the principle of economic rationality is historically relative (based on historical conditions). He traces the transition of human action from tradition to rational activity based on reasoning, on comparison of means.
with ends achieved, i.e., the capitalist society is solely partial and confined only to private capitalist enterprise. Private rationality as manifested by the capitalists’ profit maximisation motive stands in the way of the realisation of the maximum benefit for members of the community as a whole which is the criterion of social rationality. Rationality from the point of view of the whole economy is possible only in a socialist society because of the social ownership of means of production. Planning becomes the instrument of realisation of economic rationality for society as a whole. Thus the tables are completely turned: in capitalism rationality can only be partial; it is only in socialism that rationality can be realised fully.

Stages of Development

The proper study of Political Economy of Socialism then requires knowledge of objective laws and principles of economic rationality to administer the economy in the best possible way. For this one has to approach a socialist economy not as a static model but in terms of its stages of development which are historically conditioned. It is clear that there must be recognition of necessary stimuli for economic action and a system of appropriate incentives must exist in the organisation and methods of management of a socialist economy. Otherwise there may be two kinds of degeneration, (a) anarcho-syndicalist degeneration where the enterprise ceases to be socially owned, and (b) bureaucratic degeneration, the danger of a new kind of “alienation” of the producer from his product.

The question that needs to be considered is what is the connection between Lange’s formulation about objective nature which is not elemental and economic laws and planning. “Planning is the means of subjecting the operation of economic laws and the economic development of society to the direction of human will”1. First, planning cannot deny the existence of economic laws but requires a knowledge of them to make use of them. Secondly, the extent of reliance on economic laws as opposed to administrative means for the functioning of the economy, i.e., direct intervention by the state apparatus depends on the historical stage of development of a socialist economy. Basing himself on the experiences of the development of the socialist economies he makes the following generalisations. The first stage he characterises as a war economy. It is the initial stage of socialist industrialisation which uses certain techniques of a war economy. The very process of transformation, and in addition, in under-developed countries, the need of rapid industrialisation, impose the necessity of high centralisation of planning and management. However, the dialectical character of the development of socialist society is such that the methods which are necessary and useful in the period of social revolution and of intensive industrialisation become an obstacle to further economic progress when they are perpetuated beyond their historical justification. The greatest obstacle to further progress results from the lack of proper economic incentives in this bureaucratic centralised type of management. Thus, in this stage the extra-economic force of the State which played a dominant role in the first stages of the emergence and development of the socialist society needs to be gradually replaced by the operation of economic laws, i.e., by the establishment of proper economic incentives which produce the results desired by the will of the organised society. Does this mean a revival of capitalism as some people misconceive? “By utilising economic means planning makes use of the automatic character of peoples’ responses to given incentives”. “In a socialist economy the automatic processes are part of the method of realisation of the plan, the conditions establishing incentives are set up by economic policy to produce desired results, whereas in capitalist society these conditions develop in an elemental way”. But this development from the first to the last stage passes through a period of transition. He suggests that one important feature of the end of the period of transition and the beginning of the functioning of an established socialist society is the substitution of the methods of administrative and centralised management by development of new methods based on the utilisation of economic laws.

Separation of Management of Economy from Government

Lange’s studies in the Political Economy of Socialism show that “he belongs almost entirely to the classical Marxist tradition”. He fully vindicates the tenets of historical materialism which he made the leitmotif of his academic work — a basis for the acquisition of further knowledge. First the discovery of economic laws by science is necessary to control them and to use them in the interest of the community. Only in a socialist society does man become master not only of nature but also of social conditions. “It is only from this point that men with full consciousness will fashion their own history; it is only from this point that the social causes set in motion by men will have, predominantly and in constantly increasing measures, the effects willed by men. It is humanity’s leap from the realm of necessity into the realm of freedom”11. Secondly, organisational expression of the replacement of extra-economic force by the utilisation of economic laws must be a gradual separation of the management of national economy from the extra-economic activities of the State, i.e., from the exercise of political power12. The long run perspective of communist society is a gradual replacement of government of persons by the “administration of things and direction of production processes” (Engels). This is the substance of the process of “withering away” of the State. For the realisation of this long run perspective it is necessary to prepare institutional conditions such as the process of gradual separation of economic management from political government.

The ‘Lange Mechanism’

In the light of the foregoing analysis, we can now better appreciate the role of the so-called Lange mechanism. It is clear that the role of the price mechanism is not a permanent feature of socialist economy; the same is true of co-operatives, however much some people now in India may like to regard these features as the hallmarks of the Lange model as an apology for rightwing social democracy. The market mechanism can be used fruitfully in a socialist economy so long as commodity production prevails, and then for a limited purpose and in a limited sphere within the planned economy. The need for co-operatives arises from the necessity of the allies of the working class and from the lower level of development of the forces of production. With the development of the socialist mode of production all means of production will become social property.

Lange’s recent views on the market mechanism in socialist society were very different from those in his, 1936
article. This was due not only to his acquaintance with the experience of socialist economies but also to his theoretical studies, especially in the new branches of knowledge such as cybernetics. Not very long ago in a lecture in London, Lange declared that if he were to write his essay today it would be called "The Computer and the Market, an Essay in Economic Cybernetics". For, it is an interesting point that the process of determining the accounting price (the so-called shadow price) with the help of an electronic computer is also achieved by a process of successive trial and error. Thus, both these mechanisms, the market and control accounting with electronic computers, may supplement each other, putting in a new light the mutual relationship between centralised and decentralised decision models. Insofar as the policy of transition is concerned, his basic position remains the same. This section of his 1936 booklet has not drawn the attention it deserves. "A Socialist Government really intent upon Socialism has to decide at one stroke or to give it up altogether." Further, "the Socialist Government must start its policy of transition immediately with the socialisation of the industries and banks, in question." In a recent work, Lange repeats this much more strongly. "A revolution which does not take this step is doomed to failure".

Lange and the Second Plan

Although Lange's studies on the problems of underdeveloped countries are of special interest to us, we can only note here two main points: (a) Lange's association with the formulation of India's Second Five-Year Plan and (b) his studies on the problem of underdeveloped economies as such.

To suggest that Lange took part in the formulation of the Second Plan will be, to say the least, an over-statement, if not an abuse. The papers that Lange wrote while he was in India are of two categories. One pertains to the general background such as the nature of the fundamental problems of underdeveloped countries, planning in socialist countries as a standard of reference, and a theoretical study of input-output analysis. The other is the memorandum on the Second Plan submitted to Nehru in April 1956. In this paper while accepting the fact that the Indian Government is not a socialist government he clearly expressed his doubts about the possibility of the mobilisation of resources for the realisation of the Plan. To solve this problem, he suggested certain clear-cut steps such as basic land reforms, allotment of a part of industrial and commercial profits for planned development, nationalisation of banks and at least part of foreign trade, special restrictions on foreign capital and dividends etc. The actual policies pursued by the Indian planners are sufficiently eloquent in their results to deserve discussion here. It seems the "best present from Poland" was accepted but not utilised. This, however, does not close the possibility of misuse of Lange's name.

Lange did find, however, some positive elements in the Indian plan, such as the role of public investment for economic development. This fits with his findings about the problems of under-developed economies.

The "National Revolutionary Pattern"

Lange offered a definition of an under-developed economy: "An underdeveloped economy is an economy in which the stock of capital goods available is not sufficient to employ the available labour force on the basis of modern techniques of production". In the present historical conditions, it is not possible for these economies to develop on the basis of the capitalist path. The lever of economic progress must be industrialisation by public investment, through the creation of a Powerful public sector and the instrument is economic planning. He also made a characterisation of a new pattern of social development in contrast with both capitalism and socialism. He called this the "national revolutionary pattern" which is establishing itself in countries which emancipated themselves from colonial or semi-colonial dependence. In India he finds an example of this pattern.

The national revolutionary pattern, however, is a transitional pattern. "What is happening in India and similar countries' industrialisation by methods of State capitalism, which under certain circumstances can become the starting point of socialist development." But this will not follow automatically. The further course of development will follow from the differentiation between the social classes within the societies. "There are, however, in history examples of countries achieving tremendous economic growth where public investment provided the initial impetus for growth, and which later followed the path of capitalist accumulation. The classical example is that of the economic development of Japan." Oskar Lange is dead. Lange, the man, the teacher and the friend of his students and colleagues will be sadly missed by them. As I write these pages, I cannot help feeling that the reader I will miss most is the Professor himself. I visualise him telling me with a smiling face, "Oh, this is what you think of my work... all right. This reminds me of a story..." What the anecdote would have been we would not know, for our beloved loafer is no more.

Lange, the social scientist, however will live through his works ever more. Economics of today and tomorrow is mainly the Political Economy of Socialism. The socialist economists of today and generations to come will get guidance and inspiration from his works. Above all they will take note of his warning "Socialism is not an economic policy for the timid". And he was not a timid man.

Notes

2 His work in this field has been neatly summarised by K R Bhara-dwaj in "The Economic Weekly", November 6, 1965.
3 "Price Flexibility and Full Employ, meat", Bloomingtoun, 1944, p 90
8 "Political Economy", Vol I, Lon. don, 1963, Ch V.
10 "Problems of Political Economy of Socialism" p 3.
11 Ibid, p 3.
14 Engels, Anti-Duhiring.

Lange's last work is "Introduction to Economic Cybernetics" (Forthcoming Polish publication). He had already published "Whole and Development in the Light of Economic Cybernetics" in 1962. His other work was on programming, "Optimal Decision-Making" in Polish in 1964. All these studies were the preparations for the later volumes of his "Political Economy" which he could not complete.


In Polish in "Papers on Economics and Socialism", pp 428-35. The original English version was not available to me.


"Political Economy of Socialism", p 34.

"Patterns of Economic Development and Planning", op cit.