Communism and the Chicago School

Yueran Ma

Chicago Booth

Becker Brownbag
Introduction

- I grew up in Beijing, China, the world of the Chinese Communist Party. Now I work at the University of Chicago.

- I learned some communism at school. My grandfather was a staunch communist.
  - The CCP liberated his family from Japanese occupation and helped him go to school.

- I also learned some Coasian ideas from my mother.
  - Ronald Coase was influential among Chinese intelligentsia during the reform decades.

- My research often chases the ghost of Coase.
  - I study the organization of production and implications for contracts & macroeconomics.

- Last summer I learned that Coase’s work was influenced by Vladimir Lenin. Since then, I looked into connections between communism and the Chicago School.
Introduction

I found many overlaps: topics of interest and economic mechanisms.

Also, UChicago had not only Milton Friedman, but also socialist/communist economists.

Common ground: technology shapes the way production is organized (economic foundation)

Divergence: how to organize social relationships (social superstructure)

- Technology increases economies of scale
- Large enterprises & concentration of production

Central planning (Communism)

"Free" market (Capitalism)
Introduction

- For several decades, economic research studied the feasibility of communism/socialism.
- This line of work faded away probably after the end of the Soviet Union.
- We rarely encounter much of the earlier work in today’s classes or papers.
- But many of the earlier thoughts and debates are highly relevant for popular topics today.
- I stumbled upon this exploration while working on production concentration
  - And came across somewhat forgotten historical thoughts
  - Initially from my coauthor’s relative who worked in East Germany; then from UofC veterans
  - My grandfather, who spent his retirement reading *Das Kapital*, passed away years ago
Economies of Scale and Concentration of Production
Recent Research

Production concentration: small set of firms account for a large share of production activities.

**Story of our times:** rising concentration in many industries since the 1980s using comprehensive census data in recent decades

- Philippon (2019), Autor et al. (2020), Hsieh and Rossi-Hansberg (2022)...

Inspired a rapidly growing literature; often assumed to be a recent development. Many explanations focus on special features of the recent decades.

- ICT, globalization, regulation, population aging, low interest rates...

**Is rising production concentration a recent anomaly?**

- Starting point of my work (Kwon, Ma, and Zimmermann, 2023)
- We found data on size distribution of all U.S. corporations from 1918 to 2018
### Data on Business Size Distribution

Statistics of Income (SOI) and associated Corporation Source Book

- Published by IRS since 1918. Underlying source for national accounts.

**Example: 1945 Statistics of Income**

Add up top bins, or use generalized Pareto interpolation (Blanchet, Fournier, and Piketty, 2022)

<table>
<thead>
<tr>
<th>Total assets classes and money figures in thousands of dollars</th>
<th>Number of returns</th>
<th>Total assets—Total liabilities</th>
<th>Total compiled receipts</th>
<th>Compiled net profit or net loss</th>
<th>Net income or deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AGGREGATE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 50</td>
<td>177,788</td>
<td>3,647,660</td>
<td>9,030,941</td>
<td>267,783</td>
<td>267,621</td>
</tr>
<tr>
<td>50 under 100</td>
<td>61,431</td>
<td>4,378,846</td>
<td>8,650,707</td>
<td>376,597</td>
<td>376,379</td>
</tr>
<tr>
<td>100 under 250</td>
<td>60,308</td>
<td>9,526,342</td>
<td>16,659,649</td>
<td>837,872</td>
<td>837,120</td>
</tr>
<tr>
<td>250 under 500</td>
<td>27,583</td>
<td>9,666,507</td>
<td>15,828,823</td>
<td>914,465</td>
<td>913,563</td>
</tr>
<tr>
<td>500 under 1,000</td>
<td>17,669</td>
<td>12,436,856</td>
<td>17,397,634</td>
<td>1,196,416</td>
<td>1,193,741</td>
</tr>
<tr>
<td>1,000 under 5,000</td>
<td>22,057</td>
<td>47,907,402</td>
<td>42,250,723</td>
<td>3,450,063</td>
<td>3,427,360</td>
</tr>
<tr>
<td>5,000 under 10,000</td>
<td>3,948</td>
<td>27,591,390</td>
<td>17,740,140</td>
<td>1,719,313</td>
<td>1,704,217</td>
</tr>
<tr>
<td>10,000 under 50,000</td>
<td>3,197</td>
<td>65,334,850</td>
<td>39,917,400</td>
<td>3,900,112</td>
<td>3,868,073</td>
</tr>
<tr>
<td>50,000 under 100,000</td>
<td>427</td>
<td>29,884,282</td>
<td>15,626,409</td>
<td>1,521,776</td>
<td>1,508,085</td>
</tr>
<tr>
<td>100,000 and over</td>
<td>542</td>
<td>281,137,144</td>
<td>60,624,822</td>
<td>7,035,344</td>
<td>6,917,796</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>374,950</td>
<td>441,461,268</td>
<td>252,636,330</td>
<td>21,219,681</td>
<td>21,013,975</td>
</tr>
</tbody>
</table>
Data on Business Size Distribution

Statistics of Income (SOI) and associated Corporation Source Book

- Published by IRS since 1918. Underlying source for national accounts.

Add up top bins, or use generalized Pareto interpolation (Blanchet, Fournier, and Piketty, 2022).

<table>
<thead>
<tr>
<th>Total assets classes</th>
<th>Number of returns with balance sheets</th>
<th>Cash</th>
<th>Notes and accounts receivable less reserve</th>
<th>Inventories</th>
<th>Investments</th>
<th>Capital assets less reserves</th>
<th>Total assets—Total liabilities</th>
<th>Accounts and notes payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>0....................</td>
<td>2,419</td>
<td>11,723</td>
<td>11,877</td>
<td>1,264</td>
<td>4,076</td>
<td>9,901</td>
<td>41,710</td>
<td>9,258</td>
</tr>
<tr>
<td>50...................</td>
<td>519</td>
<td>9,069</td>
<td>11,136</td>
<td>1,170</td>
<td>4,203</td>
<td>8,186</td>
<td>30,246</td>
<td>8,410</td>
</tr>
<tr>
<td>100..................</td>
<td>433</td>
<td>13,848</td>
<td>20,844</td>
<td>1,964</td>
<td>10,960</td>
<td>15,292</td>
<td>66,990</td>
<td>15,679</td>
</tr>
<tr>
<td>250..................</td>
<td>173</td>
<td>12,547</td>
<td>16,526</td>
<td>2,122</td>
<td>11,386</td>
<td>13,542</td>
<td>60,034</td>
<td>15,623</td>
</tr>
<tr>
<td>500..................</td>
<td>99</td>
<td>11,875</td>
<td>20,417</td>
<td>2,614</td>
<td>16,166</td>
<td>11,856</td>
<td>66,486</td>
<td>17,827</td>
</tr>
<tr>
<td>1,000................</td>
<td>62</td>
<td>31,180</td>
<td>46,472</td>
<td>8,049</td>
<td>66,072</td>
<td>37,604</td>
<td>185,380</td>
<td>41,630</td>
</tr>
<tr>
<td>5,000................</td>
<td>7</td>
<td>6,589</td>
<td>17,625</td>
<td>1,644</td>
<td>13,450</td>
<td>4,913</td>
<td>47,822</td>
<td>11,048</td>
</tr>
<tr>
<td>10,000..............</td>
<td>5</td>
<td>9,961</td>
<td>15,301</td>
<td>1,036</td>
<td>18,255</td>
<td>25,171</td>
<td>75,814</td>
<td>8,786</td>
</tr>
<tr>
<td>Total...</td>
<td>3,747</td>
<td>106,672</td>
<td>159,260</td>
<td>20,171</td>
<td>134,570</td>
<td>127,365</td>
<td>680,984</td>
<td>128,271</td>
</tr>
</tbody>
</table>

Example: 1945 Statistics of Income

SERVICE: BUSINESS SERVICE—
100 Years of Rising Corporate Concentration

All U.S. Corporations in Aggregate

Top 1%

Top 0.1%

Share

1920 1940 1960 1980 2000 2020

1920 1940 1960 1980 2000 2020

Assets  Receipts  Net income  Equity

Yueran Ma (Chicago Booth)
100 Years of Rising Corporate Concentration

Top 1% Share by Broad Sectors

- **Agriculture**
- **Construction**
- **Finance**
- **Manufacturing**
- **Mining**
- **Services**
- **Trade**
- **Utilities**

---

Yueran Ma (Chicago Booth)

Communism and the Chicago School

February 2023
100 Years of Rising Corporate Concentration

Top 1% Asset Share by Subsectors
Robustness checks for concentration trends:

1. Including noncorporations (partnerships, proprietorships)
2. Comparison with manufacturing census (since 1947)
3. Top 5,000 or 500 share, and comparison with largest 500 public companies
4. Including overseas assets using Activities of U.S. Multinational Enterprises
100 Years of Rising Corporate Concentration

Robustness checks for concentration trends:

1. Including noncorporations (partnerships, proprietorships)
2. Comparison with manufacturing census (since 1947)
3. Top 5,000 or 500 share, and comparison with largest 500 public companies
4. Including overseas assets using Activities of U.S. Multinational Enterprises

Additional results on mechanisms:

1. Timing of rising concentration aligns closely with technological intensity (R&D, IT)
2. Timing of rising concentration also aligns with prevalence of fixed costs
3. Industries experiencing more increases in concentration also see more growth in output

In line with stronger economies of scale

- Trade/regulation/financing alone hard to explain long-run facts & timing across industries
Communists: technology $\Rightarrow$ economies of scale $\Rightarrow$ concentration in production

Marx (1867) Chapter 25:

*The battle of competition is fought by cheapening of commodities. The cheapness of commodities demands, caeteris paribus, on the productiveness of labour, and this again on the scale of production. Therefore, the larger capitals beat the smaller. It will further be remembered that, with the development of the capitalist mode of production, there is an increase in the minimum amount of individual capital necessary to carry on a business under its normal conditions. The smaller capitals, therefore, crowd into spheres of production which Modern Industry has only sporadically or incompletely got hold of.*
The enormous growth of industry and the remarkably rapid concentration of production in ever-larger enterprises are one of the most characteristic features of capitalism. Modern production censuses give most complete and most exact data on this process... Tens of thousands of huge enterprises are everything; millions of small ones are nothing...

In another advanced country of modern capitalism, the United States of America, the growth of the concentration of production is still greater... In 1904 large-scale enterprises with an output valued at one million dollars and over, numbered 1,900 (out of 216,180, i.e., 0.9 per cent)... the value of their output amounted to $5,600,000,000 (out of $14,800,000,000, i.e., 38 per cent). Five years later, in 1909, the corresponding figures were: 3,060 enterprises (out of 268,491, i.e., 1.1 per cent)... with an output valued at $9,000,000,000 (out of $20,700,000,000, i.e., 43.8 per cent).”
Influence 1: The Nature of the Firm
The Why Question


What was essentially the same puzzle presented itself to me in another form which can be summed up in one word, Russia... Lenin had said that the economic system in Russia would be run as one big factory... Economists in the West were engaged in a grand debate on the subject of planning, some maintaining that to run the economy as one big factory was an impossibility. And yet there were factories in England and America. How did one reconcile the impossibility of running Russia as one big factory with the existence of factories in the western world?
Influence 1: The Nature of the Firm

The Why Question


As D. H. Robertson points out, we find “islands of conscious power in this ocean of unconscious cooperation like lumps of butter coagulating in a pail of buttermilk.” But in view of the fact that it is usually argued that coordination will be done by the price mechanism, why is such organisation necessary? Why are there these “islands of conscious power”? Outside the firm, price movements direct production, which is coordinated through a series of exchange transactions on the market. Within a firm, these market transactions are eliminated and in place of the complicated market structure with exchange transactions is substituted the entrepreneur-coordinator, who directs production. It is clear that these are alternative methods of coordinating production. Yet, having regard to the fact that if production is regulated by price movements, production could be carried on without any organisation at all, well might we ask, why is there any organisation?
Influence 2: Concerns about Large Businesses and Concentration

The So What Question

1. Distribution of income and inequality
2. Obstruction to competition and innovation
3. Worker suppression: separation between capital and labor
4. Investor protection: separation between ownership and control

See Marx (1867), Berle and Means (1932), Lange (1937), among others
Influence 2: Concerns about Large Businesses and Concentration

The So What Question

Summary by Lenin (1913)

In industry, the victory of large-scale production is immediately apparent...and the peasant economy...declines and falls into ruin under the burden of its backward technique...By destroying small-scale production, capital leads to an increase in productivity of labour and to the creation of a monopoly position for the associations of big capitalists. Production itself becomes more and more social—hundreds of thousands and millions of workers become bound together in a regular economic organism—but the product of this collective labour is appropriated by a handful of capitalists.

Marx traced the development of capitalism from embryonic commodity economy, from simple exchange, to its highest forms, to large-scale production. Capitalism has triumphed all over the world, but this triumph is only the prelude to the triumph of labour over capital....When feudalism was overthrown and “free” capitalist society appeared in the world, it at once became apparent that this freedom meant a new system of oppression and exploitation of the working people. Various socialist doctrines immediately emerged as a reflection of and protest against this oppression.
Communist Solutions and Criticisms
Communism in Its Purest Form

- Collective ownership
- Central planning to allocate resources

Government represents everyone
Critique 1: How to Allocate Resources

Challenge: the “socialist calculation problem” and the “knowledge problem” for the planner
Mises (1920), Hayek (1940, 1945)

- Without prices and markets, how can central planner figure out resource allocation?
  ▶ How much input to give each producer?
  ▶ How much output to give each consumer?
  ▶ How can central planner have enough information?

Response: can introduce prices and markets to central planning (market socialism)
Dickinson (1933), Lange (1936)

- Central planner calculates prices by solving equations or trial and error
- Or introduce some markets to help provide information
Critique 2: How to Incentivize Managers

Challenge: the incentive compatibility problem for the managers
- With collective ownership, why will managers and workers work hard?
- Increasing firm performance does not increase their income

Response: perhaps allow some pay for performance
- Concern: inequality may come back
Critique 3: How to Discipline the Government

Challenge: the politics of market socialism for the government
- How to make sure the government pursues efficiency rather than its own agenda?
- How to discipline abuse and corruption?
- The government can do more harm under socialism because of stronger control over firms

Response: perhaps the China model from 1978 to the 2010s is an approximation
Capitalist Solutions and Criticisms
Capitalism and “Free Market”

- Private ownership
- Foster competition

Still requires legal foundations to enforce contracts and rights
Perennial Question 1: How to Address Inequality

Stigler (1981) on Knight (1923)

Four charges are made (by Knight) against the claims of the competitive system to be just: The paramount defect of the competitive system is that it distributes income largely on the basis of inheritance and luck (with some minor influence of effort). The inequality of income increases cumulatively under competition.

Knight (1923) “The Ethics of Competition”

There appears to be a deep-seated conflict between liberty and equality on the one hand and efficiency on the other. There is little comfort for democratic, equalitarian idealism in the study of evolutionary biology, in which the highly centralized or “cephalized” forms have always come out ahead.

Knight gave lectures “The Case for Communism” in 1932 elaborating some of these concerns.
Perennial Question 2: How to Protect Workers?

Potential mechanisms: 1) minimum wage regulation, 2) labor union, 3) competition

- Franklin D. Roosevelt

  No business which depends for existence on paying less than living wages to its workers has any right to continue in this country. By living wages I mean more than a bare subsistence level – I mean the wages of decent living.

- John F. Kennedy

  The labor movement is people. Our unions have brought millions of men and women together, made them members one of another, and given them common tools for common goals. Their goals are goals for all America – and their enemies are the enemies for progress. The two cannot be separated.
Perennial Question 2: How to Protect Workers?

Potential mechanisms: 1) minimum wage regulation, 2) labor union, 3) competition

Friedman and Friedman (1980)

When unions get higher wages for their members by restricting entry into an occupation, those higher wages are at the expense of other workers who find their opportunities reduced. When government pays its employees higher wages, those higher wages are at the expense of the taxpayer. But when workers get higher wages and better working conditions through the free market, when they get raises by firm competing with one another for the best workers, by workers competing with one another for the best jobs, those higher wages are at nobody’s expense. They can only come from higher productivity, greater capital investment, more widely diffused skills. The whole pie is bigger - there’s more for the worker, but there’s also more for the employer, the investor, the consumer, and even the tax collector.
The really important point in discussing the economic merits of socialism is not that of comparing the equilibrium position of a socialist and of a capitalist economy with respect to social welfare... The real issue is whether the further maintenance of the capitalist system is compatible with economic progress. That capitalism has been the carrier of the greatest economic progress ever witnessed in the history of the human race the socialists are the last to deny. Indeed, there has scarcely ever been a more enthusiastic eulogy of the revolutionising achievements of the capitalist system than that contained in the Communist Manifesto... The question arises, however, whether the institutions of private property of the means of production and of private enterprise will continue indefinitely to foster economic progress, or whether, at a certain stage of technical development, they turn, from being promoters, into becoming shackles of further advance.
Lange (1937)

The unprecedented economic progress of the last 200 years is due to innovations increasing the productivity of a given combination of factors of production, or creating new commodities and services...Each innovation is necessarily connected with a loss of value of certain old investments. It seems to us that the tendency to maintain the value of old investment can be removed successfully only by the abolition of private enterprise and of the private ownership of capital and natural resources...The tendency to restrict competition is as natural for private enterprise as the tendency to protect the value of old investments is natural for private ownership of capital.
Perennial Question 3: How to Discipline Large Businesses

- Concerns remain that economies of scale can become breeding ground for market power. (Eeckhout, 2021)

- Whether market power is rising under some debate. Higher production concentration can be associated with either more or less competition. (De Loecker, Eeckhout, and Unger, 2020; Foster, Haltiwanger, and Tuttle, 2021; Syverson, 2019)

- Disruption of large firms very common: “in 1935, the average company could expect to spend ninety years in the S&P 500. By 2005, this average had fallen to 15 years.” (Christensen, 1997; O’Reilly and Tushman, 2021)
Summary
What is the relationship between communism and the chicago school

Communism and the Chicago school of economics are two distinct ideologies with little overlap. Communism is a political and economic ideology that advocates for the collective ownership and control of the means of production, with the goal of achieving a classless society. The Chicago school of economics is a school of thought within the field of economics that emphasizes free market principles and the importance of individual incentives and property rights. While the two ideologies may come into conflict in certain areas, they are generally not considered to be closely related.
Summary

Interesting to see the connections between Communism and the Chicago School

- From Lenin to Coase, then to reforms in communist countries
- From Lange and Hayek, then to today’s emphasis of incentive compatibility
- From communism dispute to Stigler’s chair, then to today’s Stigler Center

We are often aware of recent outcomes but less aware of past evolution

But the world is not static and ideas did not develop in a vacuum

Connecting dots can enrich our perspectives, and perhaps make more sense of our own paths
Summary

I do not intend to persuade you to adopt the political views of any side.

I seek to convey that understanding economic mechanisms is important.

Inscription on Marx grave: “The philosophers have only interpreted the world, in various ways. The point, however, is to change it.”

But changing without fully understanding can have serious risks.

Btw, Marx’s grave charges tickets whereas Smith’s grave is free...
Summary

Grave keeping for Karl Marx

Grave keeping for Adam Smith
Thank You
Frank Knight

- Birth: November 7, 1885 in White Oak Township, Illinois.

- Education: American Temperance University (1905-1907); Milligan College: B.A. (1911); University of Tennessee: Master (1913); Cornell: Ph.D. (1916).


- Death: 1972 in Chicago.
Friedrich von Hayek

- Birth: May 8, 1899 in Vienna. Hayek served in World War I during his teenage years and said that this experience in the war and his desire to help avoid the mistakes that had led to the war drew him into economics.

- Education: University of Vienna: Dr. jur. (1921); Dr. rer. pol (1923)


- Work: *The Road to Serfdom* (1944); “The Use of Knowledge in Society” (1945); market socialism debate.

- Death: 1992 in Freiburg.
Oskar Lange

- Birth: July 27, 1904 in Tomaszow Mazowiecki, Poland.
- Education: University of Krakow: B.A. (1926), Masters of Law (1928).
- Work: economic theory; market socialism.
- Death: 1965 in London.

Stalin asked Roosevelt to arrange Lange to visit the Soviet Union in an official capacity, so Stalin could speak with him. In 1945, Lange renounced his American citizenship to become a Polish citizen once more, becoming the first Polish ambassador to the U.S. that same year. He later served as the deputy chair of the Council of State and the chair of the Economic Council.
Ronald Coase


- Education: London School of Economics, Bachelor of Commerce (1932); University of London: Ph.D. (1951).


- Death: 2013 in Chicago.
George Stigler

- Education: University of Washington: B.A. (1931); University of Washington: MBA (1932); University of Chicago: Ph.D. (1938) under Frank Knight.
- Work: “The economics of information” (1961); “The theory of economic regulation” (1971); industrial organization; history of economic thought

In 1935, Charles Walgreen complained that UofC (under President Robert Hutchins) was turning his niece into a communist. Hutchins argued that the university respects freedom of speech and should not intervene what classes teach. Walgreen ultimately settled with the university and gave $550K to set up the Walgreen Foundation for American Institutions. This donation was later used to hire Stigler.
Milton Friedman

- Death: 2006 in San Francisco.

Rose Director Friedman received Bachelor’s degree from the University of Chicago and studied with Frank Knight as a doctoral student. She was a coauthor for *Free to Choose* and played an essential role in compiling *Capitalism and Freedom*. 
References I


