

The Last Great Utopian:

Fredrich Engels Misguided Portrayal of a Future Socialist Society

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Abstract

Socialism: Utopian and Scientific by Frederick Engels will always be a historically significant text for socialists. It provides a sophisticated but accessible argument for the construction of socialism through the self-activity of the working class. Engels argues that workers will capture state power, place the means of production under the control of a worker's state, and institute popular planning. He articulates this vision of socialism to distinguish it from that of his anarchist rivals. This paper argues that while it is easy to critique the anarchists as being much too optimistic about the ability of all to cooperate spontaneously without a state, their vision of non-statist social ownership is a better starting point for the construction of twenty-first socialism than the classical Marxist socialist framework articulated by Engels. The paper supports this proposition by paradoxically drawing on the new institutionalist work of conservative Ronald Coase as well as the analysis of information and exchange by the anti-socialist Friedrich Hayek. The starting point for the construction of a new socialist order is crucial. If one emphasizes state ownership and planning, then it is difficult to envisage how socialism can be constructed effectively. On the other hand, if a network of community-owned and worker-owned enterprises exists, then a coordinating framework which uses a combination of bilateral negotiations and market signals could create a more egalitarian and solidaristic socialist society.

... As for the sovereign validity of the knowledge in each individual's mind, we all know that there can be no talk of such a thing, and that all previous experience shows that without exception such knowledge always contains much more that is capable of being improved upon than that which cannot be improved upon or is correct. (Engels 1998: 109).

Introduction

Socialism: Utopian and Scientific (SU&S) by Frederick Engels will always be a historically significant text for socialists (Engels 1935). It provides a sophisticated but accessible argument for the construction of socialism through the self-activity of the working class. Its publication was immediately successful. As Engels notes in an introduction to the 1892 edition, SU&S had sold more than Marx and Engels' *Communist Manifesto* (Engels 1935: 8). In *Socialism: Utopian and Scientific*, Engels accomplishes two tasks. First, he argues that the establishment of socialism will be a product of a historical process set in motion by the social forces unleashed by capitalism itself. Workers who struggle against capitalist exploitation and irrationality will create a new, non-exploitative social order. Second, he uses his sympathetic critique of early pre-Marxist socialists (Owen, Fourier, and Saint Simon) to indict the capitalist order for its degraded working conditions (Owen), its alienating division of labor (Fourier), and its parasitic class structure (Saint Simon). While Engels vigorously criticizes the utopians for not linking their critique to a social movement which could address these capitalist excrescences, the implication is that successful anti-capitalist working class struggle will necessarily create a new society that both eliminates capitalist property relations and empowers its newly free citizens.

Although Engels argues forcefully that workers themselves must create a new socialist society, Marx and he had precise ideas about the institutions and structures which would regulate the future socialist order. Engels is careful to articulate this vision in general terms. Nevertheless, SU&S asserts that a future socialist society will have three distinct characteristics.

First, workers will seize the capitalist-owned means of production and place these assets under the ownership of a new worker's state. Second, once this has been accomplished, workers will develop a popular plan which determines the composition of output and the mode of its distribution. Finally, as this non-antagonistic form of social cooperation becomes consolidated, the state will become a purely technocratic body which in Engels' (and Saint-Simon's) famous, if confusing, phrase administers things rather than people (Engels 1935: 70). The repressive functions of the state will wither away, and an egalitarian, non-alienating social order will replace the transitional dictatorship of the proletariat.

This vision of socialism was not universally shared by the radical European Left at the time that it was articulated. It breaks with the anarcho-syndicalist vision of horizontal economic relations among enterprises, communities and industries which are collectively owned by those who seize the capitalist-owned assets. Rather than a popular plan, anarcho-syndicalists advocate the establishment of cooperative, non-exploitative trading relations among each enterprise or sector of the economy. The anarchists Bakunin and Kropotkin argue that these horizontal relations will quickly eliminate the state altogether, and they warn that Marx and Engels' vision will create bureaucratic and oppressive political structures (Eckhardt 2022; Kinna 2022).

The importance of this rupture between Marxist and anarchists visions of the post-capitalist order is made clear in the fifth chapter of Lenin's *State and Revolution*. After devoting much of this manuscript to a denunciation of social democratic reformism, in which he heavily relies on Marx's writings on the Paris Commune and Engels' SU&S, Lenin makes very specific assertions about the nature of the transitional dictatorship of the proletariat.

Accounting and control--that is *mainly* what is needed for the "smooth working", for the proper functioning, of the *first phase* of communist society. *All* citizens are transformed into hired employees of the state, which consists of the armed workers. *All* citizens becomes employees and workers of a *single* countrywide state "syndicate". All that is

required is that they should work equally, do their proper share of work, and get equal pay; the accounting and control necessary for this have been *simplified* by capitalism to the utmost and reduced to the extraordinarily simple operations--which any literate person can perform--of supervising and recording, knowledge of the four rules of arithmetic, and issuing appropriate receipts (Lenin 1999). Lenin's emphasis.

While Lenin endorses the anarchist goal of a society without a bureaucratic state, his vision of socialism requires a powerful transitional worker's state which will administer far more than would be attempted by a capitalist state. This would be true at first even if accounting and supervising were as simple as Lenin suggests in this passage.

This paper argues that while it is easy to critique the anarchists as being much too optimistic about the ability of all to cooperate spontaneously without a state, their vision of non-statist social ownership is a better starting point for the construction of twenty-first socialism than the classical Marxist tradition. I will not support this proposition by analyzing the Bolshevik attempt to implement socialism in the 1920s and 1930s, for the difficult historical contingencies which influenced the trajectory of Soviet socialism render any general assessment of Marx and Engels' original ideas about socialism limited and partial. Instead, I will examine the assumptions that are necessary for a system of popular central planning combined with state ownership of the means of production to work effectively. This will paradoxically lead me to use some of the theories of the conservative, new institutionalist economist Ronald Coase as well as the rabidly anti-socialist Austrian Economics thinker, Friedrich Hayek. I conclude that the scenario outlined by Engels in SU&S is just as utopian as the early 19th century socialists that he critiqued.

One final note before proceeding with this essay's argument. I make no claim that what I am writing is that original. Alec Nove, for example, in *The Economics of Feasible Socialism* focuses on the impossibility of planning in the way that Marx and Engels envisage. Moreover,

the Marxist philosopher, Istvan Mezaros implicitly endorses the anarcho-syndicalist critique of Engels by linking the state ownership of the means of production to bureaucratic and alienating governance in *Beyond Capital* (Nove 2013; Mezaros 2000). What is different in this paper is the use of new institutionalist and Austrian economic theory to develop this critique.

Engels' Reasoning

Engels believes that the form of popular planning he advocates will be a central and key part of a new socialist economy because capitalist planning is already intensifying. Anticipating Ronald Coase (1937), Engels views enterprises as planning institutions that suppress the anarchy of production engendered by costly market competition. Moreover, he insightfully discusses the increasing separation of ownership from the management of the corporation and asserts that it will not be difficult for socialist managers responsible to the new worker's state to replace the bourgeois managers responsible to shareholders. In fact, Engels points to the state ownership of the railways in Bismark's Prussia as a state capitalist tendency which could with appropriate revolutionary worker intervention become part of a popular socialist order (Engels 1935: 66). It is important to stress that Engels never identifies socialism solely with the state ownership of the means of production. For him, workers political engagement is a precondition for socialism. Nevertheless, it is clear that he believes that capitalism is not only creating an anti-capitalist working class, but it is also establishing the basic framework for the planned, democratic management of economic life.

Part of this perspective is roughly congruent with anarcho-syndicalist understandings of how capitalism is evolving, and it is also true that both anarchists and Marxist socialists are hostile to market competition. The difference lay in how coordination will take place. Peter

Kropotkin argues that revolutionary struggle will relatively quickly create solidaristic norms which will allow labor and resources to be reallocated for the social good. Communities will establish production systems which largely abolish the distinction between town and country, but the complex division of labor will continue.

Have the factory and the workshop at the gates of your fields and gardens, and work in them. Not those large establishments, of course, in which huge masses of metals have to be dealt with and which are better placed at certain spots indicated by Nature, but the countless variety of workshops and factories which are required to satisfy the infinite diversity of tastes among civilized men ... factories and workshops which men, women, and children will not be driven by hunger, but will be attracted by the desire of finding an activity suited to their tastes, and where, aided by the motor and the machine, they will choose the branch of activity which best suits their inclinations (Cited in McKay 2014: 71).

In this passage, Kropotkin does not explain how that coordination will take place, but other anarchist literature suggests that anarchist communities and enterprises will establish mutually agreed upon trading relations with each other. Proudhon proposes using labor time as a way to set exchange relations (Prichard 2023), but most anarchists tend to neglect discussing algorithms, the role of money in society, the problem of providing appropriate incentives to allocate labor and other resources, or how firms will organize themselves. It is generally assumed that the seizure of property for workers or the community will ensure an egalitarian and non-authoritarian result.

It is not difficult for Engels and other Marxists to note the flaws in such a framework. Even if we ignore the problems of socialist transition within a hostile world capitalist order, some method of coordination that allows a complex social division of labor to be sustained is required. It is not possible for every community to know everyone else, and if every trade requires face-to-face negotiation between the producers and consumers of the good or service, an anarchist society of the sort which Proudhon, Bakunin, or Kropotkin proposes is more likely to

produce a fall in labor productivity and significant declines in living standards. The wealth produced by the machine age – which Kropotkin celebrates – would slowly but surely decline.

Popular planning can be interpreted as Engels' attempt to preserve the gains in material production created by the capitalist order while introducing an empowering framework which permits workers to democratically determine economic evolution. As I have argued elsewhere, this conception of democracy front-loads participation and decision making (Willoughby 2024). After open discussion, workers decide what and how to produce use values, and then everyone follows the plan whether or not they completely agree with it. Engels himself writes that socialist enterprises will continue to have hierarchical institutions of command and control (Engels 1978).

Engels as a Utopian Socialist

At first glance, it might seem unfair to label Engels a utopian socialist. His analysis of the capitalist order is far more profound than those of his socialist predecessors. His understanding of the enterprise in a market society anticipates theoretical understandings developed fifty and more years later. Moreover, he never presents a detailed model which suggests to his readers that he alone holds the key to the establishment of a more perfect social order and that all his ideas must be unquestionably followed.

Nevertheless, his assumption that socialism requires the suppression of the market necessarily implies that our material life can be organized satisfactorily through detailed planning. Our historical experience with self-conscious economic coordination since Engels wrote SS&U tell us that this premise is incorrect. Engels himself notes in the opening quote of

this paper that we learn from experience. Our understanding of scientific truth evolves. This must imply that our conception of a sustainable socialist society cannot be fixed in stone. It evolves as our theory and empirical information develop. I argue that two economists hostile to socialist visioning – Ronald Coase and Friedrich Hayek – have nevertheless made plausible arguments that render socialist planning of the sort Engels and others after him describe highly problematic.

The first, Coasian problem relates to Engels' assumption that the centralization of capital ownership diminishes the number of enterprises associated with the production and distribution of commodities. While Piketty has confirmed Marx's argument that wealth inequality will normally grow in an unregulated capitalist order (Piketty 2017), this does not mean that coordination between enterprises becomes easier or simpler. Changes in transactions costs as a result of technological change and the increasing global scale of production and distribution lead to the rise and fall of new enterprises, the rise of so-called independent gig workers, and the restless restructuring of commercial relations among enterprises. While a socialist economy might be expected to evolve more slowly than an unregulated capitalist one, firms cannot be assumed to be fixed in quantity or quality, and costs associated with contracting, monitoring, and adjudicating will remain even if the economy is more solidaristic. Thus, any planning system must allow old enterprises to die and new firms to emerge. It would be utopian to assume that a new cooperative economy will abolish all problems associated with transactions in our capitalist world. There will always be separate enterprises. Not everybody will be in one syndicate or one big factory as Lenin unrealistically suggests. One should not think that the growth of planning within an enterprise implies that planning across a network of enterprises thereby gets so

simplified that a central authority can successfully engage in the sort of coordination which Engels and Marx advocate.

The second problem is discussed by Hayek in an important 1945 American Economic Review article on the nature of information (Hayek 1945). He argues that important data are often only revealed when economic transactions take place. A planning agency cannot measure in advance the value or usefulness of a particular commodity for a particular buyer – whether enterprise or household. While this Austrian challenge to the validity of the aggregation of economic categories is well known, it is important to note that Hayek develops this framework in order to critique Joseph Schumpeter's claim in *Capitalism, Socialism, and Democracy* that a form of socialist planning using indicative prices developed by Oskar Lange and Fred M. Taylor is feasible and might work better than unregulated capitalist exchange (Schumpeter 1994; Lange and Taylor 1938). Thus, this critique not only applies to a material balances system of planning suggested by Engels but also an indicative pricing planning system developed by Lange and, most recently, by Albert, Hahnel, and Saros (Albert and Hahnel 1991; Saros 2014).

This fundamental uncertainty associated with exchange is first highlighted by Marx when he articulates his distinction between labor power and labor. Workers sell their capacity to work to capitalists for a limited period of time, but it is uncertain to both the worker and capitalist how much work will actually be executed. Marx argues persuasively that antagonistic social relations deepen this uncertainty, and some efficiency wage theorists have developed this argument to dismiss claims that an unregulated capitalist market economy can produce full employment.

However, this conceptual breakthrough has broader implication than this. Managers of production cannot be sure that the human and non-human inputs they have purchased will provide the productive services they anticipate. Their usefulness will often be established only

after production takes place. The same analysis applies to consumers. Marx notes in his theory of commodity fetishism that the value of the commodity produced within the enterprise must be validated in the market, and he alleges that this reality blinds workers to the reality that the economy is actually a system of enormous social cooperation. Marx and Engels understand that this alienation effect would be characteristic of any market society. Thus, they do not view the market as an institution which is compatible with a new socialist order.

The problem with this assessment is that this analysis applies to any society characterized by a complex division of labor even if there is not a market. No enterprise in a large economy can really know in advance if consumers or other enterprises will be happy with the products they produce. Even if exchange value is not ‘realized’ or formed in a planned economy after production takes place, use value certainly is. Detailed planners in the past ‘solved’ this problem by not allowing the receivers of commodities to reject what they bought. They created an economy of permanent consumer good and input scarcity, and consumers had few if any alternative suppliers from which to buy. While this reduces uncertainty for the planners, it does not reduce uncertainty and social alienation for the buyer. Since everyone in a complex material order is a buyer (receiver) and seller (provider), a society characterized by popular planning of the sort Engels describes would not solve the commodity fetishism problem even if goods and services are produced to meet the objectives of a plan rather than for sale. If one wants to construct an efficient economy that meets the needs of others, the fate of an enterprise must depend on the actions of nameless receivers (demanders) and providers (suppliers) even if the price system has been eliminated. Engels’ belief that popular planning by emboldened workers will solve this problem is a form of utopian thinking. This critique applies to Marx as well.

[Anarcho]-Syndicalism as a More Realistic Starting-Point for a Socialist Future

One, of course, can critique anarcho-syndicalist visioning on the same grounds. The hostility to the market requires a coordinating mechanism which takes account of scarcity – both the difficulties associated with production and the problem of meeting the demands of consumers. The anarchist vision of face-to-face negotiation without a system of prices which provide rough estimations of opportunity costs renders large-scale coordination almost impossible.

On the other hand, the decentralization of decision-making envisaged by anarchists is a better starting point than attempts to construct a plan. Not only does such a system allow workers in their own enterprise experiment with the reorganization of work so that it is more democratic, but it is more likely to allow for the use of a regulated market system. Anarchists would have to abandon their dream of a stateless society without markets, but the states and markets that exists will likely be more democratic and responsive to popular demands if property relations are transformed in the way they advocate.

The starting point for the construction of a new socialist order is crucial. If one emphasizes state ownership and planning, then it is difficult to envisage how his can be constructed effectively. Even an advanced capitalist society with a highly educated workforce is likely to find coordination exercises difficult to develop and even more difficult to sustain. On the other hand, if a network of community-owned and worker-owned enterprises exists, then we can envisage a coordinating framework which uses a combination of bilateral negotiations and market signals. The resulting inequality which inevitably occurs when relative prices shift do violate anarchist and communist principles. However, the shifts in income streams as a result of price changes can be mitigated either through taxes and subsidies or solidaristic bargaining

which limits price gauging. John Stuart Mill argues that a network of worker cooperatives can reduce the incessant tendency by capitalist entrepreneurs to commit fraud in a capitalist order, which makes friendly coordination through exchange impossible (Persky 2016). That vision does not seem utopian to me as long as new property relations are based on inclusive and egalitarian principles.

Conclusion

Robin Hahnel has persuasively argued that markets permit the externalization of fundamental costs, increase inequality, and transform norms so that people adopt individualist outlooks that they would not otherwise hold (Hahnel 2021). I grant the accuracy of all these critiques.

Nevertheless, as Engels own work plausibly hypothesizes, a capitalist market system creates the conditions that permit humans to limit these negative effects by creating a new property rights system which can subordinate and constrain markets in order to fulfill our conception of the social good. In this framework, a democratic state will use a portion of the surplus shared by socially owned enterprises and state enterprises to plan our future. There are abundant theoretical rationales to not allow our investments to be solely regulated by profitability signals, but this does not eliminate the need for markets. This market socialist vision more closely aligns with anarcho-syndicalist preconceptions. Both market socialists and anarchists advocate embedding social ownership in the people directly affected by the operation of enterprises.

Marx and Engels' utopian vision rests on their inadequate appreciation of the complexity of planning, and their disdain for all the anti-social effects of market organization. While the latter is a compelling critique, it is one-sided and ultimately unconvincing. A regulated market will be an indispensable institution for a new socialist order in which workers are able to manage a greater part of their own affairs.

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