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**The 1991 fall of red socialism and the flip back to pure capitalism: Pointing out the market structure of the paradigm shift from red socialism to economy friendly red socialism that never took place**

**By**

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## **Abstract**

It can be said that Karl Marx's wish in 1848 was putting together a development system with no social sustainability gaps to go beyond pure capitalism. A red market that accounts for the social cost and economic costs of doing business; and which ensures that the development benefits accrue to social stakeholders was probably in his mind. In other words, he probably saw at the end, an economy friendly red socialist model, which could be reached in two steps: a) a flip from pure capitalism to red socialism, and then b) a shift from red socialism to economy friendly red socialism. The first step took place and it was in place since the time of Karl Marx to 1991 when red socialism fell. The second step, never took place neither before nor after the fall of red socialism, as after the fall all former red socialist countries traded social responsibility for economic responsibility, and flipped back to pure capitalism based development, leaving behind Karl Marx's dream of a world without social sustainability gaps.

And this raises questions such as what is the structure of the paradigm flip back from red socialism to pure capitalism?; and what is the structure of the paradigm shift from red socialism to economy friendly red socialism or red market that never took place? Among the goals of this paper is to provide an answer to those questions, both analytically and graphically.

## **Key words**

Red socialism, capitalism, paradigm flip, paradigm shift, economy friendly red socialism, socially friendly capitalism, traditional market, red market, red socialist market, social sustainability gap, economic sustainability gap, Karl Marx

## **Introduction**

### **a) The red market**

It can be said that a red market is the one where both the social cost(SM) and economic cost of production at a profit( $ECM + i$ ) are reflected in the pricing mechanism(RMP) of the market(Muñoz 2016a), which can be expressed analytically as follows:

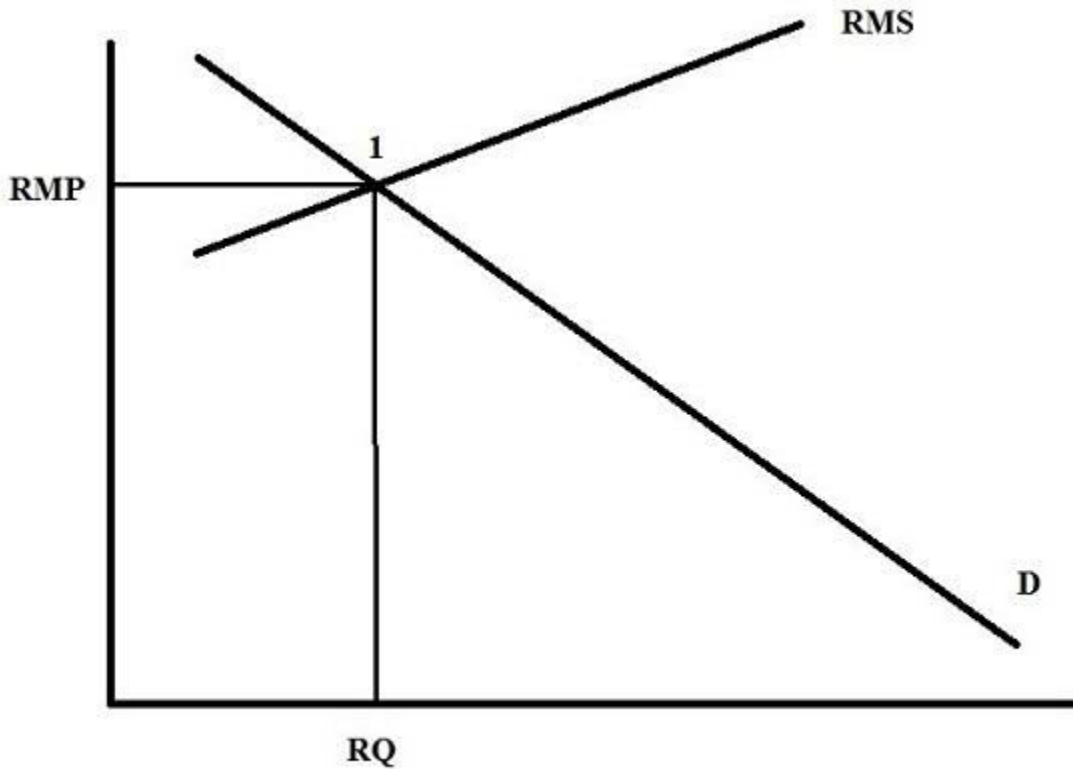
**1)  $RMP = SM + ECM + i$**

Since the traditional market price(P) is equal to the economic cost of production at a profit( $ECM + i$ ),  $P = ECM + i$ , then we can restate the red market price(RMP) in formula 1) as follows:

**2)  $RMP = SM + P$**

Expression 2) above tells us the social costs(SM) and economic costs at a profit(P) make up the red market price(RMP).

Hence, the red market price(RMP) is the price that clears the red market(RM) as indicated in Figure 1 below:



**Figure 1 The structure of the red market, it is cleared by the red market price**

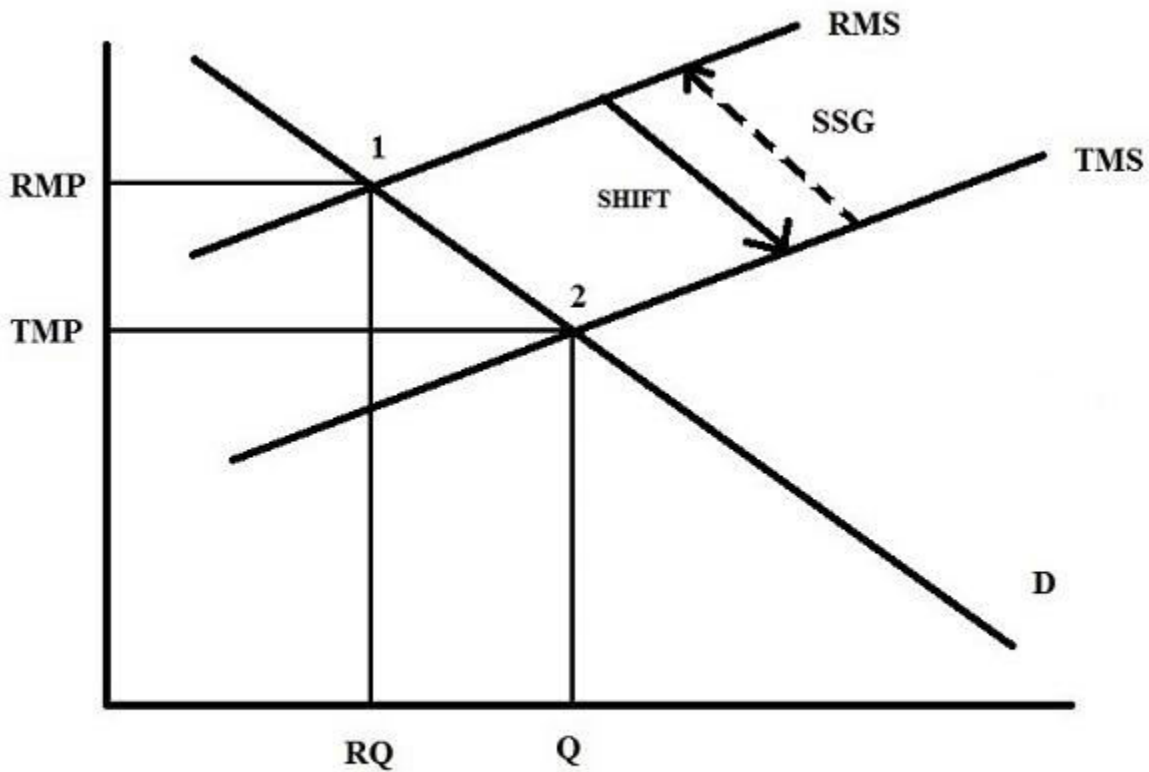
Figure 1 above tells that the red market supply(RMS) cuts demand(D) at point 1 determining the red market price( $RMP = SM + P$ ) at which red production and red consumption(RQ) takes place.

**b) The traditional market and social cost externalization**

If we assume social cost externalization or social responsibility externalization( $SM = 0$ ), then the red market shifts down to a lower level of responsibility market known as the traditional market(TM); and therefore, it shifts to a lower price, the traditional market price(TMP) as indicated below:

$$3) \text{ RMP} = SM + P = 0 + P \xrightarrow{\text{Shift}} \text{TMP}$$

The red market price(RMP) shifts to the traditional market price(TMP) when the social cost of doing business is assumed to be zero or set to zero( $SM = 0$ ), the nature of this shift can be appreciated in Figure 2 below:



**Figure 2 The structure of the traditional market(TM) is derived by red market social cost externalization**

We can see in Figure 2 above that when social cost externalization( $SM = 0$ ) happens, the red market supply(RMS) shift from point 1 to point 2 as indicated by the continuous arrow pointing down to the right, taking now the form of a traditional market supply(TMS). In other words, at point 2 the traditional market price( $TMP = P$ ) clears the market and determines the traditional quantity  $Q$  to be produced and consumed. We can also see in Figure 2 above that the shift from red market(RM) at point 1 to traditional market(TM) at point 2 creates a social sustainability gap(SSG) going from point 2 to point 1 as indicated by the broken arrow pointing up to the left, a gap that affects the working of the traditional market(TM).

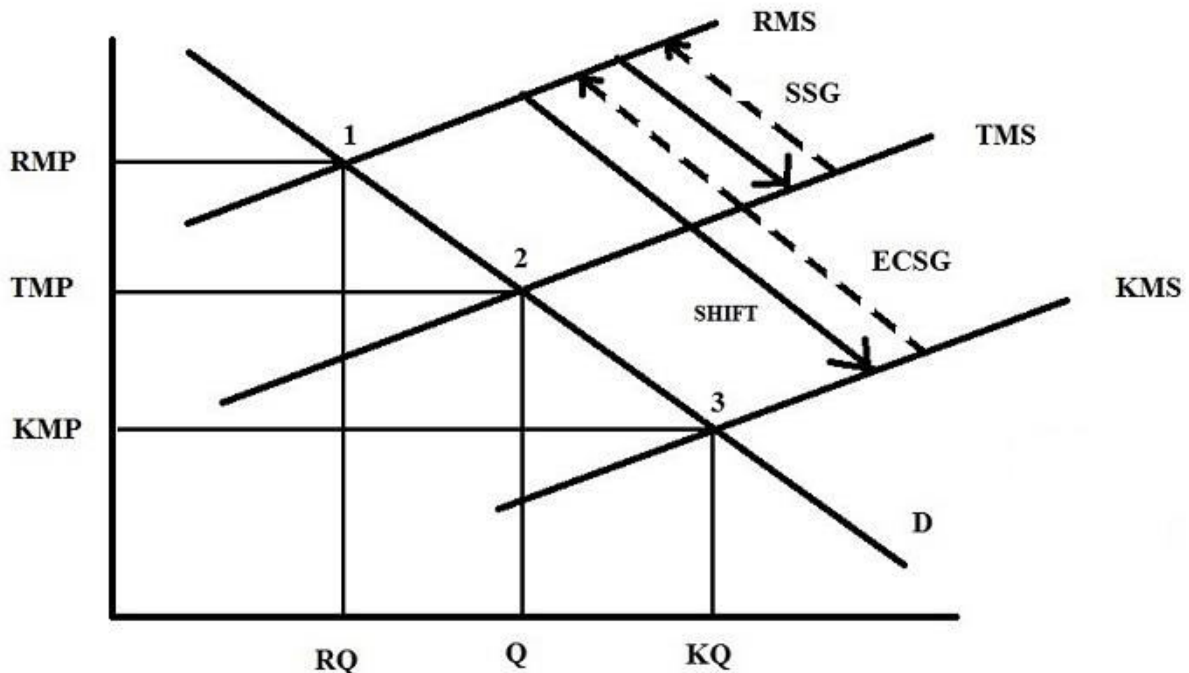
**c) The red socialist market and economic cost and profit externalization**

If we assume economic cost and profit externalization or economic responsibility externalization ( $P = ECM + i = 0$ ), then the red market (RM) shifts down to a lower level responsibility model known as the red socialist market (KM); and therefore, it shifts to a lower market price, the red socialism market price (KMP) as shown below:

**Shift**

**4)  $RMP = SM + 0 = SM + 0 \text{ -----} \rightarrow KMP$**

The red market price (RMP) shifts to the red socialism market price (KMP) when the economic cost and profits of doing business is assumed to be zero or set to zero ( $P = ECM + i = 0$ ), the nature of this shift can be appreciated in Figure 3 below:

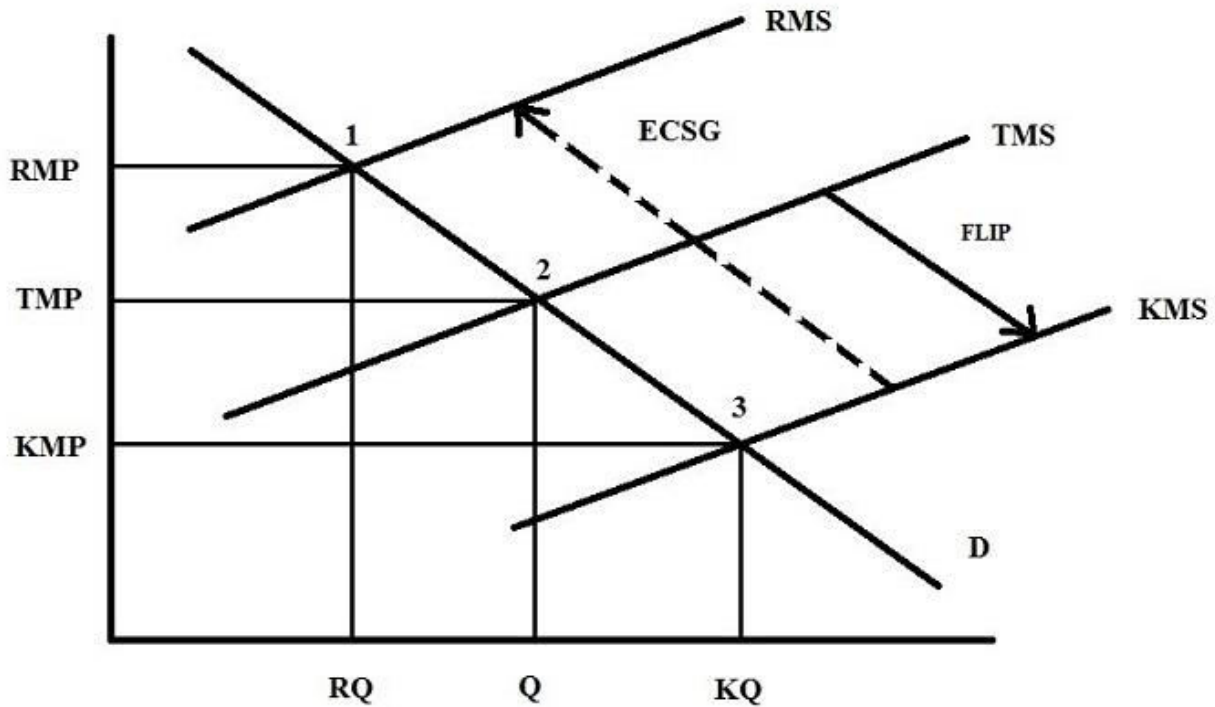


**Figure 3 The structure of the red socialism market derived after red market economic cost and profit externalization**

We can see in Figure 3 above that when economic cost and profit externalization ( $ECM + i = P = 0$ ) takes place, the red market supply (RMS) shift from point 1 to point 3 as indicated by the continuous arrow pointing down to the right, taking now the form of a red socialist market supply (KMS). In other words, at point 3, the red socialist market price ( $KMP = SM$ ) clears the market and determines the red quantity  $KQ$  to be produced and consumed. We can also see in Figure 3 above that the shift from red market (RM) at point 1 to red socialist market (KM) at point 3 creates an economic sustainability gap (ECSG) going from point 3 to point 1 as indicated by the broken arrow pointing up to the left, a gap that affects the working of the red socialist market (KM).

**d) The flip from traditional market to red socialist market**

When we trade economic responsibility for social responsibility we flip the market pricing from traditional market pricing( $TMP = P$ ) to red socialist pricing( $KMP = SM$ ), a situation which can be appreciated visually in Figure 4 below:



**Figure 4 The structure of the paradigm flip from traditional market to the red socialist market**

We can see in Figure 4 above that a) when we flip the traditional supply(TMS) from point 2 to point 3 it becomes the red socialist market supply(KMS); b) when the flipping takes place we create an economic sustainability gap(ECSG) that goes from point 3 to point 1 as indicated by the broken arrow pointing up to the left; and c) this is a flip from the only the economy matters way of thinking at point 2 to the only society matters way of thinking at point 3.

The above price flip can be expressed analytically as follows:

$$5) \text{ TMP} = P \xrightarrow{\text{Flip}} \text{KMP} = SM$$

Therefore, red socialist markets(KM) produce at social cost( $KMP = SM$ ), and this production structure was in place since the time of Karl Marx until 1991 when red socialism fell(Muñoz 2016b).

**e) The 1991 fall of red socialism and the flip back to pure capitalism**

It can be said that Karl Marx’s wish in 1848 in the communist manifesto(Mark and Engels 1848) was putting together a development system with no social sustainability gaps to go

beyond pure capitalism. A red market that accounts for the social cost and economic costs of doing business, and which ensures that the development benefits accrue to social stakeholders was probably in his mind as it has no social sustainability gaps. How such a red market should be expected to behave under perfect red market competition has been recently indicated (Muñoz 2019a).

In other words, Karl Marx probably saw at the end of his dream an economy friendly red socialist model, which could be reached in two steps: a) a flip from pure capitalism to red socialism, and then b) a shift from red socialism to economy friendly red socialism. How a step by step plan to economy friendly red socialism could have looked like consistent with such a goal has just recently been stressed (Muñoz 2019b). The first step took place and it was in place since the time of Karl Marx to 1991 when red socialism fell (Muñoz 2016b). The second step, never took place neither before nor after the fall of red socialism as after the fall all former red socialist countries traded social responsibility for economic responsibility, and flipped back to pure capitalism based development (Muñoz 2019c), leaving behind Karl Marx's dream of a world without social sustainability gaps. For example, the flip to capitalism has led to a) the moving away from social responsibility in China (Whyte 2012) at a fast rate (Trivedi 2018) leading to increasing social inequality; b) the growing social inequality in today's Russia (Walker 2017; Lukkari 2017); and c) the realization that as economic transition moves forward the worse in terms of social responsibility, social protection or social inequality may not have come yet (Slay 2009). This is consistent with the expectation of seeing the worsening of social sustainability gaps as the flip back to capitalism materializes fully in all former red socialist countries.

And this raises questions such as what is the structure of the paradigm flip back from red socialism to pure capitalism?; and what is the structure of the paradigm shift from red socialism to economy friendly red socialism or red market that never took place? Among the goals of this paper is to provide an answer to those questions, both analytically and graphically.

## **Objectives**

The goals of this paper are a) To highlight the structure of the paradigm flip back from red socialism to pure capitalism and its implications; b) To point out the structure of the paradigm shift from red socialism to economy friendly red socialism that never took place and its implications; and c) To stress the current market structure in former red socialist countries including China and its implications.

## **Methodology**

First, the terminology and operational concepts used in this paper are shared. Second, the structure of the flip back from red socialism to pure capitalism is stressed. Third, the structure of the shift from red socialism to economy friendly red socialism or red markets that never took place is highlighted. Fourth, the current market structure in former red socialist countries is pointed out. And finally, some food for thoughts and relevant conclusions are provided.

## **Terminology**

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A = Dominant/active society	a = Dominated/passive society
B = Dominant/active economy	b = Dominated/passive economy
C = Dominant/active environment	c = Dominated/passive environment
TM = Traditional market	RM = Red market
K = Red socialist market	SG = Sustainability gap
S = Traditional supply	D = Traditional demand
KS = Red socialism supply	KD = Red socialism demand
KP = Red socialism market price	KQ = Red socialism market quantity
RS = Red market supply	RD = Red market demand
P = Traditional market price	RP = Red market price
Q = Traditional market quantity	RQ = Red market quantity
EM = Green margin	SM = Social margin
TMP = Traditional market price	RMP = Red market price
ECM = Economic margin	i = profits

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## **Operational concepts**

- 1) Traditional market**, *the economy only market.*
- 2) Traditional market price**, *general market economic only price or the price that covers the cost of production.*
- 3) Trickle-down effect**, *the expectation that traditional markets and growth will sooner or later benefit the poor.*
- 4) Deep paradigm**, *a fully exclusive model(e.g. the traditional market, red socialism).*
- 5) Partial partnership paradigm**, *a partially inclusive model(e.g. the green market).*
- 6) Full partnership paradigms**, *a fully inclusive model(e.g. the sustainability market).*

- 7) **Externalities**, *factors assumed exogenous to a model.*
- 8) **Full externality assumption**, *only one factor is the endogenous factor in the model, the others are exogenous factors.*
- 9) **Partial externality assumption**, *not all factors are endogenous factors at the same time in the model.*
- 10) **No externality assumption**, *all factors are endogenous factors at the same time in the model.*
- 11) **Social margin**, *to cover the extra cost of making the green business socially friendly or of making the traditional market socially friendly.*
- 12) **Perfect market competition**, *the expected behavior of firms and consumers in the short and long term under perfect market thinking.*
- 13) **Market shift**, *a move from one market paradigm to another market paradigm.*
- 14) **Perfect market shift**, *a move from one perfect market paradigm to another perfect market paradigm.*
- 15) **Red markets**, *the socially friendly markets.*
- 16) **Perfect red market competition**, *the expected behavior of socially friendly firms and consumers in the short and long term under perfect socially friendly market thinking.*
- 17) **Red market price**, *the price that reflects both the economic and the social cost of production or the price that covers the cost of socially friendly production.*
- 18) **Red market knowledge gap**, *the knowledge gap created by the paradigm shift from traditional markets to red markets.*
- 19) **Red micro-economics**, *the theory of the socially responsible firm and consumer.*
- 20) **Red macroeconomics**, *the theory of the socially responsible economy.*
- 21) **Red trickledown effect**, *the expectation that red markets or socially friendly markets and red growth or socially friendly growth will sooner or later benefit the environment.*
- 22) **Red socialism market**, *the society only market.*
- 23) **Red socialism market price**, *the price that reflects only the social cost of production.*
- 24) **Economic margin**, *to cover the economic cost of production.*

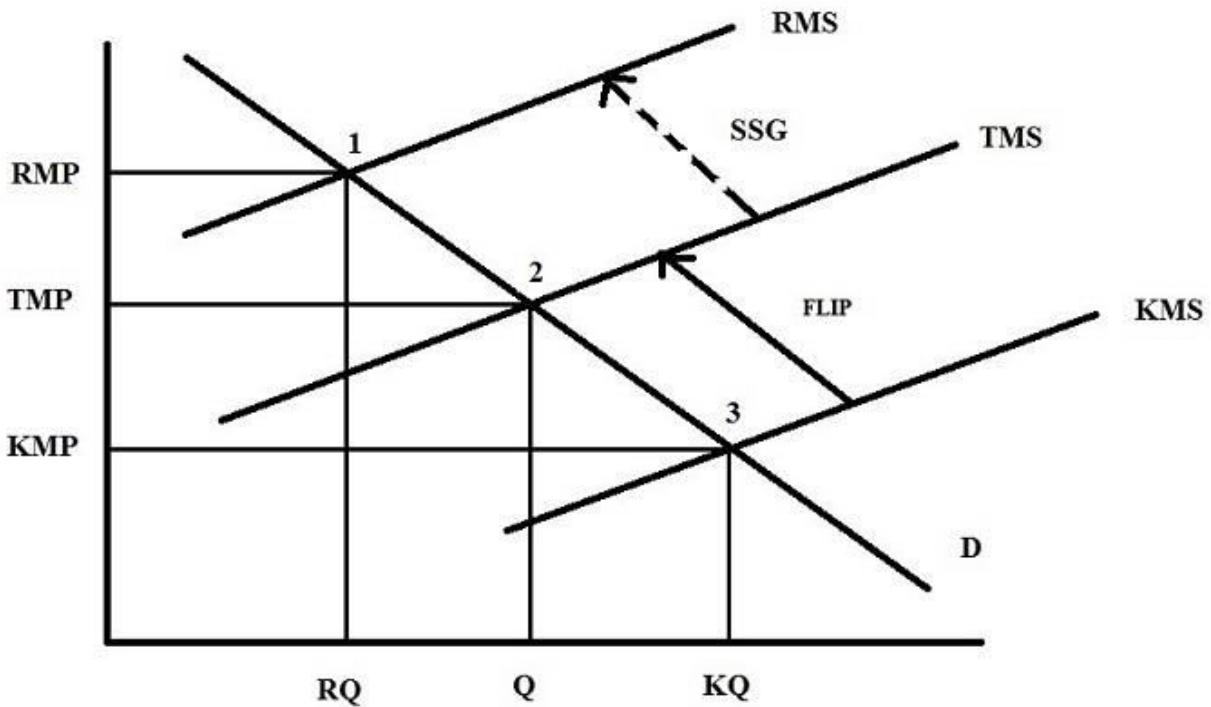


**25) Paradigm shift**, when a paradigm moves from a lower responsibility model to a higher responsibility model through internalization processes(e.g. shift from traditional market to green markets) or from a higher responsibility model to a lower responsibility model through externalization processes(e.g. shift from red markets to traditional markets).

**26) Paradigm flip**, when a paradigm trades its core values for those of the inverse opposite paradigm(e.g. flip from capitalism to red socialism).

**The structure of the flip back from red socialist to pure capitalism**

As mentioned in the introduction, after the fall of red socialism in 1991 all red socialist countries flipped red socialism(KM) for capitalism(TM) as they traded social responsibility for economy responsibility by now pricing the market using the traditional market price(TMP = P), a situation described in detail in Figure 5 below:



**Figure 5 The structure of the flip back from the red socialism market to the traditional market**

We can see in Figure 5 above that a) when the red socialist supply(KMS) flips from point 3 to point 2 it becomes the traditional market supply(TMS) as indicated by the continuous arrow pointing up to the left; b) a direct consequence of the flipping of social responsibility for economic responsibility is the creation of the social sustainability gap(SSG) found between point 2 and point 1 as indicated by the broken arrow pointing up to the left. Notice in Figure 5 above that both the red socialist market(KM) at point 3 and the traditional market(TM) at point 2 are both lower level responsibility markets as they are located below the red market(RM) at point 1.

## The structure of the shift from red socialism to economy friendly red socialism or red markets

Had red socialism(KM) closed its economic sustainability gap(ECSG) at any time before 1991 or after 1991 fall as probably Karl Marx was expecting so as to keep social responsibility alive, it would have shifted to economy friendly red socialism or red markets(RM), a situation summarized in Figure 6 below:

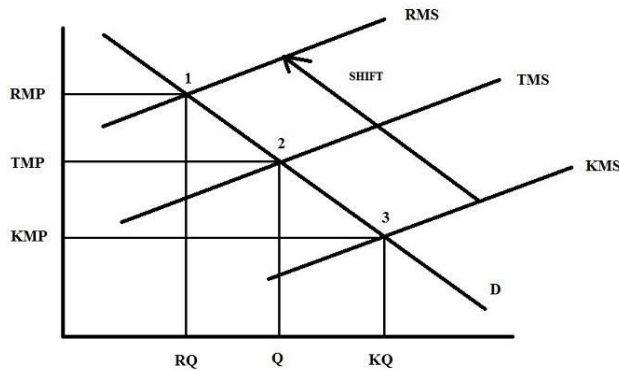
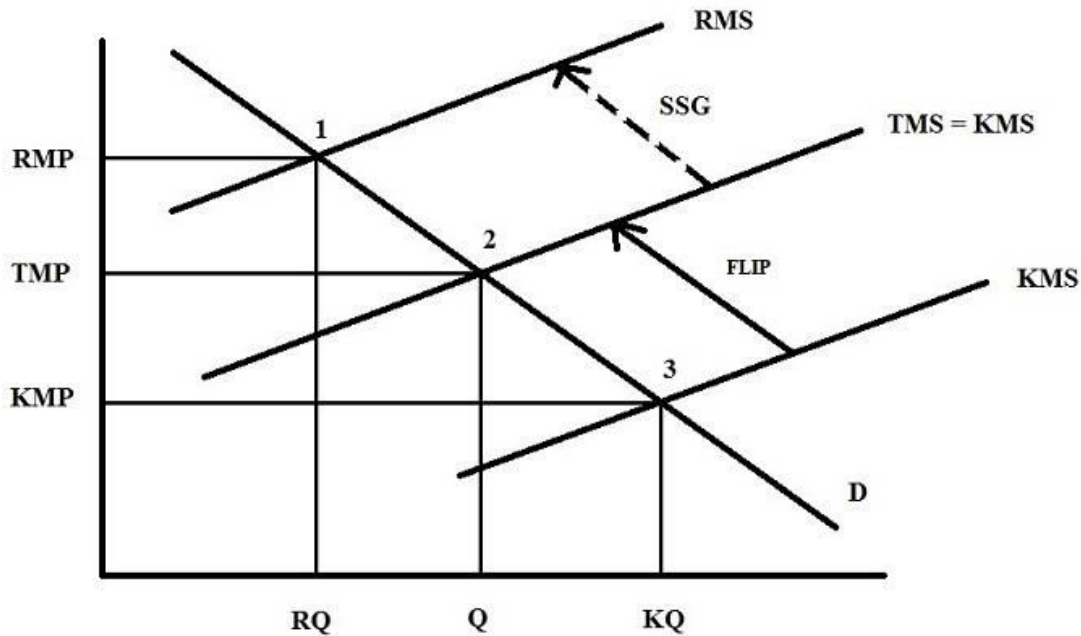


Figure 6 The structure of the paradigm shift from red socialism market to the red market or economy friendly red socialism market or to socially friendly capitalism.

Figure 6 above helps see that if the red socialist market(KM) closes its economic sustainability gap(ECSG) from point 3 to point 1 as indicated by the continuous arrow pointing up to the left it would shift towards the red market(RM) or the economy friendly red socialist market. At point 1, the red market price( $RMP = SM + P$ ) clears the market and determines the red quantity  $RQ$  to be produced and consumed as this is a market that is socially and economy friendly at the same time; and therefore, it does not have sustainability gaps, both social(SSG) and economic(ECSG). Hence, figure 6 above highlights the structure of the type of market Karl Marx probably had in mind, a world without social sustainability gaps(SSG) where society enjoys the economic benefits of development, representing a shift that never took place.

## The current market structure in former red socialist countries

Hence it can be said that currently China and all former soviet bloc countries, including Russia have a capitalist market structure(TM), under constant pressure from newly created social sustainability gaps(SSG) as reflected in Figure 7 below:



**Figure 7** The structure of the traditional market is now the same as the structure of the socially unfriendly red socialism market

Figure 7 above clearly shows that a flip from red socialism(point 3) to pure capitalism(point 2) creates a social sustainability gap(SSG) as indicated by the broken arrow from point 2 to point 1, which is a direct result of trading social responsibility for economic responsibility. In other words, former red socialist countries are now the newest capitalist countries in the block, all with economies performing under social sustainability gap(SSG) pressures.

### **Summary:**

Keeping social responsibility under the economic sustainability gap pressures which red socialist countries were having in 1991 was not politically sustainable so they flip their economies back from society only model to the economy only model: a move that took them back to pure capitalism under sustainability gaps. Had keeping social responsibility been politically feasible in 1991, then red socialism could have shifted towards economy friendly red socialism; and therefore, red socialism would have then shifted towards a model that is both socially and economy responsible at the same time, a model known as red market or socially friendly capitalism.

### **Food for thoughts**

a) Can a social sustainability gap induce a paradigm shift towards a socially responsible model? I think yes, what do you think? and b) Can a socially irresponsible model advance the values of red socialism? I think no, what do you think?

### **Conclusions**

First, it was pointed out that the fall of red socialism in 1991 led to a paradigm flip back from red socialism to pure capitalism, and therefore a move back to the world of social sustainability gaps that Karl Marx wanted to address in the first place. Second, it was indicated that a shift that would have kept the social responsibility that Karl Marx wanted in 1848, the shift from red socialism to economy friendly red socialism, never took place. And finally, it was stressed that currently the market structure in former red socialist countries is the same as the market structure of old capitalist countries, a socially unfriendly market structure, where only economic responsibility matters.

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