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### Is socialism really "impossible"?

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Bryan Caplan

## IS SOCIALISM REALLY “IMPOSSIBLE”?

**ABSTRACT:** *In the 1920s, Austrian-school economists began to argue that in a fully socialized economy, free of competitively generated prices, central planners would have no way to calculate which methods of production would be the most economical. They claimed that this “economic calculation problem” showed that socialism is “impossible.” Although many believe that the Austrian position was later vindicated by the collapse of the Soviet bloc, the Austrian school’s own methodology disallows such a conclusion. And historical evidence suggests that poor incentives—not lack of economic calculation—were the main source of the economic defects of “really existing socialism.”*

“This isn’t Mission Difficult, Mr. Hunt. It’s Mission Impossible.”  
—Anthony Hopkins in *Mission: Impossible 2*

There are many technologically feasible ways to make a given product. How can we tell which of these is the most economically efficient?

In the private sector, the standard practice is to make an educated guess about which technique is *cheapest*. Insofar as a government bureau wants to “act like a business,” it can make the same guess, based on the same mathematics: calculating the anticipated costs of various

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techniques by adding up the market prices of their inputs. Facing a dozen different ways to build a highway connecting New York and Los Angeles, a transportation czar could run the price numbers and select the least expensive one.

Could the leader of a world socialist state do the same?<sup>1</sup> Asking this question brought the Austrian economist Ludwig von Mises to international attention in 1920, all the more so because his answer, published in Max Weber's *Archiv für Sozialwissenschaft und Sozialpolitik*, was categorically in the negative.

If the state owns all of the capital goods, Mises reasoned, there will be no market for capital goods. With no market for capital goods, there will be no capital-goods prices. And without prices, there will be no numbers to run so as to determine the cheapest way to do things. Without this necessary numerical guidance, Mises concluded that socialism was literally "impossible."

Soviet theoretician Nikolai Bukharin soon dubbed Mises "one of the most learned critics of communism."<sup>2</sup> But enthusiasm for communism was reaching its peak during this period, so it is no surprise that Mises's immediate converts were few. His contemporaries granted that he had asked an important question, but they rejected his answer.

However, as the failures of Soviet-type economies mounted, some began to wonder if Mises had not been right all along. Intellectual interest in what Mises called "economic calculation under socialism" revived in the 1980s and has now become one of the standard reasons offered for the failure of the "really existing" socialism of the Soviet bloc and Maoist China.

Unsurprisingly, much of the "socialist calculation" literature examines *whether* it is in fact true that socialism precludes economic calculation (Mises 1981 and 1966; Hayek 1935; Lange and Taylor 1938; Lavoie 1985; Steele 1992; Caldwell 1997). Another strand of scholarship investigates *why* socialism might preclude economic calculation. Does such calculation, as Mises's student F. A. Hayek emphasized, hinge on dispersed knowledge; or, as Mises seemed to affirm, would a central authority with full access to an economy's decentralized information remain unable to calculate (Salerno 1993; Boettke 2001; Caldwell 1997)?

My concern is different. At the outset, I concede that full-blown socialism would spell the end of economic calculation. What concerns me is the Austrians' further claim that their economic calcula-

tion argument has a privileged position in the extended family of antisocialist economic arguments; that it is, in Mises's words, "the decisive objection that economics raises against the possibility of a socialist society" (1996, 75)—or, to take Peter J. Boettke's formulation, that the socialist calculation argument is "*the Austrian contribution to political economy*" (Boettke 1998, 131).<sup>3</sup>

Why should this special place be assigned to it? Presumably the reason is that, as Mises emphatically insisted, the problem of economic calculation renders socialism "impossible." Other critics of socialism, however strident, rarely (if ever) concluded that socialism literally cannot be. If Mises were correct, it would be easy to see why his objection stands head and shoulders above the rest.

My thesis is that Mises, and the Austrian-school economists who have echoed his argument, lack any sound reasons for the extreme claim that socialism is "impossible." Indeed, it is a short jump from a pair of Mises's other claims to the opposite conclusion. These claims are his rejection of quantitative laws in economics, and his observations about "calculation in kind," which rule the "impossibility" conclusion out of court.

### *The "Impossibility" of Socialism*

In his *Socialism* ([1922] 1981), Mises carefully and sympathetically surveys earlier economists' objections to socialism. He gives collective credit to the "liberal school's" conclusion that "productivity under Socialism would sink so low that want and poverty would be general" (*ibid.*, 159). Mises also gives individual credit to a number of earlier critics of socialism. Against the socialist claim that intrinsic motivation (the joy of work) could supplant extrinsic motivation (wages), Mises cites Jevons on the increasing marginal disutility of labor (*ibid.*, 145), and appeals to Clark's marginal-productivity analysis (*ibid.*, 152).

In absolute terms, Mises (1966, 680) thinks his forebears' intellectual contribution is impressive. As he puts it, "the weight of [the liberal] objection raised to the socialist plans is so overwhelming that no judicious man could hesitate to choose capitalism." This sets the bar high; to do better, Mises apparently requires an objection overwhelming enough to convince some of the *injudicious*. No small task.

Nevertheless, Mises feels up to the challenge. He begins by lucidly exploring the role of economic calculation under capitalism. With that groundwork laid, it is rather easy for him to show that government ownership of the means of production renders such calculation impossible. To repeat: if the state owns all the capital goods, there will be no market for capital goods; with no market for capital goods, no capital-goods prices; with no prices, no numbers to crunch to determine the cheapest way to do things.

So far, I have no objections. Mises makes a sound and original point. The hitch is that Mises (1981, 116) claims to have accomplished far more. He quickly tells us that “the problem of economic calculation is the fundamental problem of socialism.” Then he goes even farther: “To prove that economic calculation would be impossible in the socialist community is to prove also that Socialism is impracticable” (ibid., 117). Not *impractical*, but *impracticable*. If that leaves any doubt in the reader’s mind, Mises (1981, 118) finally declares that “the attempt to reform the world socialistically might destroy civilization. It would never set up a successful socialist community.”

If all this is correct, Mises’s contribution to the critique of socialism is indeed vast.<sup>4</sup> This is precisely how Mises sees it. As he puts it in *Human Action* (1966, 679–80):

If no other objections could be raised to the socialist plans than that socialism will lower the standard of living of all or at least of the immense majority, it would be impossible for praxeology to pronounce a final judgment. Men would have to decide the issue between capitalism and socialism on the ground of judgments of value and of judgments of relevance. They would have to choose between the two systems as they choose between many others things. . . . However, the true state of affairs is entirely different. . . . Socialism is not a realizable system of society’s economic organization because it lacks any method of economic calculation. . . . Socialism cannot be realized because it is beyond human power to establish it as a social system.

### *Two Types of Impossibility*

Mises tells us elsewhere that monetary calculation “is impossible under socialism” (1996, 72). “The leadership of a socialist society . . . would thus be confronted by a problem that it could not possibly

solve. . . . The resulting chaos in the economy would culminate quickly and irresistibly in universal impoverishment and a retrogression to the primitive conditions in which our ancestors once lived” (ibid., 72–73).

Notice that Mises is actually making two distinct “impossibility” claims about economic calculation and socialism:

- (1) Socialism makes economic calculation impossible.
- (2) Due to (1), socialism itself is impossible.

Virtually all replies to Mises focus on the first of these two “impossibilities.” But let us grant that Mises is right on count 1. I am no more impressed than Mises by the litany of socialist schemes to salvage economic calculation. I share his bemusement at market socialism: “They want to abolish private control of the means of production, market exchange, market prices, and competition. But at the same time they want to organize the socialist utopia in such a way that people could act as if these things were still present. They want people to play market as children play war, railroad, or school” (Mises 1966, 706–7).

Where Mises draws surprisingly little fire is on his second claim. Indeed, most of his arguments for it amount to a mix of repetition and metaphor. Thus, Mises (1981, 101) tells us that “only under very simple conditions is it possible to dispense with money calculations”; that “once society abandons free pricing of production goods rational production becomes impossible” (ibid., 102); that

a socialist management of production would simply not know whether or not what it plans and executes is the most appropriate means to attain the ends sought. It will operate in the dark, as it were. It will squander factors of production both material and human. . . . Chaos and poverty will unavoidably result.” (ibid., 535.)

Mises (1966, 229) contends that “monetary calculation is the guiding star of action under the social system of division of labor. It is the compass of the man embarking on production”; therefore, “our civilization is inseparably linked with our methods of economic calculation. It would perish if we were to abandon this most precious intellectual tool of acting” (ibid, 230); “the prosperity that has made it possible for many more people to inhabit the earth today than in the precapitalist era is due solely to the capitalist method of lengthy

chains of production, which necessarily requires monetary calculation” (idem 1996, 72). One searches in vain, however, for any defense—theoretical or empirical—of these dire conclusions.<sup>5</sup>

### *The Quantitative Question*

Admittedly, the fact that Mises fails to supply an argument does not show that no such argument exists. However, his position is not just undefended. It is also inconsistent with a basic element of the Misesian system: the rejection of quantitative laws.

Mises repeatedly insists that economic theory gives nothing but qualitative laws. For example, in *Human Action*, Mises (1966, 56) asserts that

the impracticality of measurement is not due to the lack of technical methods for the establishment of measure. It is due to the absence of constant relations. If it were only caused by technical insufficiency, at least an approximate estimation would be possible in some cases. But the main fact is that there are no constant relations. Economics is not, as ignorant positivists repeat again and again, backward because it is not “quantitative.” It is not quantitative because there are no constants. Statistical figures referring to economic events are historical data. They tell us what happened in a nonrepeatable historical case.

If so, then how could he possibly know that the negative effect of the lack of economic calculation would be severe *enough* to put socialism beyond the realm of possibility?<sup>6</sup> Degree of severity is a quantitative matter. Granted, the socialist economy would suffer *to some degree* from the impossibility of economic calculation; but how, from his own perspective, could Mises know that this difficulty is so awful that society would collapse?

Mises’s pupil, Murray N. Rothbard (1962, 548, *emph. original*), provides an especially bald formulation of this leap of Misesian logic:

As the area of incalculability increases, the degree of irrationality, misallocation, loss, impoverishment, etc., becomes greater. Under *one* owner or *one* cartel for the whole productive system, there would be

no possible areas of calculation at all, and therefore complete economic chaos would prevail.

The clause following “therefore” is a non sequitur. Just because *less* calculation leads to *some* degree of economic chaos does not imply that *no* calculation leads to *complete* economic chaos.

### *Calculation in Kind: A Matter of Degree*

Taking up a case in which the effect of being unable to perform economic calculation would *not* be disastrously severe, Mises (1981, 98) acknowledges the obvious point that a Robinson Crusoe has the ability to weigh his options despite his inability to calculate his profits. “Isolated man can easily decide whether to extend his hunting or cultivation. The processes of production he has to take into account are relatively short. The expenditure they demand and the product they afford can easily be perceived as a whole.” Crusoe runs his one-man economy under the guidance of what Mises calls “calculation in kind.” He mentally weighs his preferences and opportunities. Why would a socialist planner be unable to do the same?

Mises’s only response is to assert that this method is unworkable for a larger economy:

To suppose that a socialist community could substitute calculations in kind for calculations in terms of money is an illusion. In an economy that does not practice exchange, calculations in kind can never cover more than consumption goods. They break down completely where goods of higher order are concerned. (Mises 1981, 102.)

This passage suggests a question. Does Crusoe’s one-man socialism “completely break down” when Friday shows up? Hardly. What if a dozen people join their isolated collective? A hundred? A million? When does the absence of economic calculation doom them? Mises has boxed himself in. Eventually he needs to draw a line and say: “A socialist society of this size or larger is impossible.” But in drawing such a line, he would violate his own strictures against quantitative economics.

One might be tempted to claim that the difference between a Crusoe economy and a modern economy is not quantitative at all. The modern economy, one might say, uses capital goods, whereas the



Crusoe economy uses only consumption goods. But this will not do. Mises correctly describes Crusoe's productive processes as "*relatively short*." Even Crusoe uses capital goods to a certain extent. His calculation problem, therefore, does not differ qualitatively from economies that use more advanced techniques.

### *Does History Vindicate Mises?*

Impossibility (2) is a quantitative judgment: Crusoe could survive without calculation, but a modern economy is too complicated to do the same. Mises has no argument to support this position, and indeed, on his own terms, he could never construct such an argument. The only way to salvage Impossibility (2) is to reinterpret it as an empirical claim and look to the evidence of history.

Mises (1981, 532) would have rejected this move: "In the field of purposive human action and social relations no experiments can be made and no experiments have ever been made."<sup>6</sup> But other Austrian-school economists may see things differently, so let us now consider the merits of the historical argument they might be tempted to advance.

An historical approach to the question was only beginning to be feasible when Mises's *Socialism* was published in 1922. The Russian Civil War was just dying down. The remainder of the twentieth century, though, endowed us with a wealth of relevant facts, enriched when the eventual retreat from socialism opened previously closed societies to Western historians. Does the resulting historical record confirm Impossibility (2)?

Some Austrian-school economists seem to answer in the affirmative. For instance, in spite of Peter J. Boettke's methodological allegiance to Misesian antihistoricism, he approvingly quotes Don Lavoie to this effect:<sup>7</sup> "In the failure of War Communism and the retreat to the [New Economic Policy] the impossibility of planning as articulated theoretically in the Mises-Hayek critique was directly demonstrated in practice" (Boettke 1990, 71).

The historical failures of socialism are indeed enormous. Five million starved to death during Lenin's short tenure as Soviet dictator (Pipes 1994; Landauer 1959). Seven million died during Stalin's terror-famine (Conquest 1986; Landauer 1959). Thirty million perished during Mao's Great Leap Forward (Becker 1996). Those who re-

mained alive faced other horrors. In the name of the proletariat, socialism revived both slavery and serfdom on a massive scale. Millions were sent to slave-labor camps to toil in inhuman conditions. Far larger numbers were tied to their collective farms for life, locked in place by internal passport systems (Landauer 1959; Conquest 1990 and 1986; Becker 1996; Applebaum 2003). The abuses most familiar to the Western world, such as the Berlin Wall, were only the media-friendly side of socialism. The lines and shortages familiar to us from the Brezhnev and Gorbachev eras were the system at its *best*.

The question, though, is not whether socialism was a catastrophe, but why. Can the great failures of socialism be largely attributed to economic calculation problems? The facts say otherwise.

Each of the major famines—to take the most shocking set of socialist calamities—follows a common script. First, the socialist leadership decides to seize peasants' land and force them to labor for a fraction of their customary earnings. To forestall resistance, they sentence successful farmers and village leaders (“kulaks”) to slave-labor camps. Once collectivization begins, the resistance is vigorous but unorganized: the peasants slaughter their livestock, even while they hide food and otherwise try to salvage as much of their property as possible. Next, the government sends men with guns to get what they want by any means necessary—even if it means expropriating the next year's seed grain. Peasants then starve by the millions, until their resistance is broken and they submit to the rule of the collective farm. Even then, the farmers do the absolute minimum of work they can get away with, and put their surplus energy into tending their small remaining plots of private land. These tiny bastions of capitalism typically wind up producing a stunning fraction of the total crop.

Nothing in this sad story is produced by a lack of economic calculation. While good data are hard to come by, there is little reason to believe that a significant fraction of Russian or Chinese peasants in the pre-Communist era were even familiar with—let alone practiced—profit-and-loss accounting.<sup>8</sup> If calculation was not in use before the socialist revolution, economic decline after the socialist revolution can hardly be blamed on its absence.

Instead, the tragedy of collectivization all boils down to incentives. The rulers had bad incentives because they held absolute power. They knew they could expropriate the entire farming population, retain power, and continue to enjoy three square meals a day. During collectivization, farmers had every incentive to “use it or lose it”—

consume their agricultural resources or let them be expropriated. Bad incentives continued after collectivization, because the system rewarded Communist officials, guards, and informers, instead of proficient farmers. That is why millions died of hunger in the wake of collectivization, and why the Soviet economy suffered chronic food shortages.

Calculation problems were probably more serious in industry than in agriculture. Even here, though, the evidence for incentive problems is massive, while signs of calculation problems are spotty.

In Hedrick Smith's (1974) classic study of late Communism, practically every industrial pathology traces back to bad incentives. Consider for example how one Soviet engineer's description of the practice of end-of-the-month industrial "storming":

Usually at the start of the month an enterprise is virtually paralyzed after the storming in the final days of the preceding month. . . . A lot have to put in two shifts a day during storming. . . . They work all day both Saturdays and Sundays, their normal days off. Management doesn't have the right [to pay them for overtime] because it has a ceiling on payroll and financial inspection organs check on that. Sometimes if a worker is badly needed, he can get time-and-a-half or double time off to compensate for his overtime. . . . So usually there are a lot of workers off at the start of the month and the enterprise is in a state of paralysis. . . . In spite of the Plan and seemingly definite delivery deadlines, suppliers don't fulfill the Plan or meet delivery schedules. . . . In other countries, production normally goes on throughout the month . . . but here, it can only begin on the 14th or 20th when all materials have been received. So factories must fulfill about 80 percent of the Plan in the last 10–15 days. No one cares any longer about quality. Volume is the main thing. . . . (Smith 1974, 286–87.)

In short, there was one incentive problem after another: the ban on overtime pay; the lack of reward for prompt deliveries; equal rewards for products of unequal quality.

Smith (1974, 312–13) goes on to observe that in the sectors that the party leadership genuinely cared about, the Soviet economy set up good incentives and got better results:

Not only do defense and space efforts get top national priority and funding, but they also operate on a different system from the rest of the economy. Samuel Pizar, an American lawyer, writer, and consultant on East-West trade, made the shrewd observation to me that the mili-

tary sector is “the only sector of the Soviet economy which operates like a market economy, in the sense that the customers pull out of the economic mechanism the kinds of weaponry they want. . . . The military, like customers in the West . . . can say, ‘No, no, no, that isn’t what we want.’”

Common sense, unaided by knowledge of profit/loss accounting, could have both diagnosed the ailments of, and prescribed remedies for, the most glaring failures of Soviet industry. And that seems to be just what happened when the leadership was determined to get results: it pragmatically bent the perverse rules that governed the rest of the economy.

The evidence for the priority of incentives over economic calculation goes deeper. One elementary function of such calculation is to figure out the optimal size of industrial plants. Again and again, though, Soviet planners disregarded evidence about the limitations of economies of scale in Western industry. Why? Because their goal was propaganda rather than production. Smith (1974, 291) delivers a telling exposé of the Kama River Truck Factory—touted as the world’s largest—as “an archetype of the gigantomania of Soviet planners . . . a symbol of the Soviet faith that bigger means better and the Soviet determination to have the biggest at any cost.” Soviet planners easily could have relied on Western estimates of optimal scale, but they declined to do so. Their lack of incentives to care about production as opposed to propaganda—not their inability to calculate—was once again the root problem.

Perhaps the most plausible response to such historical evidence is that Mises’s argument applies only to an *isolated* socialist economy. Mises repeatedly emphasized that one socialist country could free-ride on the information provided by the prices set in other countries:

People do not realize that [the Soviet Union and Nazi Germany] were not isolated socialist systems. . . . They could resort to economic calculation on the ground of the prices established abroad. . . . Only because they were able to refer to these foreign prices were they able to calculate, to keep books, and to prepare their much talked about plans. (Mises 1966, 702–3.)

So perhaps it is no surprise that socialist economies avoided calculational chaos.

But this response is facile. Historically, socialist countries often *acted as if* they were isolated, by turning their backs on the world price system. In other words, Mises (1966, 259) is only half right to say that Soviet planners “utilize the intellectual methods of the capitalist system that they fanatically condemn.” They frequently heeded their own fanatical condemnation of capitalism by deliberately pursuing projects against which Western accounting methods advised. This did not, however, make the existence of socialist economies “impossible,” and even the huge difficulties such economies experienced seem to have been primarily due to incentive problems.

### *Does It Depend on the Meaning of the Word Impossible?*

Has this entire article been attacking a straw man? Some Austrian-school economists, most notably Boettke, might be inclined to say so. If we interpret “socialism is impossible” as “socialism can never exist,” or as “socialism necessarily collapses into famine and chaos,” then Austrian-school claims indeed are overblown. But Boettke (2000, 7–8, *emph. original*) suggests that arguments about the “impossibility” of socialism should be understood in a subtler sense of the word:

The Austrian conjecture is that socialism as traditionally defined was strictly speaking *impossible* because the chosen means (social ownership of the means of production) is incoherent with regard to the ends sought (enhanced social cooperation and advanced material production). The attempt to achieve the socialist system in practice generated unintended and undesirable consequences from the point of view of the original aspirations of socialism.

Notice that in Boettke’s account, the alleged ends of socialism (“enhanced social cooperation and advanced material production”) are part of the meaning imputed to the word *socialism*. A “socialism” unable to achieve these ends does not qualify as socialism, no matter how pervasive and long-lasting government ownership is.<sup>9</sup> In an intriguing footnote, Boettke (2000, 33n8) argues that Mises himself would have agreed with this interpretation:

Mises’s point was simply that in order for socialism to achieve the multiplicity of ends representative of the original aspirations of the model, it would have to succeed in realizing the end of rationalizing produc-

tion. Mises did not deny that various models of socialism emphasized different ends, but all coherent models of socialism required rationalization of production, and it was this claim that Mises denied was possible with social ownership of the means of production.

In response, I maintain (a) that Boettke misreads Mises, and (b) that even if Boettke's interpretation were correct, it would still face the difficulties previously discussed.

*Boettke misreads Mises:* Unlike Boettke, Mises does not insert goals like "advanced material production" into the definition of socialism.<sup>10</sup> He intentionally leaves the aims of the socialist planner open, declining to "discuss his value judgments and his choice of ultimate ends" (Mises 1966, 696). Instead, Mises defines socialism in structural terms:

The market economy must be strictly differentiated from the second thinkable—although not realizable—system of social cooperation under the division of labor: the system of social or governmental ownership of the means of production. This second system is commonly called socialism, communism, planned economy, or state capitalism. . . . Production is directed by the market or by the decrees of a production tsar or a committee of production tsars. (*Ibid.*, 258.)

When he elaborates, Mises (1966, 695, *emph. original*) continues to emphasize the structure of socialism, not its aspirations:

The essential mark of socialism is that one will alone acts. It is immaterial whose will it is. The director may be an anointed king or a dictator, ruling by virtue of his *charisma*, he may be a Führer or a board of Führers appointed by the vote of the people. The main thing is that the employment of all factors of production is directed by one agency only. One will alone chooses, decides, directs, acts, gives orders. All the rest simply obey orders and instructions.

Indeed, Mises (1966, 268) ridicules socialists for spreading "semantic confusion" on just this point. "People call all that they deem good and praiseworthy 'socialist.' The regular scheme of arguing is this: A man arbitrarily calls anything he dislikes 'capitalistic,' and then deduces from this appellation that the thing is bad." Boettke plays a parallel definitional game. He says, in effect: "If 'socialism' fails to rationalize production, it is not really socialism. Moreover, since true socialism is incapable of rationalizing production, socialism strictly speaking cannot exist."

Mises (1966, 269) condemns such definitions as deliberate obfuscations:

One deprives oneself of the semantic tools to deal adequately with the problems of contemporary history and economic policies if one acquiesces in a different terminology. This faulty nomenclature becomes understandable only if we want to prevent people from knowing what the market economy really is.

When Mises moves from the semantics of socialism to its “impossibility,” he clearly means something stronger than “socialism will be unable to rationalize production.” In *Human Action*, he emphatically insists that the elimination of economic calculation would call down a secular apocalypse:

Socialism cannot be realized because it is beyond human power to establish it as a social system. The choice is between capitalism and chaos. A man who chooses between drinking a glass of milk and a glass of potassium cyanide does not choose between two beverages; he chooses between life and death. A society that chooses between capitalism and socialism does not choose between two social systems; it chooses between social cooperation and disintegration of society. (1966, 680.)

Furthermore, Mises (1966, 678) explicitly acknowledges that the socialists have two valid replies to the standard incentive-based critique.

First, the socialist could admit that socialism would reduce total production and therefore average consumption, but still maintain that median consumption would rise due to its more egalitarian distribution. An intellectually honest socialist could say

“It may be true that  $P$ , the total net income turned out in a market society, is larger than  $p$ , the total net income turned out in a socialist society. But if the socialist system assigns to each of its members an equal share of  $p$  (viz.,  $p/z=d$ ), all those whose income in the market society is smaller than  $d$  are favored by the substitution of socialism for capitalism. It may happen that this group of people includes the majority of men.”

Second, the intellectually honest socialist might freely admit that total production will fall so drastically due to reduced labor productivity that even the poorest will be worse off, saying that

“we spurn the market economy in spite of the fact that it supplies everybody with more goods than socialism. We disapprove of capitalism on ethical grounds as an unfair and amoral system. We prefer socialism on grounds commonly called non-economic and put up with the fact that it impairs everybody’s material well-being.” (*Ibid.*, 679.)

Mises (1966, 679) concludes: “It is obvious that this type of pro-socialist argumentation cannot be touched by the liberal reasoning concerning the productivity of labor.”

What is Mises saying here? His self-conscious aim is to show that the economic calculation argument succeeds where the standard incentive-based critique of socialism fails. The latter fails, in Mises’s eyes, precisely because, contrary to Boettke, “rationalization of production” is *not* integral to “all coherent models of socialism.” Socialists might be willing to give up some production in exchange for more equality—maybe even a lot of production.<sup>11</sup> Mises must therefore ratchet the debate up a notch, and threaten not a lower standard of living but the end of civilization.

In this light, Boettke’s reading of Mises would render the calculation argument superfluous. The means of socialism are “incoherent,” Boettke maintains, in pursuing the ends of “enhanced social cooperation and advanced material production.” But Mises grants that this claim had already been demonstrated by his “liberal” predecessors: “No judicious man can fail to conclude from the evidence of these considerations that in the market economy the productivity of labor is incomparably higher than under socialism” (1966, 678). That point can be, and frequently was, made without any mention of economic calculation. It is only when the socialist *abandons* the ends of “enhanced social cooperation and advanced material production” that the calculation argument is needed.

*Boettke’s position is as problematic as Mises’s:* For the sake of argument, suppose you accept Boettke’s interpretation of “impossibility.” Does the calculation problem really show that socialism is impossible in that sense? Does it render socialism “incoherent with regard to the ends of enhanced social cooperation and advanced material production”?

This question is hard to answer because Boettke’s language is so idiosyncratic. If I siphon a gallon of gas out of my car, is my action “incoherent with regard to the ends of” driving home and watching “The Simpsons”? Presumably by “incoherence with regard to” an



end, Boettke means something stronger than “makes the achievement of that end *less likely*.” The most natural interpretation of “X is *incoherent* with respect to end Y” is that it means that “Y will *certainly not* happen if you do X.”

If so, the assertion that “socialism is incoherent with regard to the ends of enhanced social cooperation and advanced material production” is clearly false.<sup>12</sup> Lack of calculation makes it more difficult for socialism to attain the ends of “enhanced social cooperation and advanced material production” *to some degree*. But difficult is not necessarily impossible. Indeed, go further and imagine that the economic calculation problem is as severe as you like. It remains conceivable that it is more than counterbalanced by other forces. Technological progress alone might be enough to do the job. Thus, even on Boettkean terms, calling socialism “impossible” is hyperbole.

Once again, it would be futile for Boettke’s defenders to appeal to the historical record, if they were so inclined. History does tell us that socialism was a disaster. But the evidence suggests that socialism’s horrors and inconveniences alike were driven by bad incentives, not lack of calculation.

One might take a more agnostic view than I have of the causal factors responsible for the failure of socialism. But salvaging Boettke’s position requires affirmative historical evidence that calculation dominates incentives. This requirement remains unsatisfied.

\*      \*      \*

Without a doubt, Mises provides a novel and intellectually stimulating perspective on the economics of socialism:

The impracticability of Socialism is the result of intellectual, not moral, incapacity. Even angels, if they were endowed only with human reason, could not form a socialistic community. If a socialist community were capable of economic calculation, it could be set up without any change in men’s moral character. (1981, 407.)

But ideas must be judged by their truth, not their entertainment value. Mises got one important point right: socialism makes economic calculation impossible. But he was wrong to infer that socialism is therefore impossible. His theory provides no basis whatever for this logical leap. If Crusoe can survive without calculation, then eco-

conomic theory cannot rule out the possibility that a much larger calculationless society can mimic Crusoe's success.

The collapse of Communism has led many to proclaim that "Mises was right." Yes, he was right to claim that socialism was a terrible economic system; indeed, only the collapse of Communism has shown us how bad it really was. However, history does nothing to show that economic calculation was the difficulty facing socialist economies. There is no instance of a socialist economy that suffered solely from its lack of economic calculation. Indeed, the experience of collectivization in less-developed economies comes close to the opposite natural experiment: since calculation had generally not taken root in these places to begin with, the subsequent dislocations must be largely chalked up to bad incentives.

In *Candide*, a philosophical optimist is finally driven to wonder, "If this is the best of all possible worlds, what on earth are the others like?" A parallel question comes to mind when Boettke dubs economic calculation "*the* Austrian contribution to political economy." If Mises had really produced an original proof that socialism would lead to the collapse of civilization, the Austrian economists' contribution would be large. But no such proof exists. If, however, Mises holds the alternative position Boettke attributes to him, the best that the Austrian school has to offer is an insight of modest importance.

#### NOTES

1. Mises and most other Austrians use *socialism* as a synonym for across-the-board state ownership of the means of production. They do not claim that the economic calculation problem rules out the "possibility" of Western-European-style mixed economies. I follow Mises's terminology to avoid confusion.
2. Quoted in Boettke 2001, 8.
3. Other Austrian economists might see Boettke's position as an overstatement, but in any case, Austrians typically do rank the economic calculation problem as the most important and/or fundamental economic argument against socialism.
4. Mises acknowledges a debt to "some eminent economists—Hermann Heinrich Gossen, Albert Schäffle, Vilfredo Pareto, Nikolaas G. Pierson, Enrico Barone"—who anticipated some aspects of the calculation argument. But, he insists, "with the exception of Pierson, they did not penetrate the core of the problem, and they all failed to recognize its primordial significance" (Mises 1966, 701).
5. What is arguably Mises's most eloquent prediction of catastrophe points to

the source as economic illiteracy, not the absence of calculation: “But if [humankind] fail to take the best advantage of [the body of economic knowledge] and disregard its teachings and warnings, they will not annul economics; they will stamp out society and the human race” (1966, 885).

6. In fact, Mises raises doubts about the ability of economic theory to state unambiguously that the quantitative effect of calculation on prosperity is positive! In his discussion of “external costs,” Mises (1966, 657–58) recognizes that “where a considerable part of the costs incurred are external costs from the point of view of the acting individuals or firms, the economic calculation established by them is manifestly defective and their results deceptive.” He answers this concern by saying that the difficulty “could be removed by a reform of the laws concerning liability for damages inflicted and by rescinding the institutional barriers preventing the full operation of private ownership” (ibid., 658). Until these reforms are put into place, though, it is theoretically possible that economic calculation is worse than nothing.
7. Don Lavoie was a student of Mises’s student, Israel Kirzner.
8. The chapter on agriculture in Richard Pipes’s *Russia Under the Old Regime* (1974, 141–70) does not specifically deal with accounting, but his general discussion of the backwardness of the Russian peasantry makes its use of accounting highly improbable. In van Hoepen’s (1995) review of pre-Communist Chinese accounting, there is no suggestion that it was practiced by ordinary farmers. In personal correspondence, historian Zhengyuan Fu, author of *Autocratic Tradition and Chinese Politics* (1993), confirms the absence of accounting from pre-Communist Chinese agriculture.
9. Boettke (2000, 33n8) confirms my reading in a directly linked footnote: “If socialism is redefined, then of course the impossibility claim must be relaxed.” Redefinition would be useful only if the missing traits—“enhanced social cooperation and advanced material production”—were part of the usual definition of socialism.
10. Admittedly, Mises (1966, 258) does leave himself one definitional escape hatch by defining socialism in binary terms: “There is no such thing as a mixed economy, a system that would be in part capitalistic and in part socialist. . . . If within a society based on private ownership by the means of production some of these means are publicly owned and operated . . . this does not make for a mixed system which would combine socialism and capitalism.” Strictly speaking, then, the presence of a single black marketeer on the planet would mean that there was no “socialism.” From this standpoint, the “impossibility” of socialism would be rather trivial. To the best of my knowledge, though, Mises never used this escape hatch.
11. Mises (1966, 679) did, of course, recognize that socialists willing to give up significant material advantages for their ideal were in the minority: “It cannot be denied that this haughty indifference with regard to material well-being is a privilege reserved to ivory-tower intellectuals, secluded from reality, and ascetic anchorites. What made socialism popular with the immense majority of

its supporters was, on the contrary, the illusion that it would supply them with more amenities than capitalism.”

12. Perhaps Boettke interprets “X is incoherent with respect to end Y” to mean “Y is *extremely unlikely* to happen if you do X”? This claim is not clearly false, but it does remain an unsupported quantitative judgment. There would be at least as much basis for claiming that “socialism is incoherent with regard to the ends of enhanced social cooperation and advanced material production” because of reduced labor productivity. This leaves the Austrians without a uniquely potent antisocialist argument.

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