

This article was downloaded by: [George Mason University]

On: 29 April 2009

Access details: Access Details: [subscription number 906610333]

Publisher Routledge

Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH, UK



## Critical Review

Publication details, including instructions for authors and subscription information:

<http://www.informaworld.com/smpp/title-content=t778142998>

### Toward a new consensus on the economics of socialism: Rejoinder to my critics

Bryan Caplan <sup>a</sup>

<sup>a</sup> Department of Economics and Center for Study of Public Choice, George Mason University, Fairfax, VA

Online Publication Date: 01 December 2005

**To cite this Article** Caplan, Bryan(2005)'Toward a new consensus on the economics of socialism: Rejoinder to my critics',Critical Review,17:1,203 — 220

**To link to this Article:** DOI: 10.1080/08913810508443636

**URL:** <http://dx.doi.org/10.1080/08913810508443636>

## PLEASE SCROLL DOWN FOR ARTICLE

Full terms and conditions of use: <http://www.informaworld.com/terms-and-conditions-of-access.pdf>

This article may be used for research, teaching and private study purposes. Any substantial or systematic reproduction, re-distribution, re-selling, loan or sub-licensing, systematic supply or distribution in any form to anyone is expressly forbidden.

The publisher does not give any warranty express or implied or make any representation that the contents will be complete or accurate or up to date. The accuracy of any instructions, formulae and drug doses should be independently verified with primary sources. The publisher shall not be liable for any loss, actions, claims, proceedings, demand or costs or damages whatsoever or howsoever caused arising directly or indirectly in connection with or arising out of the use of this material.

TOWARD A NEW CONSENSUS  
ON THE ECONOMICS OF SOCIALISM:  
REJOINDER TO MY CRITICS

*ABSTRACT: This has been an unusually productive exchange. My critics largely accept my main theoretical claims about economic calculation and socialism. They have also started to do what advocates of the Misesian view should have been doing for decades: offer empirical evidence that the calculation problem is serious. While I continue to believe that incentive problems explain most of the failures of socialism, I am slightly less confident than I was before. Fortunately, there are many unexploited sources of information to help resolve the issue.*

I am delighted to have such energetic and insightful critics. Peter Boettke and Peter Leeson (henceforth BL), David Gordon, and Rodolfo Gonzalez and Edward Stringham (henceforth GS) have all advanced the debate on the economics of socialism. On the one hand, there has been a meeting of the minds: Gordon and GS largely accept important parts of my argument that used to be controversial. On the other hand, new areas for research have been opened up: BL and GS have questioned my conclusions on topics that used to be overlooked. To settle one debate and begin a more interesting one is the best that a participant in any academic exchange can hope for.

---

*Critical Review* 17 (2005), nos. 1-2. ISSN 0891-3811. [www.criticalreview.com](http://www.criticalreview.com)

Bryan Caplan, Department of Economics and Center for Study of Public Choice, George Mason University, Fairfax, VA 22030, [bcaplan@gmu.edu](mailto:bcaplan@gmu.edu), (703) 993-2324, thanks the Mercatus Center for financial support, Alex Tabarrok and Jeffrey Friedman for helpful comments, and Steve Miller and Kail Padgitt for research assistance.

### Rejoinder to Boettke and Leeson

BL are the last holdouts on the theoretical question of the impossibility of socialism. Gordon accepts my claim that socialism is possible under some conditions, and both Gordon and GS admit that Mises and the other Austrian critics of the “possibility” of socialism lack a theoretical proof to the contrary. But BL still insist that I misunderstand what Mises meant in the first place. I “ignore” the “facts” that “‘socialism’ referred to particular ends as well as means, and that one of these ends is advanced material production” (BL 2005, 156–57).

I could understand BL’s claim that I “misunderstand,” “ignore,” and “overlook” their position if my original article *failed to mention* that anyone held their position. But in fact, my article specifically ascribed the position in question to Boettke, and explored it at length (Caplan 2004, 44–48). I cited detailed textual evidence that Mises held a structural definition of socialism, not the one that BL attribute to him.

But you do not have to read my article to see that BL are wrong. Look at the Table of Contents of *Socialism* (Mises [1922] 1981, x). Chapter 15, “Particular Forms of Socialism,” lists *many* kinds of socialism with many *different* aspirations: state socialism, military socialism, Christian socialism, the planned economy (*Planwirtschaft*), and guild socialism. The first sentence of the section on “Military Socialism” reads: “Military Socialism is the Socialism of a state in which all institutions are designed for the prosecution of war” (*ibid.*, 220). Unless devoting all resources to war is compatible with sharply raising people’s living standards, Mises plainly did not hold the definition of socialism that BL ascribe to him. If that is not evidence enough, Mises’s Chapter 16 is entitled “Pseudo-Socialist Systems.” If Mises thought the “socialisms” in Chapter 15 were misnamed, he would have moved his discussion of them to the following chapter.

BL (2005, 158) say their “whole argument” is “straightforward” once you understand their definition of socialism. What they do not say, but indirectly admit, is that *my* whole argument is straightforward using a standard definition of socialism.<sup>1</sup>

I would be tempted to end our debate on this topic if BL would concede that “on the dictionary definition, socialism is possible,” but that would be letting them off the hook. My article (Caplan 2004, 47–48) argued that socialism is not impossible even *given* Boettke’s idiosyncratic definition. BL continue to discuss the undisputed *difficulties* of

socialism at length, then leap to the conclusion that it is “strictly impossible”—indeed, impossible a priori—for government ownership to achieve “advanced material production.”

BL (2005, 157) do offer one new argument for their position. To be more precise, they re-define another word: *economy*.

As long as resources are scarce, they need to be *economized* if they are to serve human needs effectively. . . . In abolishing market prices for capital goods, socialism does away with the very mechanism that enables societal economizing behavior. Thus, a socialist *economy* is impossible.

To be fair, at least this time BL footnote a supporting quotation from Mises: “Without economic calculation, there can be no economy. Hence, in a socialist state wherein the pursuit of economic calculation is impossible, there can be—in our sense of the term—no economy whatsoever” (ibid., 168).

It is puzzling that BL make this argument here, because it is completely unrelated to the rest of their thesis. It makes no difference whether you use my definition of *socialism* or theirs: once we make economic calculation a defining feature of any *economy*, it is instantly obvious that a socialist economy is impossible. Unfortunately, it is also instantly obvious that this is sophistry. You could just as easily prove that I don’t own a car by making a manual transmission a defining feature of any “car.”

The second half of BL’s reply has much more to offer. Here, they present evidence from the period of War Communism to empirically challenge my claim that in practice, bad incentives, not lack of calculation, were the main reason why socialism did not work well.

This is the kind of debate that should have been going on for years. BL highlight a number of interesting facts, propose novel approaches, and raise challenging questions. On balance, though, I am skeptical of their interpretation of War Communism.

I agree with BL that War Communism established “unprecedented state control over the economy.” But their table of decrees shows that many of them primarily affect incentives, not economic calculation. In any case, the main evidence for their position is not the contents of the table, but statements by Soviet planners about which of the two problems they “themselves thought was more pressing” (BL 2005, 164).

This is an interesting approach, but I have reservations. Economic illiterates like Lenin and his followers could be expected to misinterpret

the causes of their failures. Witness their tirades against speculators and kulaks. But (again) an approach with drawbacks may still work.

BL quote several interesting passages from Lenin and others about the importance of "strict accounting and control." But with the exception of the passage from Boris Brutzkus (BL 2005, 166), I suspect that BL misread Lenin and his associates. The most natural way to interpret their complaints about accounting, control, and calculation is that they lack a *physical inventory* of their resources. They are not saying that they cannot figure out the most efficient way to produce stuff; they are saying that they do not know what stuff exists.

When Lenin states that socialism "is inconceivable without planned state organization which keeps tens of millions of people to the strictest observation of a unified standard of production and distribution" (BL 2005, 165), it sounds like he wants a list of who exists, where they are, what they have, and what they are doing.<sup>2</sup> He wants the same information that any general wants: How many men are under my command, where are they, what equipment do they have, and what are their current orders? A general who demands "strict accounting and control" is not asking for financial analysis. I doubt Lenin was, either.

One of BL's quotations from Bukharin at first seems more problematic for my interpretation. "If all the factories together with the whole of agricultural production are combined to form an immense cooperative enterprise, it is obvious that everything must be precisely calculated. We must know in advance how much labor to assign to the various branches of industry; what products are required and how much of each it is necessary to produce; how and where machines must be provided" (BL 2005, 165). But on closer reading, this is what any general would say when planning an attack. He would want to "precisely calculate" how many soldiers he needs and what supplies they require. If you sent this general a team of accountants to help him run his calculations, he would be baffled. Those are two different kinds of calculations.

BL's quotations do reveal a *kind* of information problem. But it is a very different problem than the one that BL and Mises have in mind. Lenin is basically complaining that he lacks a tolerably accurate Census of Economic Resources. As usual, he has only himself to blame: It is hard to collect statistics during any period of radical change, much less a civil war. But if we believe Lenin and company, once they had that information, the march to socialism could resume.

Am I conceding that War Communism failed primarily because of an information problem, albeit a different one than BL think Lenin is describing? No. Recall that the Soviet economy was overwhelmingly agricultural during this era, and its main disaster was a famine that killed five million people. Pipes's definitive histories emphatically blame the famine on the low fixed price of food, requisitioning, and the war against the peasantry (1994, 369–435; 1990, 714–44). In this light, BL's claim that "incentives do not appear to enter the concerns of the War Communist planners" (BL 2005, 166) is simply astonishing.

Boettke knows the writings of Lenin and the other Old Bolsheviks better than I do, but it is easy to show that incentives frequently "entered their concerns." Here is a typical order from Lenin in response to the refusal of peasants in the Penza province to hand over the grain the government demanded:

While suppressing the uprising in the five districts, apply all efforts and adopt all measures in order to remove all the grain surpluses from their owners. . . . For this purpose designate in every district (designate, do not seize) hostages, by name, from among kulaks, rich men, and exploiters, whom you are to charge with responsibility for the collection and delivery to assigned stations or grain-collecting points and for turning over to the authorities of all the surplus grain without exception.

The hostages are answerable with their lives for the accurate and prompt payment of contribution. (Quoted in Pipes 1990, 737.)

Lenin doggedly refused to pay market prices for food. When this predictably led to food shortages, he did not lament his lack of information. He decided to extract grain with death threats instead of money. Pipes explains further that before the famine started, several Bolsheviks wanted to pay more for food in order to increase production. "In May 1918, a grain specialist, S. D. Rozenkrants, explained to Zinoviev that the food shortages were not due to 'speculation' but to the absence of production incentives." Rykov gave a similar analysis (Pipes 1990, 726). Even Trotsky proposed replacing requisitioning with an in-kind tax in February, 1920 (Pipes 1994, 391). When Lenin finally caved in to this position with the New Economic Policy, the in-kind tax quota was cut to 41 percent of the planned requisition (*ibid.*, 391). Just call him V. I. Laffer.

*Rejoinder to Gordon*

It is hard to object strongly to anything in David Gordon's careful reply, but several points merit further discussion.

1. Gordon's interpretation of Mises *may* be right. Perhaps all of Mises's predictions of socialist catastrophe were supposed to be obvious but empirical—analogueous to saying that “shooting yourself in the head will be disastrous for your health.” Still, I continue to think it more likely that Mises believed that socialism was, a priori, impossible. Mises had an intense interest in methodology, and frequently emphasized the a priori nature of most economic propositions. Even with truisms like “people value leisure,” Mises (1966, 131–32) took the time to distinguish empirical fact from praxeological law. If he believed that one of his most important economic claims was empirical, one would expect him to say so clearly.

2. Gordon admits that, given special conditions, it is no longer “obvious” that socialism will fail; but he understates the damage my counterexamples inflict on Mises's position. If socialism does not obviously fail given condition X, it is implausible to maintain that socialism obviously fails given conditions *similar* to X.

For example, Gordon (2005, 173) grants that socialists might effectively run a modern agricultural economy, but calls this “an extension, albeit a radical one,” of the primitive conditions of self-sufficient farmers. But the impact of my counterexample cannot be so easily contained. If socialism could prevent famine and chaos in a 100-percent agricultural economy, it could also probably allocate 10 or 20 percent of the workforce to producing nonagricultural goods without endangering lives on a mass scale.

Similarly, Gordon points out that Mises knew that his impossibility result did not apply to a static economy. But if a *perfectly* static economy need not fall into ruins, how about a *fairly* static economy? It hardly seems obvious that a totally static socialist economy would crumble as soon as it made a modest effort to adapt to changing conditions.

3. According to Gordon (2005, 174), Mises “is best understood as saying that a socialist economy that attempts to produce a large variety of goods and services using modern technology, and that endeavors to respond to changing preferences and technology, will be unable to succeed.” It is hard to reconcile this mild-mannered interpretation of Mises with the latter's apocalyptic warnings. But in any case, this is a

very low threshold for success. The modern Indian economy, with per-capita GDP of a few thousand dollars, clearly “attempts to produce a large variety of goods and services using modern technology” and “endeavors to respond to changing preferences and technology.” Is it really “obvious” to Gordon that socializing the U.S. economy over a 10-year period, while studiously ignoring world prices, would drive us below the standard of living of India? This strikes me as overconfident.

4. Gordon (2005, 175) has a response to my observation that the Soviets often deliberately ignored Western cost estimates when they made their plans:

It is one thing to say that someone apprised of efficiency considerations may deliberately elect to disregard them. It is quite another for someone to choose in complete ignorance of these considerations. In the former situation, but not the latter, he knows what his decision has cost him.

This is an interesting insight, but it is off-target. My original point was that, contrary to some of Mises’s statements, we do not have to wait for world socialism to see how bad the absence of calculation would be. Instead, we can use the observed effect of *ignoring* prices to estimate the unobserved effect of *not having* prices.<sup>3</sup> Mises (1966, 702–3) downplays the obvious fact that the Soviet Union and other socialist economies did *not* quickly perish by emphasizing that they were able to free ride off the rest of the world’s price system. But his argument does not work to the extent that socialist economies *turned down* their free ride—as they often did.

5. In closing, Gordon makes two notable points on the relative merits of the calculation and incentive arguments.

First: “Mises’s argument would apply, as the incentives argument would not, to a socialist system that made provision for strongly inegalitarian incentives” (Gordon 2005, 177). This construes the problem of incentives too narrowly. Inegalitarian socialism might offer strong incentives for production, but it would also provide strong incentives for power-hungry thugs to get on top and terrorize their fellow men. In practice, one of the main reasons that socialists accepted inequality was to create incentives to support and defend their rule. Lenin rewarded Party members with more and higher-quality food, exclusive shops, salaries dozens of times greater than those of ordinary workers, houses,

and cars (Pipes 1994, 440–42). The key to economic efficiency is not inequality per se, but bringing private and social benefits into harmony.

Second: “The calculation argument is a matter of logic. The socialist cannot respond to it by saying that only the regrettable, empirical weakness of human nature . . . renders his plans incapable of realization” (Gordon 2005, 177). This seems to contradict Gordon’s view that the impossibility of socialism is an empirical claim, not a praxeological law. Furthermore, this argument is inconsistent with Gordon’s admission that socialism would be viable given drastically more advanced technology. The socialist could rightly respond that only the regrettable, empirical weakness of twenty-first century technology renders his plans incapable of realization. Indeed, it is far more likely that we will reach a technological Utopia than that human beings will stop being selfish (Pinker 2002).

### *Rejoinder to Gonzalez and Stringham*

Theoretically, GS and I are in almost complete agreement. Our interpretation of Mises is virtually the same, though for reasons stated in my reply to Gordon, I still think Mises conceived his impossibility result as true a priori, not as a “reasonable common-sense conjecture.” But if GS want to empirically defend the impossibility result, I am happy to engage them.

Before proceeding, there are two points worth clarifying. First, like Gordon, GS construe the incentive problem too narrowly. I do not blame the failures of real-world communism just on “inadequate incentives to work” (GS 2005, 179), but also on *perverse* incentives throughout the whole system.<sup>4</sup> The problem was not just workers who shirked, but also border guards who prospered as long as no one escaped alive, scientists who got dachas for building hydrogen bombs, Party members who knew they would be expelled or worse if they advocated economic reforms, and rulers who stayed in power no matter how many of their people died.

Second, GS construe the meaning of calculation too broadly. I am sure they know that the presence of calculation does not imply perfect information, but they conflate the two. Thus, GS (2005, 191) say that “inadequate incentives often are the inevitable *result* of calculational ignorance,” and here is one of their examples:

A socialist state that could accurately estimate the productive capacity of the farmers, and the farmers' valuation of goods and leisure, would have no need to act as the Soviet state initially did. That state would be capable of extracting most of the agricultural surplus, via refined wage and price discrimination. (Ibid., 196.)

A socialist state with perfect information could do this; but economic calculation would not suffice. Economic calculation uses prices to tell you which methods of production are cheapest; it does not reveal individual supply and demand functions. On closer study, many of GS's arguments about how the absence of calculation hurt socialism turn out to be arguments about how the absence of perfect information hurt socialism.

One last caveat: GS inadvertently highlight the problem of joint causation. If *either* selfless motivation *or* perfect information would solve a problem, should it be considered a problem of incentives or a problem of information? The standard response in empirical research is that this kind of question is confused. All we can say is how much *variation* in the data is due to incentives versus information. For example, economists often argue that the United States is richer than Sweden because the former has better incentives—most notably, lower marginal tax rates. One could object: “No, the real problem is imperfect information. If the government of Sweden knew every Swede's reservation wage, it could switch to a lump-sum tax.” But this objection is misplaced. You cannot explain variation with a constant. *Neither* the U.S. nor Swedish governments know their citizens' reservation wages, but they do offer different incentives to work. Imperfect information therefore cannot explain why the United States does *better* than Sweden, but incentives can.

### *The Breadth of Incentives*

GS (2005, 183) rightly observe that in some ways, socialism is better able to cope with incentive problems than capitalism. A capitalist system either has to pay people enough to take out the garbage, or do without garbage collection. A socialist system, in contrast, “could simply refuse to transfer unhappy garbage men to other occupations.” Their resistance to this policy would lead to their starvation, or worse.

But this solves some incentive problems by making others much

worse. Who guards the guardians? If leaders wield absolute power over others, what incentive do leaders have to use their power to make their country a nice place in which to live? Giving a dictator the power to execute anyone who opposes him creates a strong incentive to obey the dictator, but leaves little incentive not to execute people. If the dictator has enemies—and what dictator doesn't?—murder pays. Furthermore, since it is *very* good to be the dictator in this system, people have a strong incentive to fight like mad to seize and hold power (Tullock 1967).

But, GS (2005, 192–93) ask, “wouldn’t socialist leaders also prefer, *ceteris paribus*, to rule over more economically productive societies?”—as Martin McGuire and Mancur Olson’s (1996) “stationary bandit” model of government suggests? Yes, but even under a traditional monarchy, the *ceteris paribus* condition is easily violated. Economic growth might allow subversive ideas into the kingdom, or strengthen rival power centers. A king who knows how to maintain a stranglehold over his backward society would be foolish not to wonder if he could retain control in the face of rapid progress. Furthermore, even a small, poor country can sustain an opulent lifestyle for a single ruler. Due to the diminishing marginal utility of wealth, a king could make economic growth a low priority and still live like a king.

For a government of revolutionary socialists, the Olson model is less relevant still. The whole point of their struggle, on which many bet their lives, is to impose their dogmas on their societies.<sup>5</sup> If they have to choose between sacrificing their ideals and losing power, then they usually sacrifice their ideals, as Lenin did by adopting the New Economic Policy after the disaster of War Communism. On the other hand, if they have to choose between sacrificing their ideals and letting living standards plummet, they usually let living standards plummet.

After the leaders’ revolutionary fervor wanes, wealth-destroying policies often endure because it is extremely risky to be one of the first people advocating economic or political reform (Kuran 1995). Gorbachev claims to have spent his whole career hiding his desire for drastic change (Malia 1994, 411). Deng Xiaoping and his family suffered enormously merely because Mao *suspected* that he was, deep-down, a “capitalist-roader” (Salisbury 1992).

Overall, GS (2005, 183) are wrong to maintain that, given “all the necessary knowledge for economic calculation,” “the incentive problem reduces to that of a master persuading a servant to obey.” Even under the much stronger assumption of perfect information, incentive prob-

lems would remain. This is especially obvious if we care about the welfare of the servant. Even if we do not, there are always strategic considerations. The Prisoners' Dilemma itself is a game of perfect information.

### *Incentives and Information: The Breakdown*

GS strongly object to my view that incentive problems explain most of the pathologies of socialism. Indeed, they call my account “relentlessly guided by a preconceived idea to the point of being deeply flawed” (GS 2005, 191). It is worth mentioning, then, that I was a firm believer in the Misesian view before I began studying the history of socialism. If I brought a preconceived idea to my reading, it was that Mises was *right*. Eventually I decided the facts were not on my side, and changed my mind.

Perhaps I was too hasty to turn against Mises. GS marshal quite a bit of evidence in support of his position—enough to make me marginally change my mind in their direction. On balance, though, their case is not strong.

GS (2005, 191) say that “Caplan gives us not a hint of what he would see as signs—whether spotty or robust—of calculational problems.” This is a fair challenge. In my view, GS’s best evidence on the point comes from Cuba:

Cuban planners abandoned their ambitious industrialization plan from the 1960s when they realized that many of the plants they had built consumed more in inputs, when priced in line with the world market, than the value of the outputs. More recently, Cuba’s 2002 decision to close 71 of its 156 sugar mills . . . was also based on world-market price observations. (Ibid., 189.)

I wish GS had provided citations for these claims, but I assume they are correct. If they could multiply these examples enough to cover a large fraction of the GDP of the former socialist world, I would change my mind about the importance of economic calculation.<sup>6</sup> Now that the archives of many former socialist economies are open, it should be possible to find out how often socialist regimes adjusted their plans because capitalist prices told them to. To the best of my knowledge, however, little research has been done in this area.

After pointing to facts that genuinely support their case,<sup>7</sup> GS (2005,

191) strangely claim that such evidence is intrinsically scarce: "Calculational ignorance, and resulting economic difficulties, are not directly observable to those outside the socialist decision-making process." Now that the archives are open, however, I see no reason why we outsiders cannot learn what the insiders were thinking. GS (2005, 196) add that "much is hidden from insiders' eyes as well." Query: If *neither* outsiders nor insiders can know "what the correct alternative was, or even that a calculational error was made" (ibid.), how can GS be so confident that this was the main reason for the failure of socialism?

As far as I can tell, GS's confidence does not primarily stem from facts, but from their *theory* that "incentives are not adequate because it is impossible or prohibitively costly for the socialist planners to acquire the knowledge needed to design adequate incentives" (ibid., 191-92). "Perceiving bad results is not the same as knowing how to achieve better results" (ibid., 192). Their position allows them to reinterpret the evidence of bad incentives as being "really" evidence of calculation problems. Though they see my presentation of the facts as one-sided, in large part they simply have a different take on the same facts.

Consider Soviet agricultural collectivization. It seems like a clear case of bad incentives. Not so, according to GS. There would have been no need to kill millions if Stalin knew enough to pay each farmer his reservation wage. As discussed earlier, this argument stumbles over the problem of joint causation, and conflates calculation with the possession of perfect information. But its most glaring flaw is that it ignores *the leaders'* incentives. Stalin would not have murdered millions of farmers if he would have been removed from power or executed for doing so. In most countries, he would have lost power for far less heinous actions.

I agree with GS (2005, 195) that *an* important motive for Stalin's decisions was his desire to "produce the armaments for an eventual confrontation with capitalist regimes." That was not, however, his sole motive. He also wanted to break the back of Ukrainian nationalism and exterminate class enemies, especially the kulaks (Conquest 1986). Mass murder was an end as well as a means. I am frankly puzzled that GS find it so hard to believe that the Soviet leadership felt and acted upon murderous hatred for anyone. This was the era of the Holocaust.

Still, if building up heavy industry were Stalin's sole goal, collectivization was probably not the most effective means. Most obviously, there was no need to set the peasants' food-production quotas so high that they starved to death (Conquest 1986, 225-73). There was no need

to expropriate livestock without compensation, leading to the devastation of the domestic animal population. More fundamentally, there is no reason why Stalin could not have done precisely what GS elsewhere recommend: set a high average tax rate with a low marginal tax rate, and then leave the peasants alone. Stalin could have retained the NEP, but raised lump-sum taxes. A dictator powerful enough to expropriate the whole agricultural sector was easily powerful enough to collect high lump-sum taxes.

GS cite Olson to argue that high average and low marginal taxes characterized the whole Soviet economy. But Olson's view is inconsistent with almost all of the work in Soviet studies of which I am aware. Sticking with the relatively transparent example of agriculture, peasants hardly had the option to work full-time on private plots if they paid a lump-sum tax. They were expected to spend most of their day working for the collective farm. Only after fulfilling this time-consuming, socially wasteful obligation could they work their private plots. No matter how well a farmer did, moreover, getting extra land was out of the question.<sup>8</sup>

Did the Soviets tolerate these bad results because they did not know how to get better results? Hedrick Smith (1974, 281–84) reviews a number of Soviet agricultural experiments that sharply increased output with better incentives alone. The most notable was the “link” system, which made the pay of small teams of farmers proportional to their harvest. “The theory was simple: If pay depended on results and the work force was organized in small enough units, each individual could see the benefit of producing well, just as on a private plot” (*ibid.*, 281). Productivity skyrocketed, without any help from economic calculation. In one experiment, a “10-man link could triple the yield of tract normally worked at various times by 80 people.” In another, “labor productivity . . . was 20 times higher than on neighboring farms” (*ibid.*, 281–82).

If GS and Olson were right, the Soviet system would have eagerly adopted the link system. They could have raised lump-sum taxes substantially without even starving anyone. Instead, the experiments were closed down. Ivan Khudenko, the brains behind the biggest experiment, was sent to die in prison. As a Soviet journalist explained, “The experiment lasted only for one harvest and then it became clear that if Khudenko was right, the entire agricultural leadership was wrong” (Smith 1974, 283). Once again, the bad incentives of socialist leaders were the foundation for the bad incentives of socialist workers.

As I granted in my original article, the reasons for the failures of socialist industry are less clear-cut than they are for agriculture. But GS's description of real-world socialism as "a system of attenuated personal property and polycentric production decisions" (GS 2005, 188) actually reinforces my emphasis on incentives. If the system was "polycentric," then the incentive problem plainly does not reduce "to that of a master persuading a servant to obey"<sup>9</sup> (ibid., 183). GS immediately add that this system was "guided by feedback and other information that is much inferior to the prices generated in a market economy" (ibid., 188). This glosses over the bad incentives inherent in "attenuated personal property." When managers have some ability to profit from their positions, but lack secure and transferable property rights over the resources they control, there is a strong incentive for inefficient, myopic behavior.

GS ridicule my view that the military sector functioned better than the rest of the Soviet economy.<sup>10</sup> It would take a lot more evidence than they provide to convince me that I am mistaken about this. Amidst many details about the different models of Soviet planes, GS gloss over obvious facts. This poor, backwards country became the second-greatest military power in human history. It defeated the bulk of the forces of Nazi Germany<sup>11</sup> and rapidly became a nuclear superpower (Holloway 1994). In an end note, even GS (2005, 200n19) concede that the Soviet military was fairly impressive before 1970. They point to Afghanistan as proof of Soviet weakness, but neglect to mention that millions of Afghans died at a cost of under 15,000 Soviet lives (Boulouque 1999.) I daresay that Stalin would not have given up so easily.

Last, I would like to defend—with a small reservation—an argument that GS (2005, 195) call "a non sequitur based on a prior non sequitur." Namely, my claim that "if calculation was not in use before the socialist revolution, economic decline after the socialist revolution can hardly be blamed on its absence" (Caplan 2004, 41). Contrary to GS, the first step of my argument clearly implies the second. If neither backward peasant agriculture nor collectivized farms use economic calculation, it logically follows that the lack of economic calculation under collective farming cannot explain why switching to the latter depressed agricultural output. This is basic econometrics: A constant cannot explain variation.

But is the *first* step of my argument correct? GS (2005, 195) object that just because peasants were "unfamiliar with formal cost accounting," that does not mean that they "performed no economic calcula-

tion." GS are on to something: there is a continuum from the "calculation in kind" of a Crusoe or a socialist planner to the elaborate methods of Ernst & Young. But my original point was only slightly overstated. Illiterate Russian and Chinese peasants were *very close* to the "calculation in kind" pole of the continuum.<sup>12</sup> Socialism deprived them of a tool they had *barely* begun to use. Such a small change cannot plausibly explain more than a small fraction of the decline in farm output.

Gonzalez and Stringham have made the most serious attempt thus far to *empirically* argue that lack of calculation, not bad incentives, was the major reason why socialism performed poorly. I regard this as a major advance over previous Austrian literature on economic calculation, most of which begs the question. There is a big difference between predicting disaster and diagnosing it. History vindicated Mises's prediction, but validating his diagnosis takes a lot more work. While GS have not convinced me that Mises was right, they have engaged the right issue.

\* \* \*

I used to think that the topic of economic calculation under socialism was overdone. This exchange has changed my mind. There are many interesting questions left to ask, and a great deal of evidence that still deserves careful study. Once we agree that socialism is possible in theory, and that the relative importance of incentives and economic calculation (and of other forms of information!) is an empirical question, there is much to discuss. For the time being, I am sticking to my position that bad incentives explain most of the problems of socialism. But I am eager to see more evidence either way.

#### NOTES

1. Here is the definition from *Merriam-Webster's Collegiate Dictionary* (1994, 1114):

1: any of various economic and political theories advocating collective or governmental ownership and administration of the means of production and distribution of goods. 2 a: a system of society or group living in which there is no private property. b: a system or condition of society in which the means of production are owned and controlled by the state. 3: a stage of society in Marxist theory transitional between capitalism and communism and distinguished by unequal distribution of goods and pay according to work done.

Boettke (2000, 7–8) claims that his is the “traditional” definition of socialism. Apparently this tradition is a well-kept secret.

2. This fits nicely with the quote from Bukharin: “Just as in an orchestra all the performers watch the conductor’s baton and act accordingly, so here will all consult the statistical reports and will direct their work accordingly” (BL 2005, 165).
3. While Gordon does not make this point, his argument suggests that my empirical strategy might suffer from selection bias. If Soviet planners *randomly* ignored prices on half their projects, then having no prices would be twice as wasteful as the historical reality was. But if, for example, Soviet planners ignored prices on the *least costly* half of their projects, having no prices would be more than twice as wasteful.
4. Late in their paper, GS (2005, 192) recognize that my position is different from the one they ascribe to me elsewhere: “Occasionally, he does describe socialism’s incentive problem in the conventional way, as one of insufficient material incentives for the labor force. But his primary explanation is the assumption that socialist leaders were not interested in better economic results.” Or to be more precise, socialists valued other things—such as ideological purity and political power—more than economic results.
5. GS (2005, 193) incorrectly claim that I accept the “assumption of universal self-interest.” I do believe that a large majority of people are close to narrowly selfish (Caplan 2001). But this in no way rules out the possibility that a tiny minority cares more about ideological purity or power than personal luxury. Stalin, for one, lived rather modestly:

In his last years, he moved into a small wooden house built next to his dacha. . . . The furniture was cheap; the pictures on the walls were printed reproductions. He slept under an army blanket and, apart from his marshal’s uniform, he had no more than a couple of ordinary suits . . . a pair of embroidered felt boots, and a peasant’s sheepskin. (Bullock 1993, 369.)

6. It would, however, take far more evidence to convince me that socialism is impossible.
7. Like BL, GS also produce some evidence that socialism had information problems unrelated to economic calculation. According to GS (2005, 197), for example, Che Guevara “had to admit that the top hierarchy had neither the necessary data nor the analytical capacity to formulate and implement a consistent plan.” This is definitely interesting, but like Lenin, Guevara seems to be complaining that the Cuban government lacks an accurate *inventory* of the nation’s resources.
8. In fact, despite the productivity of the private plots, the Soviet leadership occasionally lashed out at them out of ideological guilt. “Ultimately, the Communist ideal is to have this last embarrassing—but necessary vestige of private enterprise—wither away. . . . Nikita Khrushchev, in spite of rural roots, pursued that end vigorously. . . . He cut the size of private plots to a maxi-

imum of half an acre and made life difficult for the farm market trade” (Smith 1974, 267). The more pragmatic Brezhnev raised the maximum plot size back up to an acre.

9. If real-world socialism was so polycentric, why do GS (2005, 193–94) dismiss the possibility that pork-barrel politics is the reason for the allegedly wasteful duplication in the Soviet military?
10. They are incorrect, however, to claim that the military is my sole example. The passage I cited also mentions the space sector. Other sectors where socialist governments emphasized results and used incentives to get them were the secret police, border guards, athletics, and consumer facilities reserved for Party members.
11. Some argue that the Lend-Lease program deserves a great deal of credit for this victory (Weeks 2004). But on the other hand, Stalin made a few incredible blunders that led the Soviet military to perform well below potential, most notably purging officers in the late 1930s, and ignoring overwhelming intelligence of an impending German attack (Conquest 1991).
12. While we are on the subject of calculation in kind, I must dispute GS’s oversimplified view that “the reason” calculation in kind falters is that capital goods “have alternative uses” (GS 2005, 186). Human time has alternative uses, too. So contrary to GS (ibid.), population growth by itself makes calculation in kind less workable (unless all people are identical and all production exhibits constant returns to scale).

## REFERENCES

- Boettke, Peter, and Peter Leeson. 2005. “Still Impossible After All These Years: Reply to Caplan.” *Critical Review* 17(1–2): 155–70.
- Boettke, Peter. 2000. “Towards a History of the Theory of Socialist Planning.” In idem, ed., *Socialism and the Market: The Socialist Calculation Debate Revisited*, vol. 1. New York: Routledge.
- Boulouque, Sylvain. 1999. “Communism in Afghanistan.” In Stéphane Courtois, et al., eds., *The Black Book of Communism*. Cambridge, Mass.: Harvard University Press.
- Bullock, Alan. 1993. *Hitler and Stalin: Parallel Lives*. New York: Vintage.
- Caplan, Bryan. 2004. “Is Socialism Really ‘Impossible’?” *Critical Review* 16(1): 33–52.
- Caplan, Bryan. 2001. “Libertarianism Against Economism: How Economists Misunderstand Voters and Why Libertarians Should Care.” *Independent Review* 5(4): 539–63.
- Conquest, Robert. 1986. *The Harvest of Sorrow: Soviet Collectivization and the Terror-Famine*. New York: Oxford University Press.
- Conquest, Robert. 1991. *Stalin: Breaker of Nations*. New York: Penguin.
- Gordon, David. 2005. “Calculation, and Chaos: Reply to Caplan.” *Critical Review* 17(1–2): 171–78.

- Gonzalez, Rodolfo, and Edward Stringham. 2005. "Incentives vs. Knowledge: Reply to Caplan." *Critical Review* 17(1-2): 179-202.
- Holloway, David. 1994. *Stalin and the Bomb: The Soviet Union and Atomic Energy 1939-1956*. New Haven: Yale University Press.
- Kuran, Timur. 1995. *Private Truths, Public Lies: The Social Consequences of Preference Falsification*. Cambridge, Mass.: Harvard University Press.
- McGuire, Martin, and Mancur Olson. 1996. "The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force." *Journal of Economic Literature* 34(1): 72-96.
- Malia, Martin. 1994. *The Soviet Tragedy: A History of Socialism in Russia, 1917-1991*. New York: Free Press.
- Merriam-Webster's Collegiate Dictionary, 10th edition*. 1994. Chicago: Britannica Online.
- von Mises, Ludwig. 1966. *Human Action: A Treatise on Economics*. Chicago: Contemporary Books.
- von Mises, Ludwig. [1922] 1981. *Socialism: An Economic and Sociological Analysis*. Indianapolis: Liberty Press.
- Pinker, Steven. 2002. *The Blank Slate: The Modern Denial of Human Nature*. New York: Viking.
- Pipes, Richard. 1994. *Russia Under the Bolshevik Regime*. New York: Vintage.
- Pipes, Richard. 1990. *The Russian Revolution*. New York: Vintage.
- Salisbury, Harrison. 1992. *The New Emperors: China in the Era of Mao and Deng*. New York: Avon.
- Smith, Hedrick. 1974. *The Russians*. New York: Ballantine.
- Tullock, Gordon. 1967. "The Welfare Cost of Tariffs, Monopoly, and Theft." *Western Economic Journal* 5: 224-32.
- Weeks, Albert. 2004. *Russia's Life-Saver: Lend-Lease Aid to the U.S.S.R. in World War II*. New York: Lexington.