

THE THEORETICAL PROBLEMS OF SOCIALISM

It has become general practice to criticize the deformed, barracklike, leveled-off socialism built in the thirties. But this criticism painstakingly passes over the structural reasons why socialism was barracklike. And it shies away from the key question of whether we can feasibly build nonbarrack, democratic socialism on a noncommodity, nonmarket foundation. This is really the million-dollar question, both for those who think about the future and for those who try to understand the past. Why has the antimarket and fiscal commodity relationship campaign in all cases, without any exception, in all countries . . . always entailed autocracy, infringement on human rights and personal dignity, and omnipotence of administration and the bureaucracy? . . . Why have all known historical attempts to eliminate free circulation and the producer's economic autonomy, ours included, ended in failure that ultimately urged a retreat?

Alexander Tsipko¹

INTRODUCTION

Without doubt the twentieth century has been the age of socialism. The socialist idea promised a social order that was both more productive and moral than the capitalist system. 'Whatever our view of its utility or its practicability,' Ludwig von Mises wrote, 'it must be admitted that the idea of Socialism is at once grandiose and simple. Even its most determined opponents will not be able to deny it a detailed examination. We may say, in fact, that it is one of the most ambitious creations of the human spirit. The attempt to erect society

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on a new basis while breaking with all traditional forms of social organization, to conceive a new world plan and foresee the form which all human affairs must assume in the future – this is so magnificent, so daring, that it has rightly aroused the greatest of admiration."²

Socialist governments were established throughout Europe, Asia, Latin America, Africa and elsewhere. In fact, the entire world experienced socialism to some degree or another. Yet the empirical reality of the system, wherever and whenever it has been implemented, was political and economic ruin. Despite the fact that the idea of a socialist order captivated many of the brightest minds and some of the most idealistic hearts it has been responsible for some of the most horrible crimes of this or any century.

Socialism's failure was not due to half-hearted attempts or lack of political will on the part of its adherents. Nor did the system fail to produce humane results because of a poor choice of leaders or historical accident.³ The problem lies within the idea of the social system itself. But this conclusion is one that does not go down easily with the idealist who dreams of the more rational and moral universe that socialism promised.

The paradox of socialism – that a system inspired by a desire to provide a more humane existence could result in mass oppression and economic deprivation – is a theoretical puzzle. Why, as Soviet philosopher Alexander Tsipko asks, have all known historical attempts at socialism failed so miserably?⁴

THE IDEA OF SOCIALISM

Socialism simply means a social system of production based on public ownership as opposed to private ownership. The idea has a history that goes back much further than the nineteenth century and Karl Marx. Marx, however, is a useful spokesman because he systematized socialist thought.⁵

It is commonplace to argue, though, that Marx's analysis was confined to a critique of capitalism and did not really address the nature of socialism. This assertion misses a fundamental point about Marx. No doubt Marx did not wish to write 'recipes for the cookshops of the future,' but his reluctance to provide blueprints had more merit to it than is usually understood. He was not avoiding the problem of examining socialist society, but advocating a particular method to social theory.

Marx in this fashion moved beyond the utopian socialists. He did

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not criticize the utopians for examining the future socialist society, but rather for the way in which they conducted their examination, and for their incoherent and contradictory descriptions. Scientific socialism was not simply Marx's excuse for avoiding any detailed or blueprint description of the future socialist society. Rather, it reflected Marx's advocacy of a particular method, i.e., dialectical criticism, to such an examination. Socialism was to be described through the systematic critique of capitalism. The critical examination of capitalism and the development of a positive theory of socialism were seen as two aspects of the same social theory project. Marx sought to conduct a critique of capitalist society that would as a by-product reveal the main features of the future socialist society.⁶

Contrary to received wisdom, therefore, implicit in Marx's work is a coherent and consistent view of socialism. Socialism is what capitalism is not. Whereas capitalism is a chaotic and anarchistic method of production, socialism would be orderly and rational. Production for direct use, rather than production for exchange (and profit) on the market, would become the overriding organizational principle of economic life under socialism. And the corresponding contradictions of capitalism would be overcome.

As Marx argued in *Capital*, "The life-process of society which is based on the process of material production, does not strip off its mystical veil until it is treated as production by freely associated men, and is consciously regulated by them in accordance with a settled plan."⁷ The abolition of private property in the means of production and the substitution of a settled plan for the market would result, according to Marx, in rationalizing economic life and transcending man's alienated social existence. Marx's economic project promised emancipation from alienation and exploitation through rationalization of the social forces of production.

Modern socialism, despite moral posturing, still clings to the rationalization project. Alan Ryan, for example, has argued that

No matter what the actual follies of Soviet attempts at central planning, and no matter what the theoretical difficulties of gathering the sort of information that a planned economy needs, the ideal of replacing social accident by social reason is anything but absurd.

What is sought, according to Ryan, is a social system of production in which there is 'room for growth and imagination but in which we

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might get more of the answers right *before* trying them in the market place."⁸

The organizational form the rationalization project takes can be of various types. Workers' self-management as well as the extreme administrative command planning system attempts to pursue the rationalization of economic life.⁹ Production for use, not exchange, is the only organizational rule for socialist rationalization. The logic of complete rationalization demands the liquidation of market forces in total.

Market socialism is simply incoherent from the point of view of rationalization because at least some degree of the plan coordination necessary for social production will rely on the anarchistic operation of the market.¹⁰ Market coordination cannot operate effectively in environments of public ownership, instead bureaucratic coordination takes over. This is the conclusion of both theoretical and empirical investigations of alternative economic systems of production that many leading economists have now reached. 'The basic idea of market socialism,' Janos Kornai states, has 'fizzled out.' The history of Yugoslavia, Hungary, China, the Soviet Union and Poland 'bear witness to its fiasco.' An examination of the facts, Kornai concludes, suggests that it is time to 'abandon the principle of market socialism.'

A consistent definition of socialism, therefore, is a social system of production based on public ownership of resources and coordinated through a planning system of some sort or another. There are fundamental theoretical problems that this system confronts. There are problems of the mobilization and utilization of diffuse knowledge within the economic system to coordinate plans and there are the problems of political organization and incentives. These problems thwart attempts to realize the socialist goal of a more productive and humane society.

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While several thinkers had previously dealt with the problem of incentives with collective ownership and the political problems of strong central control, Ludwig von Mises was the first theorist to address the problem that the socialist system confronts in mobilizing the 'intellectual division of labor' that exists within an advanced industrial society.¹² Mises's argued that a full understanding of the problem of utilizing the division of knowledge within society was

made possible only with the further developments of economic theory which arose out of the subjectivist revolution of the late nineteenth century. 'To understand the problem of economic calculation,' Mises wrote, 'it was necessary to recognize the true character of the exchange relations expressed in the prices of the market. The existence of this important problem could be revealed only by the methods of the modern subjective theory of value.'¹³ The exchange ratios established on the market, according to Mises, were the result of a process that was 'anchored deep in the human mind.'¹⁴

The freely established exchange ratios on the market, while certainly not perfect conveyors of information, nevertheless serve as 'a guide amid the bewildering throng of economic possibilities.' The money prices formed in the market, by translating the subjective assessment of trade-offs by some into effective knowledge for others, provide the social context within which individuals make economic decisions. Absent this context and individuals are left groping in a deep fog. Monetary calculation, despite its imperfect character, and profit and loss accounting separate out from among all those technologically possible projects those which are economically feasible from those which are not. Monetary calculation provides all that practical life demands. 'Without it, all production by lengthy and roundabout processes of production would be so many steps in the dark.'¹⁵ With the growing division of labor and the lengthening of the process of production that accompanied advanced industrial development, Mises argued, monetary calculation had become 'an aid that the human mind is no longer able to dispense with.'¹⁶

Without any means of economic calculation, socialism was doomed to economic irrationality. Mises argued that the universal call by socialists for the abolition of private property in the means of production sealed the fate of their proposal for social betterment. Without private property in the means of production, Mises argued, there could not be any market for the means of production. Without a market for the means of production, money prices for capital goods could not be established. And, without money prices reflecting the relative scarcity of capital goods, there would be no guide or signal available to individuals to aid them in assessing whether investment projects were allocating resources in a profitable manner or not. Economic calculation would be absent from such a situation, and without this component in the process of social appraisal the rational allocation of scarce resources would be an impossibility.

In addition to the problem of economic calculation, however, Mises

also restated the problem of organization and incentives. Previous attempts to tackle the problem had been 'deplorably inadequate.' The attempted solution was always couched in terms of a 'better selection of persons.' 'It has not been realized,' Mises argued, 'that even exceptionally gifted men of high character cannot solve the problems created by the socialist control of industry.'¹⁷ The problem is not that humanity has not been able to live up to the moral imperatives of socialist organization. Rather, it is socialist organization that does not live up to the demands of humanity and delivers man into an irrational political and economic existence. 'The problems with which we are concerned do not arise from the moral shortcomings of humanity,' Mises states. 'They are problems of the logic of will and action which must arise at all times and in all places.'¹⁸

To sum up, Mises's argument concerning the fundamental problems of socialist organization was that without private ownership in the means of production, there can be no market for the means of production. Without a market for the means of production, there can be no money prices for the means of production. Without money prices reflecting the relative scarcities of capital goods, there would be no signal to guide economic actors about alternative uses of resources. And, without a signalling device, rational economic calculation would be impossible. In other words, without the freely established exchange ratios of the market to guide economic actors, there would be no effective way to appraise the relative economic merit of the numerous array of technologically feasible production projects that lay before the economic planners. Technological information is one thing, the economic problem of the effective use of resources is quite another. Whereas the price system translates the subjective assessment of trade-offs by some into effective knowledge for others, socialism possesses no similar procedure. Without the ability to appraise the alternative use of scarce resources, economic decision-makers will not only squander scarce resources, but they will receive neither the information nor possess an incentive to correct the faulty pattern of resource use. As a result, persistent error will be structurally imbedded in the social system.

These Misesian insights into the fundamental problems facing the political economy of socialism received increased theoretical attention in the work of several scholars in the Austrian and Public Choice schools of economics. F. A. Hayek, perhaps more than any other figure, has contributed to our understanding of the epistemological (or knowledge) and political problems that socialism confronts.

Socialism is logically impossible, Hayek argues, because of the social system's inability to access the requisite economic knowledge for economic coordination.¹⁹

Nevertheless, economic planners once in power must find some rationale upon which to base their decisions, and since economic rationales are out of the question, decisions will be based instead upon political rationales. As a result, those who have a comparative advantage in the political game, and in exercising discretionary power, will rise to the top of the planning apparatus. This is, as Hayek showed in *The Road to Serfdom*, the basis for the totalitarian tendency within socialist economies.²⁰

The Mises-Hayek knowledge and political problems are interconnected. The bureaucratic planner, necessarily ignorant of the privately held assessment of trade-offs that economic actors possess, cannot obtain the economic knowledge necessary to accomplish the task he sets before himself and must, therefore, base his decisions upon the information readily available, i.e., political rationales. The epistemological problem suggests that no proponent of planning can access the knowledge necessary to plan comprehensively, or interfere optimally with, advanced industrial economic activity. The political problem constitutes a warning that since the use for any particular use of the planning power lies beyond the capacity of human reason to establish, that power will instead be wielded in response to political clout rather than careful debate.²¹

It is these theoretical difficulties that the socialist organization of society must confront which render it completely impracticable. The problems with socialist planning consist of four (conceptually separate, but logically connected) arguments: (1) property rights and incentive problems, (2) problems of informational and computational complexity, (3) epistemological problems and (4) political organization problems. Each leads logically to the next one. Perhaps by examining each in isolation, and in a little more depth, the Mises-Hayek critique can be more fully appreciated.

Socialist managers do not face the same incentives as capitalist managers do to insure efficient allocation of resources. Public ownership produces a situation where since everyone owns everything nobody owns anything. As a result property is not cared for and resources are wasted. The incentive problems associated with collective ownership is one of the oldest arguments in intellectual history. Aristotle, for example, employed this argument against the communism of Plato's *Republic*.²²

Even if we assume that this incentive problem is overcome, say by postulating the evolution of socialist man, the task of collecting and processing the necessary information for the coordination of plans presents us with a new difficulty. If the socialist planner could gather the information required to insure the efficient allocation and use of resources, the amount of information necessary to complete the task in a reasonably efficient manner would be too vast and the computations too complex.

Vilfredo Pareto recognized this complexity point with regard to the mathematical system of general equilibrium. The solution of the system of simultaneous equations cannot, and should not, be taken as a numerical calculation of the prices that would coordinate the economic system. Let us assume, Pareto stated, that 'we have overcome all the difficulties in the way of acquiring knowledge of the data of the problem, and that we know the ophelimities of all the goods for each individual, all the particulars pertaining to the production of goods, etc.' Even with this 'absurd hypothesis,' he argued, we are still not provided 'with the practical possibility of solving the problem.' Take an example of an economy of 100 individuals and 700 goods. The coordination of such a small economy would require us to 'solve a system of 70,600 equations.' A task, Pareto pointed out, that 'is beyond the power of algebraic analysis, and it would be still further beyond it if we considered the fabulous number of equations which a population of forty million individuals, and several thousand goods would entail.' The only means for solving such a vast system of equations, Pareto concluded, 'would be to observe the actual solution which the market gives.'²³

But beyond the problem of informational and computational complexity lies a deeper epistemological problem that socialist planners must overcome. Assume that a modern supercomputer can solve any system of equations presented in a matter of seconds.²⁴ Even with this assumption granted, socialist planning confronts an insurmountable difficulty. The relevant economic knowledge for decision-making is *contextual* knowledge and not abstract data of the kind that could be fed into a computer. Economic circumstances change daily, and information gathered yesterday may not be relevant for tomorrow. Appraisalment of such information is only possible within the context of the competitive market process. Moreover, much of the knowledge that is essential for the social appraisalment process cannot be treated as data since it largely consists of tacit, or inarticulate, knowledge. Judgement, expectation, conjecture and

perception are just some of the crucial aspects of economic decisions that lie beyond full articulation. Furthermore, this aspect of economic decision-making cannot be divorced from the competitive struggle for profit.²⁵ Absent the process of competition and the establishment of monetary prices, the subjective assessment of alternative uses of resources by some agents cannot be conveyed as effective knowledge to others. As a result, rational economic calculation will be hindered to the point of non-existence.

Finally, the nature of economic planning confronts us with a political problem of great proportions. To engage in socialist economic planning, certain institutional structures have to be established and discretionary power has to be turned over to someone or some group.

For the moment let us put aside the problems that time dimensionality presents to discretionary planning,²⁶ and simply examine the logic of discretionary control. We cannot model policy-makers as benevolent despots and make sense of the world. Rather, economists must view political actors in the same manner as they view economic actors – as self-interested individuals.²⁷ In planning environments this argument is intensified, for now the very institutions of political control require the concentration of power in the hands of a few individuals.²⁸ We should expect that those individuals with a comparative advantage in exercising discretionary power will rise to the top of the planning apparatus. Unfortunately, skill in exercising discretionary power is not usually a character trait of the fair and open minded. An evolutionary process of survival insures that only those with such political skills will emerge from the process of competitive struggle for power. Totalitarianism is the logical, though unintended, consequence of establishing the political institutions of socialist planning.

CONCLUSION

The theoretical problems that socialist planning confronts prevents that ideological system from realizing its ends. The means of collective ownership and economic planning are ineffective in obtaining the end of a more productive and moral universe. The unintended by-product of pursuing the socialist ends with the means of collective ownership and economic planning has proven time and time again to lead to economic deprivation and political repression. The expected rationalization of the social system is defeated by the realization of

political and economic irrationality. Socialism, as understood historically, simply possesses no weapons to combat the organizational difficulties presented by property rights and incentives, computational complexity, the underlying epistemics of economic coordination and political control.

On the other hand, capitalism does possess weapons to combat at least three of the problems. Private property rights have the effect of mobilizing individuals to husband resources effectively. The price system by reducing information concerning the relative scarcities of resources to a monetary price economizes on the amount of information that economic actors must process in making decisions. In addition, the price system through the incentives of profit and loss mobilizes individuals to discover new ways of arranging or rearranging means to obtain ends. In other words, the interaction between *ex ante* expectations and *ex post* realization in the market process motivates individuals to learn how better to pursue their ends. The ability of the entrepreneurial process of competitive markets to reveal error and motivate learning is perhaps its most significant weapon in combating the epistemic problem of economic coordination.

But, real existing capitalism in Western Europe or the United States, however, has not found a way to insulate its operations from the political demands of democratic politics, and the corresponding effects of rent-seeking behavior.²⁹ Thus, despite the relative economic success of Western democracies they do not represent an ideal model for the formerly communist countries of East and Central Europe and the Soviet Union.

The more immediate problem, however, is how do we understand real existing socialist economies, and specifically the former Soviet Union? I have argued that socialism, understood as a system of collective ownership and economic planning, is organizationally incoherent and operationally impossible. Real existing socialism, while a consequence of attempting to pursue the ideals of socialism, has little in common with the textbook depiction of it. In order to understand the forces that have come to bear on the reform efforts it is important to understand how the system really works and not how it might work if we could assume away all the problems mentioned above.

A sound understanding of the Soviet system, both in its historical operation and at the present time of reform, is only possible when both the economic and political problems confronting socialism, and their intersection, are understood and appreciated. As F. A. Hayek

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wrote several years ago in the foreword to Boris Brutzkus's *Economic Planning in Soviet Russia*:

Even the most careful study of the Russian facts cannot lead very far if it is not guided by a clear conception of what the problem is, i.e., if it is not undertaken by a person who, before he embarks on the investigation of the special problems of Russia, has arrived at a clear idea of the fundamental task that economic planning involves.³⁰

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THE NATURE OF THE SOVIET-TYPE SYSTEM

The modern world could no more get along without accumulated capital than it could get along without police or paved streets. The greatest change imaginable is simply the change that has occurred in Russia – a transfer of capital from private owners to professional politicians.

H. L. Mencken¹

INTRODUCTION

If the argument presented in the last chapter that socialism is not only an inefficient form of economic organization, but literally impossible is correct, then we are presented with an immediate conceptual difficulty in analyzing the history of socialist practice. If the Soviet-type economy was not actually an example of socialist central planning – because that social system is an impossibility – then what was it?

This question has rarely been asked by either proponents or opponents of socialism. Among proponents of socialism, as well as traditional comparative systems analysts, the question is not raised because socialist central planning is assumed to be possible (and perhaps desirable). Even though Marxist critics of the Soviet Union have challenged the conceptualization of the Soviet Union as centrally planned, they do so from the perspective that this is evidence of a perversion of socialism by Stalin.² The workers' revolution was thwarted by bureaucratic intrigue, and the forces of state capitalism. On the other hand, traditional comparative systems analysis (whether conducted by a proponent or opponent of socialism) argues that the conceptualization of the Soviet Union as centrally planned was essentially correct.³

NOTES

- 97 See Ed Hewett and Richard Hornik, 'Hurry, doctor,' *Time* (7 May 1990): 81-2, for a criticism of Gorbachev's decision to back off from radical reform in the spring of 1990.
- 98 Abel Aganbegyan, *Inside Perestroika* (New York: Harper & Row, 1989).
- 99 See *The Current Digest of the Soviet Press*, 41 (40) (1 November 1989).
- 100 See Alfred Kahn and Merton Peck, 'Price deregulation, corporatization, competition,' in Merton Peck and Thomas Richardson (eds) *What Is To Be Done?*, p. 43 (see Note 32).
- 101 See Goldman, *What Went Wrong with Perestroika*, p. 110 (see Note 83). The adverse reputational effect of Gorbachev's indecision and inconsistency will be discussed at length in Chapter 6.
- 102 See Padma Desai, *Perestroika in Perspective* (Princeton: Princeton University Press, 1989), p. 53.
- 103 This argument is more fully developed in Gary Anderson and Peter Boettke, 'Perestroika and public choice: the economics of autocratic succession in a rent-seeking society,' *Public Choice* (1992), forthcoming.
- 104 See William Odom, 'How far can economic and social change go in the Soviet Union?,' in Ronald Liebowitz (ed.) *Gorbachev's New Thinking* (Cambridge, MA: Ballinger Publishing, 1988), p. 86.
- 105 See Marjorie Brady, 'The Fascist element in perestroika,' *The Wall Street Journal* (31 October 1989).
- 106 *Izvestia* (17 October 1990), for example, reported that with an official poverty line set at 78 roubles/month, 40 million lived in poverty. If the poverty line was raised to 100 roubles/month, it estimated that the figure would be 70.9 million.
- 107 Yuri Maitsev, foreword, in Peter Boettke, *The Political Economy of Soviet Socialism: The Formative Years, 1918-1928* (Boston: Kluwer, 1990).
- 108 See F. A. Lutz, 'The German currency reform and the revival of the German economy,' *Economica*, 16 (May 1949): 122-42; Henry Wallich, *Mainsprings of the German Revival* (New Haven, CT: Yale University Press, 1955) and Egon Sohmen, 'Competition and growth: the lesson of West Germany,' *American Economic Review* (1959): 986-1003. An interesting note, however, is that the majority of the economics profession viewed the Erhard reforms with great caution. See, for example, Horst Mendershausen, 'Prices, money and the distribution of goods in postwar Germany,' *American Economic Review*, 39 (June 1949): 646-72, and Walter Heller, 'The role of fiscal-monetary policy in German economic recovery,' *American Economic Review*, 40 (May 1950): 531-47. Also see the discussion in T. W. Hutchison, *The Politics and Philosophy of Economics* (New York: New York University Press, 1981): 155-75.
- 109 Alvin Rabushka, *The New China* (Boulder, CO: Westview Press, 1987).
- 110 Hernando DeSoto, *The Other Path* (New York: Harper & Row, 1989).
- 111 See Walter Laqueur, *The Long Road to Freedom* (New York: Charles Scribner's, 1989), p. 203.
- 112 As quoted in Hedrick Smith, *The New Russians* (New York: Random House, 1990), p. 185.

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- 1 Alexander Tsipko, *Is Stalinism Really Dead?* (New York: Harper Collins 1990), p. 12.
- 2 Ludwig von Mises, *Socialism* (Indianapolis: Liberty Classics, 1981(1922)) p. 41.
- 3 Mikhail Gorbachev, for example, has even recently reiterated the standard socialist and Western Marxist argument that the Soviet collapse had nothing to do with socialist ideas, but rather represented the collapse of Stalinism. See Gorbachev, 'No time for stereotypes,' *New York Times* (24 February 1992): A19. On the intellectual staying power of Marxism in the face of recent events see Henry F. Myers, 'Das Kapital, his statues topple, his shadow persists: Marx can't be ignored,' *The Wall Street Journal* (25 November 1991): A1 and A4.
- 4 Tsipko, *Is Stalinism Really Dead?*, p. 12 (see Note 1).
- 5 For an extensive history of Marxism see Leszek Zolakowski, *Main Currents of Marxism*, 3 vols (New York: Oxford University Press, 1985(1978)). On Marx's project see Andrzej Walicki, 'Karl Marx as philosopher of freedom,' *Critical Review*, 2 (4) (Fall 1988): 10-58.
- 6 See Don Lavoie, *Rivalry and Central Planning* (New York: Cambridge University Press, 1985), pp. 29-30.
- 7 Karl Marx, *Capital* (New York: Modern Library, 1906(1867)), p. 92.
- 8 Alan Ryan, 'Socialism for the nineties,' *Dissent* (Fall 1990): 441-2, (emphasis added).
- 9 David L. Prychitko has argued that the organizational logic of even the most decentralized and democratic socialism leads to centralization during the process of resolving the conflict of alternative requests for resource use. See Prychitko, 'Marxism and decentralized socialism,' *Critical Review*, 2 (4) (Fall 1988). Also see Prychitko, *Marxism and Workers' Self-Management: the Essential Tension* (Westport, CT: Greenwood Press, 1991), pp. 83-100.
- 10 For this reason it has been forcefully argued that the Lange-Lerner theoretical system did not provide an answer to Mises's critique of socialism. See Paul Craig Roberts, 'Oskar Lange's theory of socialist planning,' *Journal of Political Economy*, 79 (3) (May/June 1971): 562-77; Karen Vaughn, 'Economic calculation under socialism: the Austrian contribution,' *Economic Inquiry*, 18 (1980): 535-54; Peter Murrell, 'Did the theory of market socialism answer the challenge of Ludwig von Mises?,' *History of Political Economy*, 15 (1) (Spring 1983): 92-105; and Lavoie, *Rivalry and Central Planning*. Also see Larissa Popkova-Pijasheva, 'Why is the Plan incompatible with the market?,' *Annals*, 507 (January 1990): 80-90, and Anthony deJasay, *Market Socialism* (London: IEA, 1990), for criticisms of the logical coherence of market socialism.
- 11 Kornai, *The Road to a Free Economy* (New York: Norton, 1990), p. 58.
- 12 Adam Smith did possess a germ of the argument when he stated that:

What is species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident can, in his local situation, judge much better

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than any statesman, or lawgiver can do for him. The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

See *The Wealth of Nations* (New York: Modern Library, 1937), p. 423. Also see his discussion of how the coordination of the number of individuals that must act in concert with one another even to produce common products 'exceeds all computation' (Ibid., p. 11).

- 13 Mises, *Socialism*, p. 186 (see Note 2).
- 14 Mises, *The Theory of Money and Credit* (Indianapolis: Liberty Classics, 1980(1912)), p. 153.
- 15 Mises, *Socialism*, p. 101 (see Note 2).
- 16 Mises, *The Theory of Money and Credit*, p. 62 (see Note 14).
- 17 Mises, *Socialism*, p. 187 (see Note 2).
- 18 Mises, *Socialism*, p. 191 (see Note 2).
- 19 See F. A. Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1980(1948)) for his classic papers on this issue, and *The Fatal Conceit* (Chicago: University of Chicago Press, 1988) for his most recent statement on the issue.
- 20 Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1976(1944)), pp. 134-57.
- 21 Don Lavoie, *National Economic Planning: What is Left?* (Cambridge, MA: Ballinger Publishing, 1985), p. 201.
- 22 Aristotle, *The Politics*, Stephen Everson (ed.) (New York: Cambridge University Press, 1988), p. 26. Also see Svetozar Pejovich, *The Economics of Property Rights: Towards a Theory of Comparative Systems* (Boston: Kluwer, 1990).
- 23 V. Pareto, *Manual of Political Economy* (New York: Augustus M. Kelley, 1971(1927)), p. 171. Also see Michael Polanyi, 'The span of central control,' in *The Logic of Liberty* (Chicago: University of Chicago Press, 1980(1951)), p. 111, where he argues that:

I affirm that the central planning of production – in the rigorous and historically not unwarranted sense of the term – is strictly impossible; the reason being that the number of relations requiring adjustment per unit of time for the functioning of an economic system of n productive units is n -times greater than can be adjusted by subordinating the units to a central authority.

- 24 This was basically Oskar Lange's last argument in the calculation debate. As he wrote:

Were I to rewrite my essay today, my task would be much simpler. My answer to Hayek and Robbins would be: so what's the trouble? Let us put the simultaneous equations on an electronic computer and

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we shall obtain the solution in less than a second. The market process with its cumbersome ratiocinations appears old-fashioned. Indeed, it may be considered as a computing device of the pre-electronic age.

See Lange, 'The computer and the market,' in C. H. Feinstein (ed.) *Socialism, Capitalism and Economic Growth: Essays Presented to Maurice Dobb* (New York: Cambridge University Press, 1967), p. 158. See Don Lavoie, 'Computation, incentives, and discovery: the cognitive function of markets in market socialism,' *Annals*, 507 (January 1990), pp. 72-9, for a rebuttal of Lange's argument.

- 25 As Mises pointed out: 'The attributes of the business man cannot be divorced from the position of the entrepreneur in the capitalist order. . . . An entrepreneur deprived of his characteristic role in economic life ceases to be a business man. However much experience and routine he may bring to his new task he will still only be an official in it.' (Refer *Socialism*, pp. 190-1, see Note 2.)
- 26 The problems of time inconsistency and credible commitments will be addressed in Chapter 6.
- 27 This does not mean that economists must model political actors as *homo economicus* or wealth maximizing agents. Rather, a loose form of self-interest and rationality is all that is needed to discuss the logic of the situation. Agents have ends and they arrange their means to attain those ends. The ends could include ideological pursuits, high ideals or monetary reward. What matters for economic analysis is the implications for the analysis of market and political processes that follow from viewing individuals as purposive actors. In addition, this position also aids policy debate because the economist can treat ends as given and simply examine whether the means chosen to attain the end were effective or not. Such a position of value freedom may prove helpful in overcoming conflicts of ultimate values in analyzing alternative policies.
- 28 Not only is there a logic behind the totalitarian tendency of socialist planning, David Levy has also raised an interesting question concerning the socialist planners' incentives in setting 'prices' to allocate scarce resources. 'If the central planner,' Levy argues, 'has the legal right both to set prices, and to allocate whatever shortages might exist from time to time, then perhaps the rational economic planner will set prices below market clearing.' In other words, the centrally planned price will be a biased estimator of the value of the marginal product of any resource for the simple reason that since the wealth created by planners can be appropriated by planners we should expect them to set the official price below the market clearing level and artificially restrict output – in effect, raising the implicit price to the monopoly level and reaping the scarcity rent. See Levy, 'The bias in centrally planned prices,' *Public Choice*, 67 (3) (December 1990), pp. 216-17.
- 29 Very interesting discussions of the growth of government intervention and its effect on the US political economy can be found in Robert Higgs, *Crisis and Leviathan* (New York: Oxford University Press, 1987) and Richard Wagner, *To Promote the General Welfare* (San Francisco: Pacific Institute, 1989).
- 30 Hayek, 'Foreword,' in Boris Brutzkus, *Economic Planning in Soviet Russia* (Westport, CT: Hyperion Press, 1981(1935)), pp. viii-ix.