

Reckoning with Mises

Bjorn Westergard

Have you heard of the “socialist calculation debate”? There are dozens of popular summaries of it, often expressly written to vindicate the doctrines of one political tendency or another. If you read a few of these, you will quickly notice they tend to repeat one of three stories about the debate:

1. Austrian economists like Mises and Hayek foresaw the problems a socialist society would encounter. In a few short years, the Soviet Union and its imitators in fact encountered precisely these problems. Despite this confirmation of the essentially validity of the Austrian perspective, many today persist in pursuing socialism (or policies tantamount to socialism) out of ignorance¹.
2. Late nineteenth and early twentieth century Marxist theorists had an interesting critiques of capitalist society, but no institutional blueprint to guide socialist construction. Austrian economists came along and pointed this embarrassing fact out, at which point it fell to economists of a neoclassical bent and progressive sympathies (like Lange, Lerner, and Taylor) to fill in this gap. They showed, in varying ways, that the conceptual resources of neoclassical economics are not only useful for analyzing any society regardless of its characteristic forms of property, culture, etc. but can be drawn upon to devise planning institutions for socialism. Socialism was and remains entirely possible in principle. Economists cannot claim any special authority in evaluating its desirability.²
3. Austrian economists argued that only capitalist institutions could support rational economic decision making through the price mechanism. Neoclassical economists (e.g. Lange, Lerner, Taylor) showed that this was not the case, and that with the right kind of institutional design, prices could be discovered that were at least as good, if not better, than those arising in

¹See, for example: Why Socialism Is Impossible by Dr. Richard M. Ebeling, the “BB&T Distinguished Professor of Ethics and Free Enterprise Leadership” at The Citadel.

²The original version of this story can be found in Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy*, 1st ed (1942; repr., Harper Perennial Modern Thought, 2008), Chapter XVI, “The Socialist Blueprint”, p. 172. Schumpeter’s view of the debate seems to be one of the most popular. For more on Schumpeter’s complicated relationship with the Austrian school, see Edward Chancellor, “The Long Shadow of the Austrian School,” May 14, 2020, <https://www.nybooks.com/articles/2020/05/14/friedrich-hayek-long-shadow-austrian-school/>.

contemporary capitalism. Austrians rightly pointed out that such planning bodies would have to gather and process immense amounts of information, which was a practical impossibility in the twenties and thirties. But thanks to twenty-first century information technologies, socialism has become a practical possibility.³

These stories about the debate substantially contradict one another, and cannot all be accurate. At best they neglect interesting arguments⁴.

Rather than immediately add my own “take” to the pile, I’d like to use this series of blog posts to do a close reading of the primary texts of the debate⁵ in the order they were published.

The obvious place to start is Ludwig von Mises’ 1920 essay, *Die Wirtschaftsrechnung im sozialistischen Gemeinwesen*⁶, which is agreed by all commentators to be the start of the debate as it we know it today.

The title is generally translated as “Economic Calculation in the Socialist Commonwealth”, but “Wirtschaftsrechnung” might just as well be translated as “economic reckoning”. This is supported by the shared etymology of “rechnung” and “reckon”, but I also prefer it because “reckoning”, unlike “calculation”, seems more inclusive of the humdrum, ad hoc, non-expert, a relatively atheoretical kinds of quantitative reasoning that Mises often seems to have in mind (e.g. the “reckoning” of a farmer deciding whether to replace a tractor).

In this post, I’ll summarize the essay and provide a bit of context. I’ll refrain from discussing anticipations of Mises’ arguments by other writers, his later work, or critical responses. I hope to discuss each of these topics in future posts.

Historical context

First, a note on the context in which Mises wrote.

³A recent version of this story intended for a general audience can be found in Leigh Phillips and Michal Rozworski, *The People’s Republic of Walmart: How the World’s Biggest Corporations Are Laying the Foundation for Socialism* (Verso, 2019). I’ve written a review of that book for this blog. A very sophisticated version can be found in Allin Cottrell and W. Paul Cockshott, “Calculation, Complexity and Planning: The Socialist Calculation Debate Once Again,” *Review of Political Economy* 5, no. 1 (January 1993): 73–112, <https://doi.org/10.1080/095382593000000005>. This view of the debate informed Cockshott and Cottrell’s detailed proposal for a “cybernetic” socialist planning mechanism, described in W. Paul Cockshott and Allin Cottrell, *Towards a New Socialism* (Spokesman, 1993), http://ricardo.ecn.wfu.edu/~cottrell/socialism_book/.

⁴The account of the debate which I find most compelling is John O’Neill, *The Market: Ethics, Knowledge, and Politics*, Economics as Social Theory (Routledge, 1998), Chapter 9. For an earlier formulation, see John O’Neill, “Who Won the Socialist Calculation Debate?” *History of Political Thought* 17, no. 3 (1996): 431–42, <https://www.jstor.org/stable/26217104>.

⁵I’m using “debate” in the singular here, but one of the many points of contention about this literature is whether and how to periodize it.

⁶Ludwig von Mises, “Die Wirtschaftsrechnung Im Sozialistischen Gemeinwesen,” trans. Harald Anderson, *Archiv Für Sozialwissenschaft Und Sozialpolitik* 47, no. 1 (1920): 86–121, <https://papers.ssrn.com/abstract=2039501>.

A little over a century ago, the first world war triggered a working class rebellion. For decades, socialist, communist, and anarchist workers across globe had been organizing to free themselves from the domination of the owning classes and their political representatives. It appeared they might be on the cusp of doing so in Germany and Russia.

A minority among these militants called for the immediate expropriation of the fields, factories, and workshops by democratically elected councils of workers, soldiers, and sailors. It appeared for a fleeting moment that this tendency would achieve a breakthrough in Germany, as many had predicted. But those hopes fizzled as the German uprisings were suppressed and the ill-fated Weimar Republic was founded with the backing of socialists committed to a more gradual path away from capitalism.

Instead, the breakthrough came under Bolshevik leadership in Russia in October of 1917. Contrary to all expectations, the Bolsheviks prevailed in the ruinous civil war that followed and went on to found the Union of Soviet Socialist Republics in 1921. “soviet” being the Russian term for “[worker] council”, this was the first state nominally committed to the principle that the mass of working people could not only democratically govern their places of work, but the entire “economic” apparatus of their society. Many politically conscious workers and professional intellectuals the world over viewed the Soviet experiment sympathetically, as an extension of their own political projects⁷. Mises felt socialism was on the rise⁸:

In an age in which we are getting nearer and nearer to socialism, and even in a certain sense are already there, research into the problems of the socialist economy acquires added importance for explaining what is going on around us. Analyses of the exchange economy no longer suffice for understanding economic developments in Germany and its eastern neighbors today. Our task here is to discuss elements of a socialist commonwealth with a considerably wide scope. Under these circumstances, an attempt to explain the nature of socialist society needs no special justification.

Mises’ intervention

In 1920, it was not hard to find journalists, politicians, and religious leaders who were decrying Bolshevik efforts to abolish private property in the means of production as profoundly unjust.

For Mises, to leave the argument there was to miss a more fundamental issue. In his view, the radical workers’ program wasn’t *just* ethically objectionable and fraught with practical difficulties. It was incoherent, a wish born of deep confusion about how capitalist societies managed to deliver the goods. To abolish

⁷See, e.g., Philip Sheldon Foner, *The Bolshevik Revolution: Its Impact on American Radicals, Liberals, and Labor* (New York: International Publishers, 1967).

⁸Mises, “Die Wirtschaftsrechnung Im Sozialistischen Gemeinwesen,” 87.

private property was to the undermine the institutional prerequisites for rational coordination of industrial production and stewardship of natural resources. The pursuit of socialism was likely to lead to the decline of rational thought as such⁹:

There would be no means of determining what is rational, and hence production could never deliberately be focused on economic efficiency. The impact of this is clear, even beyond the implications for the provision of goods to men: the purpose of the market would be driven out of the very ground that is its proper domain. Would there be any such thing as a rational market at all, or indeed would thought be rational and logical? Historically, human reason developed out of economic life. Could it then hold on at all when driven away of this?

***Die Wirtschaftsrechnung...* summarized**

The gist of Mises' essay can be summarized as follows¹⁰.

In capitalist societies, those who wish to make money by producing goods or services can only acquire the specific means of production they require to do so (e.g. land, buildings, raw materials, machinery) by offering their current owners more than rivals¹¹ who have alternative money-making plans for them.

By competing with one another for access to the means of production, and for market-share among consumers (who may themselves be businesses), the principals of private enterprises or their agents are constantly altering prevailing prices. They do so on the basis of their reckoning of productive possibilities (e.g. "maybe we could make the body of a mid-sized car out of injection-molded plastic"), specifics of time and place (e.g. "the market is glutted with moulding machines right now due to the failure of a few firms that used them"), and consumer preferences (e.g. "over the next decade, tens of millions of Americans will buy a mid-sized car and just want something cheap that won't rust").

On the basis of these reckonings they make decisions about which means of production to purchase and how to make use of them to turn a profit. Put another way, they are continuously formulating and revising business plans. These plans invariably conflict, in the sense that for some to be realized others must not be; it would be quite surprising if the annual sales targets of all auto manufacturers taken together summed to exactly the number sold in the year in question. The clash of plans in producer and consumer goods markets continuously selects for profitable enterprises and tends to produce more or less

⁹Mises, 100

¹⁰There are many interesting secondary points that I don't cover here, most importantly Mises' critique of Otto Neurath's "economy in kind", but those will have to wait until later posts.

¹¹I'm getting this emphasis on "rivalry" from Don Lavoie, *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered*, Historical Perspectives on Modern Economics (Cambridge University Press, 1985), Chapter 3.

stable prices for most important means of production (so-called “higher order” goods). These prices are both a product of, and influence upon, uncountable myraids of producer evaluations. They are an *indispensible precondition* for rational economic decision making.

Mises argues that in a socialist society in which private property has been abolished, the rivalrous clash of producer plans would necessarily cease, and thus prices *as we know them* would not be available to those organizing particular production processes. Without prices for production goods, those organizing these processes (e.g. making cars) could formulate plenty of technically feasible plans so long as they were assured access to the necessary inputs. But the number of such plans would be overwhelming.

When all production goods have a price in some common unit, anticipated marginal prices can be summed and compared with anticipated marginal revenues. If costs exceed revenues, the plan can be rejected immediately (“sure, we can make the body of the car out of titanium and be sure it won’t rust, but it would triple the cost of the car and the number of buyers would plummet to basically zilch!”). Reckonings in terms of monetary cost do not uniquely determine a course of action for firm principals in contemporary capitalist society, but they do reduce the search space to a manageable size. Without prices, socialist citizens would have no chance of producing “efficiently”¹².

Mises acknowledges socialist proposals to arrive at prices through an institutional arrangement free of rivalrous bidding by private owners (e.g. some sort of labor time accounting across the whole of society). He argues that reckoning costs in alternate, (non-monetary) units like labor hours would always be significantly arbitrary and that such prices would never adequately reflect shifting consumer and producer evaluations of productive possibilities (which he believed prices in contemporary capitalist societies more or less did). Without the independent producer evaluations that private property makes possible, members of a socialist society would find it impossible to effectively coordinate their efforts to provision the goods and services necessary to live good lives.

Up next

In the next few posts, I’ll start walking through *Die Wirtschaftsrechnung* . . . section by section to elaborate on the rough sketch given here.

¹²A great deal turns on what exactly Mises means by “efficiency”, which he does not discuss in this essay. From his other writings, it is clear that he wishes to defend a radically subjective concept of welfare (see O’Neill, *The Market*, Chapters 3 and 4.).