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Introduction

Collected together in this special issue of the *Journal of Libertarian Studies* is an apparently quite disparate group of articles on central economic planning, covering some theoretical disputes concerning it as well as some historical instances of attempts to put it into practice. These articles were written independently of one another, yet there runs throughout a single coherent theme: that the notion of planning an entire economy from the center is an utter sham both theoretically and practically. In practice, to the extent that economic production has ever been genuinely directed from a central economic agency, the results have been disastrous; and socialist economies have resorted to preserving only the guise of central planning for the ideological justification of Communist party rule. This catastrophic performance of central planning was lucidly explained theoretically by the Austrian economists Ludwig von Mises and Friedrich Hayek in the famous but tragically misunderstood "calculation debate." The lesson of these articles, then, is that central planning is an intellectually bankrupt approach to economic policy.

The central thesis of the "calculation argument" which underlies each of the contributions here is that "rational economic calculation"—which, under capitalism, takes the form of the accountant's calculation of profit and loss in terms of money prices—is impossible without private ownership of the means of production. Calculation of money profits and losses acts as a barometer of efficient performance without which economic production would be little more than stumbling about in the dark. Of the innumerable ways of combining resources that are *technologically* feasible, only a relatively tiny subset are also *economically* feasible. In order to get the most value out of the economy, some procedure has to be employed by which those economically more efficient production processes can be selected. And, since economic circumstances are never static, this procedure must be one that can operate continuously in the face of incessant change. The only such procedure that has ever worked is the calculation of profit and loss within a *de facto* private property system, and every step that economic policy has ever taken to supplant or obstruct this procedure in the name of "planning" has introduced an element of chaos rather than an element of deliberate control over economic life. Paradoxically, the more vigorous and consistent the attempt to consciously control an economy from the center, the more chaotic has been the result.

The essential point is that the order, the regularity, the *planfulness* of an economic system is a spontaneous resultant of the disorderly clash among the rivalrous plans of numerous competitors for profit. Through this very contention against one another are generated the institutions, especially the price system, by which economic production is rationalized. The price system, as Hayek puts it, acts as a telecommunications device through which the bits of specialized information that reside in decentralized form are summarized and dispersed in such a way as to tend to coordinate the various plans of the market participants. In this way a greater amount of knowledge is used by the economic system as a whole than can ever be mastered by any of the individuals who comprise this system. Prices act, in Mises' words, as "aids to the mind" which make possible an economic system of far greater complexity than could be designed by any individual mind. Thus did Mises argue in 1920 against the Marxists of the time who advocated the complete abolition of the price system.

But, it might be objected, everybody knows this now. Nobody anymore advocates *completely* centralized planning and the abolition of the price system. In both the East and the West we are treated to a policy of "market socialism" or "state-capitalist planning" in which the spontaneous forces of competition in the market place are guided, not replaced, by the rational goals of the central planning office to which, in the East, common ownership of the means of production is entrusted. The goal is no longer to replace but to monitor and manipulate the price system. Thus do contemporary socialists dismiss the arguments of Mises as obsolete against modern central planning theory.

However, this marriage of central planning with the decentralized price system is not so easily consummated. The Mises/Hayek argument contends that it is rivalrous competition among private owners which pushes prices in equilibrating directions and which thus imparts the relevant knowledge through prices to other decision-makers. The so-called "market socialists" in the calculation debate managed to evade this issue by rather disingenuously assuming at the outset that prices are all at their general equilibrium levels and then proceeding to demonstrate that, under this assumption, socialist managers could calculate just as easily as capitalist entrepreneurs. The market socialists neglected to offer any explanation as to how the Central Planning Board could miraculously hit upon this equilibrium set of prices, other than by random stabs in the dark described as the "trial and error" method.

Oskar Lange is generally thought to have successfully answered Mises' challenge by his elaborate "competitive" solution, according to which the results of a perfectly competitive equilibrium are to be simulated by handing down certain rules to plant managers to act *as if* they were private competitors. Thus, rather than being compelled to minimize costs by the struggle for profit, they will simply be *instructed* to price their product at the level where their marginal costs of production equal their selling price. In this way central planning proceeds by "playing at" competition.

The elaborate market-socialist schemes that were invented in the thirties as supposed answers to Mises and Hayek have, significantly enough, never been put into practice. Rather than a central planning that "plays at" private competition, socialist economies, in practice, are more like competition that plays at central planning. Profit and loss accounting at the individual firm level, not some kind of Langean marginal-cost-equals-price rule, is in use in all socialist economies and has been ever since the brief attempts to eradicate it (twice in the Soviet Union, once in Cuba) proved so disastrous. All that the central planning apparatus accomplishes in the socialist economies—and, for that matter, all that economic interventionism accomplishes in state-capitalist economies—is to obstruct the coordination process of the price system, which manages to work in spite of the clumsy attempts to control it by government planning offices.

The essays that can fit into one issue of a journal cannot provide an exhaustive discussion of the many implications of the Misesian critique of central planning. At least as many questions will be raised as settled in these selections, but enough will be said here to constitute a substantive challenge to advocates of central planning.

The two selections by David Ramsay Steele which begin and end this collection are excerpted from an unpublished work called *The Impossibility of Communism*. Steele was an active Marxist in England for a number of years until he read, and was thoroughly convinced by, the arguments of Mises and Hayek. In this writer's opinion, his book offers the most conclusive critique of the Marxian vision of a future "post-capitalist" society that has ever been written. The portions that are presented here suffer somewhat from being removed from their proper context, and some arguments which appear here as mere assertions are more fully supported elsewhere in the book. However, many of these assertions will instead find adequate support in the essays by Robert Bradley, Sheldon Richman and myself.

In the opening selection Steele summarizes the meaning of the calculation argument as well as its early history, culminating in a clear challenge issued by Mises in 1920. Next, Bradley's essay offers a critique of Lange's "market-socialist" scheme, which the standard account of the debate claims had refuted Mises. The third essay, a chapter of a dissertation I completed recently under Prof. Kirzner, describes and criticizes this standard account of the debate, arguing that this account fundamentally misunderstood the challenge. Together these three essays argue that this challenge to central planning theory has been neither answered nor even understood by most of the economics profession, and thus deserves to be reconsidered.

The last two contributions go ahead to apply this Misesian challenge to a revisionist analysis of the history of central planning. Richman describes Lenin's initial, catastrophic attempt to plan the Soviet economy, which was finally and mercifully abandoned in the "New Economic Policy." Steele briefly takes up the NEP period and continues with an account of the second Soviet effort to abolish the price system—which was more quickly abandoned—and the similar attempt in Cuba. The remainder of Steele's essay examines the specific relevance of Soviet history to the Misesian challenge and concludes, contrary to the standard account, that it illustrates rather than refutes the calculation argument. The utter failure of the three genuine attempts at central planning, as well as the grossly inefficient but surviving systems of Stalinist-style pseudo-planning, are explained in the light of the Mises/Hayek argument.

While these contributions, like the Mises/Hayek challenge, focus primarily on the impossibility of genuinely planning a modern economy from a central bureau, they can be applied generally, with some modification, to more modest (and less consistent) schemes for piecemeal intervention into and regulation of a market society. While "interventionism" is clearly not impossible—since, as readers of this *Journal* are all too aware, it seems to be in practice everywhere—it can be shown to be self-defeating and irrational on much the same grounds on which Mises pronounced complete central planning impossible. The calculation argument reveals the spontaneous market order to be a discovery procedure by which knowledge of more efficient production processes is generated. That such knowledge cannot be entirely dispensed with explains the total collapse of every economy where central planning was completely substituted for the price system. But piecemeal government interference into the price system must, on this ground, be seen as similarly obstructive of this same, necessary discovery procedure, and therefore as distortive of the knowledge which it generates. Thus, the calculation argument may be used to explain many of the less-than-total failures resulting from government *tinkering* with the price system, in fundamentally the same way that it explains—as shown in these essays—the utter economic ruin inevitably resulting from attempted *abolition* of the price system.

The rhetorical appeal of the opponents of *laissez-faire* has always been that doing *something* must be better than, so to speak, sitting on one's invisible hands. Surely some producers must be reaping monopoly gains by selling at prices above their marginal costs of production in the unregulated market place, so the notion of conscious planning to correct the imperfections of unconscious competition seems like simple common sense.

However, even disregarding the tenuous ethical underpinnings of this argument, it can be maintained only by assuming that the economists at the central planning office can identify such quantities as marginal costs independent of the knowledge generated by the market process. They must be able to stand above the market and criticize its price information from a position of superior knowledge.

Granted this superior knowledge, the idea of *laissez-faire* is defeatist and unscientific dogmatism. However, the Misesian argument points out that we have no such store of knowledge, and that what we know about economic production we know only because we have relied on competition to tell us. Although competition does not miraculously yield—from the many possible outcomes—one *perfect* outcome, it does discover a *workable,* though admittedly imperfect, outcome, which we would have no way of finding without competition. The competitive price system is a procedure for discovering knowledge that we would otherwise lack.

If, as these essays contend, economists have no such knowledge, then the onus of proof shifts to those who contend that we should, even in our ignorance, modify the spontaneous market order. Being deliberately guided by conscious decisions rather than being "blindly" led by the impersonal forces of the market makes sense only if those who aspire to be our "guides" have better "eyesight" than that of the market. "Doing something" rather than "helplessly" leaving society to the forces of the "invisible hand" does not look so attractive once it is understood that the advocates of "doing something" are blind.

The calculation argument that is examined in the following essays shows that the profit and loss calculations of entrepreneurs are the "eyes" of the competitive system. The argument stressed here shows that this vision cannot be entirely dispensed with in the socialist program of planning; furthermore, the same argument extended shows that this vision cannot be improved upon by the manipulations of the unsighted interventionists in government.

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The following essays on the socialist calculation debate have been collected and edited by Don Lavoie, George Mason University.